

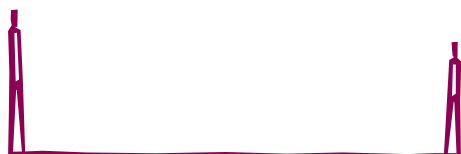
MUCH ADO ABOUT NOTHING

81

THE EU'S TRANSPORT DIALOGUE WITH RUSSIA

Katri Pynnöniemi

FIIA BRIEFING PAPER 81 • May 2011



ULKOPOLIITTINEN INSTITUUTTI
UTRIKESPOLITISKA INSTITUTET
THE FINNISH INSTITUTE OF INTERNATIONAL AFFAIRS

MUCH ADO ABOUT NOTHING

THE EU'S TRANSPORT DIALOGUE WITH RUSSIA



Katri Pynnöniemi
Researcher
The Finnish Institute of International Affairs

FIIA Briefing Paper 81
May 2011

- The EU's eastern transport corridors, established in the mid-1990s, have evolved into 'axes', 'dialogues' and 'partnerships' which, taken together, form a network of overlapping venues for the EU-Russia interaction. The changes currently underway are paving the way for the consolidation of regional cooperation schemes.
- The EU prioritizes so-called horizontal measures, including efforts to harmonize the legislation, standards and technical specifications of the neighbouring countries with those of the EU.
- From the Russian perspective, pressing issues in transport and infrastructure development lie elsewhere. The Sochi Olympic Games and the World Cup are providing the primary impetus for transport modernization up to 2019. Another major issue is transport security – or the lack of it.
- The opening of the Northern Sea Route will potentially change the whole face of Russia, a possibility that should be heeded more closely, along with the possible effects of the new route on the global trade flows. In the future, especially in the framework of the Arctic region, high priority should be given to the sustainability and security of transport.
- Notwithstanding the differences in priorities, deriving partly from the asymmetry of the economies and partly from different policy environments, the parties share a mutual interest to cooperate. A predictable policy environment in Russia would be particularly beneficial in this respect.

The EU's Eastern Neighbourhood and Russia research programme
The Finnish Institute of International Affairs



The EU hopes to facilitate border crossings between EU countries and Russia. Photo: Poggis / Flickr.com.

Transport is one of those few topics where the EU and Russia seem to have come to an agreement. The common understanding is that further integration of the transport systems and the removal of bottlenecks serves the interests of both parties in the face of the expected increase in traffic volumes.

However, variations in the actual trade flows are the underlying cause of differences in the actual policy objectives. EU imports from Russia are mainly transported via pipelines and only a small percentage of the trade utilizes rail and road transport. EU exports to Russia, on the other hand, mainly make use of road and rail transport. This asymmetry of the economies, reflected in the modes of transport, is not expected to change significantly in the foreseeable future. It is likely to contribute, together with other factors, to a difference in priorities, such as those related to customs and trans-border cooperation.

Metaphorically speaking, the EU's eastern corridors create a common space between the EU and Russia. Institutionalized in the mid-1990s as a part of the EU's eastern enlargement, the pan-European transport corridor concept served as a broad framework for the EU to engage in the infrastructure-related development of its eastern neighbourhood and, to a lesser extent, in Russia.

The corridors can be seen as hybrid agencies that bring together national, regional and local stakeholders as well as different international and transnational agencies, and thus blur the traditional

distinctions between external and internal politics. At the same time, it should be noted that the corridors are subject to national decision-making and the reflected geopolitical and geo-economic interests of the participating countries.

Administrative resources for EU–Russia dialogue

EU–Russia cooperation on transport dates back to the Partnership and Cooperation Agreement (1997) and article 70 in particular, where broad policy objectives for cooperation were set. Accordingly, the cooperation should focus on “Restructuring and modernizing the transport systems and networks in Russia (...) including the modernization of major routes of common interest and the trans-European links (...)”. In practice, the work was carried out in the framework of the above-mentioned pan-European transport corridors, three of which were extended to the territory of Russia.

Besides the corridors, the EU and Russia have several other venues for cooperation in the transport and infrastructure sphere that, ideally, should complement each other. However, in practice, the different institutions involved overlap rather than support one another.

The institutional set-up of the transport and infrastructure cooperation has undergone several changes following the general developments in EU–Russia relations. In May 2003, the EU and Russia agreed to

create four Common Spaces in the framework of the Partnership and Cooperation Agreement. The work within a common economic space is organized into dialogues and subgroups that aim to solve issues hampering the further increase and diversification of trade between the two parties. The transport dialogue was established in May 2005 and consists of five working groups that deal, respectively, with transport strategies and infrastructure; transport security; air transport; maritime, sea, river and inland waterway transport; and road and rail transport. The pace of cooperation in each of the working groups has varied considerably over the years. Although important in their own right as venues for discussion, the working groups are hardly anything more, thus contributing in this indirect way to the general impasse in the EU–Russia relations.

Around the same time as the introduction of the four Common Spaces between the EU and Russia, the EU commenced a complete revision of its eastern transport corridor policy. This was in response to the completion of the eastern enlargement of the EU in 2004 and 2007. In accordance with the suggestions of the High Level Group, the Commission decided in 2007 to create five trans-national transport axes instead of the pan-European corridors/areas.

From the viewpoint of EU–Russia relations two issues are of particular importance. First, the overall change is topological in that the previous Pan-European Corridors were fully integrated within the new design of the five trans-national transport axes. Second, the shift in terminology is mostly cosmetic for it does not entail change in the general policy framework. The change merely reflects the fact that the axes are considered as a part of the EU’s external rather than internal policies. The Commission has sought to strengthen the institutional status of the axis, but the continuous reshuffling of the concepts undermines this objective.

The latest developments would suggest that the initial idea of the axes as the conjunction point of the EU’s external outreach, regional-level activities and market-driven development has not yet been realized. There are multiple reasons for this. The global financial crisis and subsequent economic downturn have reduced available funding for infrastructure projects in the EU in general, and in Russia in particular. Other factors stem from the different policy preferences and national interests at play.

The Partnership for Modernization

It is telling that in the summary of the EU–Russia Common Spaces Progress Report from March 2011, the only achievement mentioned in connection with transport cooperation is a reference to the joint statement of the Vice-President of the Commission, Siim Kallas, and the Minister of Transport of Russia, Igor Levitin, from November 2010.¹ In the statement the parties stress the importance of making the current dialogue more efficient, giving a “concrete mandate to existing working groups, particularly in view of their contribution to the Partnership for Modernization”.² The mention of the Partnership for Modernization in this connection indicates its importance in the current parlance of EU–Russia relations. What is perhaps less clear is what it entails. Does the Partnership help to “streamline the dialogues and subgroups”, as suggested in the Progress Report, or is it just another layer added to the existing pile of venues and forums where the transport and infrastructure development is discussed.

The Partnership for Modernization originates from the EU–Russia summit in December 2009 in Stockholm. A year later the parties agreed upon the joint coordinates for the work which, in practice, includes a list of preferences each party has put on the table. In the transport and infrastructure sphere the list has specific projects, such as the development of intelligent transport systems and the improvement of the Trans-Siberian rail connection (see below), but also more conceptual agreements on, for example, the consolidation of the Northern Dimension Partnership on Transport and Logistics (NDPTL) and the Central Axis as major venues for cooperation.

In fact it seems that the Northern transport axis has become an empty signifier and the majority of the activities are currently taking place in the framework of the NDPTL. The decision to establish such a partnership was made in October 2008 by the Northern Dimension Ministers. In designing the partnership, one idea has been to maximize the interaction between the business and the policy spheres in order

1 EU–RUSSIA Common Spaces Progress Report, March 2011. URL: http://eeas.europa.eu/russia/docs/commonsaces_prog_report_2010_en.pdf

2 Press release 19.11.2010, IP/10/1532, URL: <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/15>.

to facilitate the implementation of infrastructure as well as non-infrastructure-type projects. The actual work of the Partnership is expected to start in 2011, one year later than originally planned.

Taken together, the progress reported above, as well as in the context of the aforementioned working groups, underlines what has been noted many times before, namely that the EU and Russia have substantial administrative resources to facilitate cooperation on specific issues. But the mutual understanding about the need for integration is easily impaired when it comes to issues of specific interest to each party. This reflects the fundamental difficulty in EU-Russia relations of coming to terms with what each side considers its core interests and values. The transport and infrastructure sphere is no exception in this regard.

What really is in Russia's interests?

Russia has shown goodwill towards the EU's eastern corridors and is, to some extent, willing to go along with the way the Union envisions them. Russia has even adopted similar terminology in its domestic discussions on transport and infrastructure modernization. However, in the Russian context, the EU's eastern corridors function for the most part as spatial metaphors that refer to the symbolic space of "EU-Russia integration".³

A case in point is Russian Minister of Transport Igor Levitin's statement on the occasion of the international conference on "the future of trans-European transport networks" in October 2009, where he argued that Russia is interested to see the major infrastructure projects in North-West Russia, such as the Ust-Luga seaport, the Kaliningrad and Murmansk seaports as well as the development of the Northern Sea Route, become part of the development of the northern transport axis. Until time being, however, Russia has adopted a 'wait-and-see' attitude and does not wish to fully commit to the policy frameworks designed in large part by the EU.

3 Pynnöniemi, Katri (2008) *New Road, New Life, New Russia. International Transport Corridors at the Conjunction of Geography and Politics in Russia*. Tampere: Acta Universitatis Tampereensis 1314.

Siberian overflights

At present, EU airliners are obliged to pay Siberian overflight charges for routes to many Asian destinations. The EU argues that this is in breach of international law. The issue was negotiated between the European Commission and the Russian government in 2006. The two parties signed an agreement in November 2006 to the effect that the Siberian overflight duties will be phased out in six years by December 31, 2013.

Russia has not implemented the agreement and, instead, has linked it to the WTO membership negotiations. As these negotiations between the EU and Russia were closed in December 2010, the final agreement over the Siberian overflight issue could be expected to be reached as well. During Vice-President Kallas' visit to Moscow in November 2010, it was also announced that the EU-Russia aviation summit that has been pending since 2006 is likely to take place in 2011 (most likely in Russia in October).

The five trans-national axes

Motorways of the Seas: to link the Baltic, Barents, Atlantic (including the outermost regions), Mediterranean, Black and Caspian Sea areas, as well as the littoral countries within the sea areas and with an extension through the Suez Canal towards the Red Sea.

Northern axis: to connect the northern EU with Norway to the north and with Belarus and Russia to the east. A connection to the Barents region linking Norway with Russia through Sweden and Finland is also envisaged.

Central axis: to link the centre of the EU to Ukraine and the Black Sea and through an inland waterway connection to the Caspian Sea. A direct connection from Ukraine to the Trans-Siberian railway and a link from the Don/Volga inland waterway to the Baltic Sea are also included.

South Eastern axis: to link the EU with the Balkans and Turkey and further with the Southern Caucasus and the Caspian Sea, as well as with the Middle East up to Egypt and the Red Sea.

South Western axis: to connect the south-western EU with Switzerland and Morocco, including the trans-Maghrebin link connecting Morocco, Algeria and Tunisia and its extension to Egypt.

Source: COM(2007) 32 final. Communication from the Commission to the Council and the European Parliament. Extension of the major trans-European transport axes to the neighbouring countries.



Russia aims to modernize its railways by buying new rolling stock from Germany. Photo: Tatiana Bulyonkova / Flickr.com.

There are, however, certain areas where there clearly is a mutual interest to cooperate.

The concept of the “international transport corridors” neatly encapsulates what is regarded as Russia’s national interests in regard to transport and infrastructure development. The term incorporates Russia’s goal to turn itself into a Eurasian land bridge between Europe and Asia. The development of the international transport corridors in the territory of Russia is supposed to boost the international transit through Russia, but with few tangible results to date. It is estimated that around one per cent of freight transport between Europe and Asia currently uses the Russian route.

Until recently, the EU position has merely been to acknowledge the existence of the links from the neighbouring countries to the third countries and to stress that the coordination of their development with that of the axes is important, but can be deferred to a later stage. However, in the framework of the Modernization Partnership, the EU has taken a slightly more active position on this question. In the work plan that was formulated in December 2010, the parties agreed to “attribute a Russia-EU dimension to the Russian Railway’s project “the Transsib in 7 days”.

Underlying this rather specific project aimed at restarting the regular container trains running from the Russian ports of Nakhodka and Vostochny to Russia’s western border is the long-term cooperation between Russian Railways and the European com-

panies, especially the two German giants: Siemens and Deutsche Bahn. This cooperation is driven by the need to modernize Russia’s current locomotive stock, and also by the plans to build a high-speed railway network in Russia.

Developments in this latter sphere include the opening of the high-speed train connection between St. Petersburg and Helsinki in December 2010. It remains to be seen whether the intensifying inter-industry linkages are actually an effective way of achieving the EU’s policy goals for increasing the transparency and predictability of the investment environment in Russia, as well as the security and speed of the trade flows.

Complementary to this cooperation with the major European companies, Russian Railways is also promoting cooperation within the CIS space under the slogan “Integration 1520”. The concept dates back to 2006 and is aimed at harmonizing the railway policies of the countries that share the same broad gauge railway. Although the project seems to conform with traditional geopolitical thinking and has a quite different spatial horizon from the one inscribed in the EU’s eastern corridors, it is doubtful how attractive this project actually is for those whom Russia likes to regard as its major partners.

In fact, “Integration 1520” should perhaps be seen as yet another indication of the general preference in Russia for all-encompassing schemes that bear the title of ‘strategic thinking’ and are oriented towards

promoting Russia's position in the world markets. However, this emphasis on strategic planning often turns out to be merely rhetorical, with policies that are actually driven by short- and medium-term interests and profit maximization rather than system-wide planning. This is, however, a feature of Russia's current political-administrative regime, rather than something specifically related to the transport sector as such.

Major puzzles confronting Russia

Arguably, Russia's policies towards the EU's eastern corridors have, in general, been sporadic and reactive rather than systematic and proactive. There are numerous reasons for this related to the different policy priorities and interests. Yet, the situation is also driven by Russia's domestic policy environment, which is more prone to ad-hoc deals than 'strategic thinking', although the latter is strongly promoted in the official discourse.

In fact, infrastructure development has been among the prioritized sectors of economic development in Russia since December 2001 at least, when the government approved the federal target programme on transport modernization. Yet, during the last ten-year period, the share of investments in infrastructure and transport has remained at around 2.5 per cent of GDP, instead of the targeted 4 per cent. As noted in the recent report⁴ by the Higher School of Economics, Russia's anti-crisis arrangements between 2008 and 2009 did not include investments in infrastructure. Indeed, the planned budget financing was reduced in both 2009 and 2010. As a result, the current government programmes on infrastructure development have been extended until 2019.

The latter decision is naturally linked to the forthcoming Sochi Olympic Games in 2014 and the World Cup finals in 2018. A major part of the preparations for these events relates to infrastructure-building, from the ports and roads used in public transportation to more specific aspects such as sport sites, hotels and other facilities designed for the visitors and athletes. Although attention will primarily be

focused on these major events in the coming years, there is growing concern about the actual low level of mobility in Russia and its effects on the economic growth prospects as well as the integrity of the country. This challenge goes far beyond the infrastructure sphere and therefore cannot be fixed just by building new roads to connect peripheral regions. However, many of the major infrastructure projects in previous years have mostly served the needs of Russian foreign trade, a factor that should also be taken into account.

The central message in the above-mentioned report is that the engines of growth Russia experienced during the preceding ten-year period cannot be revved up again and that the country is in need of a new economic growth model. This is precisely the task that has been assigned to over twenty working groups currently preparing a new draft of the Strategy 2020 document. The authors of the report, however, emphasize that Russia has "huge spare capacity" for growth if it only manages to improve the quality of its institutions and the dynamics of their transformation. This also applies to the bureaucracies involved in mastering the infrastructure projects which, more often than not, feed the corrupt system in Russia rather than facilitate the economic growth prospects of the country. On top of these two contradictory tendencies – the decrease in financing available for the infrastructure projects and the upcoming major events that require new facilities to be built in accordance with international standards – Russia faces an entirely new type of challenge.

The opening of the Russian Arctic and especially the Northern Sea Route due to climate change has prompted Russia to revise existing (or actually non-existent) policies and administrative structures in the region. Two parallel processes can be observed here. First, in September 2008 President Medvedev approved the Arctic Strategy outlining Russia's interests in the Arctic. The new strategy on sea activities adopted by the Russian government in December 2010 puts forward specific objectives for the strengthening of Russia's presence in the region. Second, Russia has sought to define its 'sphere of interests' in the Arctic by expanding its capacities in the region (new vessels and border-guard posts to be situated in the Russian Arctic from Murmansk to the island of Wrangel in East Siberia), and by arriving at an agreement with Norway at the end of 2010 on the disputed territories in the Barents Sea.

4 Akindinova, N.V., S.V. Aleksashenko and E.G. Yasin: *Scenarios and challenges of macroeconomic policy*. HSE Publishing House: Moscow 2011.

Running parallel with this aspiration to strengthen the country's position *vis-à-vis* other countries in the Arctic, the Russian government has sought to regain control over the domestic administrative regime in the Northern Sea Route in particular. The Soviet-era administrative structures were partly privatized and partly marginalized in the midst of the many administrative reforms and mergers that have taken place during the last twenty years. The lack of administrative resources is not perhaps the sole reason, but has contributed to the degeneration of the infrastructures along the Northern Sea Route, from rescue services to ports and other types of infrastructure.

The rewriting of the new federal law on the Northern Sea Route started approximately ten years ago and has gained momentum since 2009. According to the latest information from the Russian Ministry of Transport, the law is expected to be approved by the State Duma in 2011. The law will clarify new rules on the administrative regime of the route, including the regulations on safety, navigation and tariffs. In conjunction with this process of strengthening the state administration of the route, the Russian government is planning to sell part of its share in the major shipping companies, including the Murmansk shipping company, and Sovcomflot, the largest shipping company in Russia.

The opening of the Arctic clearly brings with it ample opportunities for international cooperation in developing the state-of-the-art technologies required in Arctic exploration or in the exploitation of the northernmost transit route between Europe and Asia.⁵ However, it should be kept in mind that Russia feels increasingly threatened by the myriad possibilities for interaction in this previously closed region.

A member of the Russian Security Council, Yuri Averyanov, said in a recent interview that the melting permafrost is regarded as a serious threat to national security. The existing infrastructures in the Russian Arctic as well as in large parts of Siberia and the Far East are in danger of becoming obsolete. This possibility, combined with the inefficient manage-

ment of the funding required for the massive reconstruction of the infrastructures and the simultaneous opening of the Arctic for international involvement, poses a puzzle that Russia has simply not had to confront before.

Conclusions

Over the years, the EU's eastern transport corridors have evolved into 'axes', 'dialogues' and 'partnerships' which, taken together, form a network of complementary yet competing venues for interaction. This network serves more as a vehicle for the evolving discussion than for decision-making, although there are some examples of the latter as well, such as the recent agreement on the NDPTL. Thus, although it is generally acknowledged that both the EU and Russia would gain substantially from better relations and more intensive cooperation, the EU's eastern corridors have not, by and large, fulfilled the hopes that were vested in them.

This is partly to do with the different policy horizons in the EU and Russia. The EU's eastern corridors were designed to repair previously lost connections and, in the process, to consolidate the EU's transport space as a whole. In Russia, the vision of infrastructure development is also about restoration, but in a reversed order. Underpinning Russian transport strategies is the understanding that the country has 'lost' some of its major infrastructure installations in the European direction. Unlike the EU, which sees benefits in interoperability, Russia is more inclined towards safeguarding its independence from the infrastructures of the adjacent countries.

The other part has mostly to do with the general policy framework in Russia. Even if Russia has declared that it is interested to work with the EU in solving the many pending issues, the current administrative regime in itself impedes rather than facilitates the implementation of what has been agreed at the EU-Russia level. The corruption that has acquired systemic features in recent years is another factor characterizing the general unpredictability of the policy sphere in Russia. In other words, the political framework of decision-making in Russia, coupled with its inherent features, such as the individualization of power and prevalence of short-term interests, does not bode well for engagement in long-term investments such as infrastructure projects.

5 Laulajainen, Risto (2009), "The Arctic Sea Route". In *International Journal of Shipping and Transport Logistics*, Vol. 1, No.1, 2009.

This situation is unlikely to change notwithstanding the fact that infrastructure-building, especially the development of the logistics sector, is highly prioritized in the strategies for economic development and modernization in Russia. On the contrary, the construction of major infrastructure installations is likely to feed the corrupt system, unless the rules of the game are changed for good. The many agreements on practical cooperation between major Russian and European transport companies would, however, seem to indicate that something is being done, even if the policy framework is far from perfect.

Transport security is one of the spheres where both the EU and Russia have indicated their readiness to cooperate. The joint working plan for the Modernization Partnership notes possible cooperation in the “Intelligent Transport System and road safety improvement” framework. This sphere of cooperation could be extended, for example, in the framework of the NDPTL. However, the general problem of transport insecurity cannot be solved by simply increasing the amount of monitoring technologies at the major transport hubs in Russia. In fact, the recently adopted new federal law on security highlights the main weakness in the Russian approach. (Transport) security is viewed as an administrative issue subject to control and bureaucratic manoeuvring.

In the future, work in the transport and infrastructure sphere should extend in a more coherent way to the Arctic, especially in relation to the Northern Sea Route. The EU’s Arctic Communication from November 2008 makes reference to the need to have a “holistic and systemic” approach to the Arctic with special emphasis on protection of the area, sustainable development of resources and improving the multilateral governance. However, the conceptualization of the Arctic as a part of the EU’s eastern corridors is still a long way off. In this framework in particular, but in more general terms as well, high priority should be given in the decision-making to the sustainability and security of transport.

Katri Pynnöniemi
The Finnish Institute of International Affairs
Kruunuvuorenkatu 4
FI-00160 Helsinki
tel. +358 9 432 7000
fax. +358 9 432 7799
www.fii.fi

ISBN 978-951-769-306-6
ISSN 1795-8059
Cover photo: oufoxy / Flickr.com
Layout: Juha Mäkinen
Language editing: Lynn Nikkanen

The Finnish Institute of International Affairs is an independent research institute that produces high-level research to support political decision-making and public debate both nationally and internationally. The Institute undertakes quality control in editing publications but the responsibility for the views expressed ultimately rests with the authors.