

**The Baltic Sea Regional Dimension &
EU - Russia Relations:
Interests - Perceptions – Perspectives**

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The sixth session of the Russia-EU-Baltic Roundtable was held from 17-18 April 2008 in Riga and hosted by the Riga office of the Friedrich Ebert Foundation in cooperation with the Latvian Institute of International Affairs (LAI). The following summary is based on the speeches and discussions held at the conference.

National versus common interests in the EU

Participants highlighted the unclear outcome of a shifting political landscape in the Baltic region. The effects of a Medvedev-Putin leadership in Russia remain to be seen, as European states are indecisive of how to react to a newly confident Russian foreign policy and Russian economic and business interests in the region. Also, there is increasing discussion on changes within the Baltic states. Latvia is experiencing political upheaval and the region is reviewing the relationship between its rapid economic growth and social models.

The Baltic Region after EU enlargement

Since the Eastern enlargement of the European Union the structure of cooperation in Baltic space has changed from a forum of countries both within and outside of EU and NATO to a group of EU-states plus Russia. This results today in a framework that is characterized by asymmetry and that while able to resolve smaller issues, entails obstacles to deeper cooperation. From an inter-European point of view, Baltic cooperation would profit from increased German involvement and is likely to receive more attention with the upcoming Baltic strategy proposal by the EU commission that will lay the groundwork for a concept by the Swedish EU presidency in the latter half of 2009.

EU-Russia-relations:

From the European perspective Russia is becoming stronger due to its wealth in resources. This development is mirrored in a newfound self-esteem that makes reference to symbolisms often derived from Soviet times. The EU has

¹ compilation by Daniel Grotzky

not been able to find consensus on how to confront Russia on this new trajectory. Calls for diversified energy supply vary among member states. In the common neighbourhood Europe wishes to be engaged with countries that declare they aim to model their societies on European values, but it has no strategy for dealing with Russian regional interests. With regard to the debate on common values Europe is still pursuing a value-based institutional framework with Russia, while Russia seems to be pursuing a trajectory away from the model of European democracy.

Domestic change in the Baltic states

Meanwhile the Baltic states are faced with the follow-up development to their political and free market reforms of the 1990s. In particular Latvia is seeing trust in the political system erode due to scandals and income inequality is on the rise. It remains to be seen how these post-transition challenges will be dealt with without the incentive of EU membership at the doorstep

Discussing the slowdown of cooperation

A Russian participant stressed that one reason for Russia's lack of incentives to engage in Baltic cooperation and its bypass of the European level in favour of direct negotiations with Italy or Germany might stem from the negative overtone of Baltic-Russian relations. Examples include rows over the Mazeikiu Nafta, the Nord Stream pipeline and the Polish veto on negotiations for a new Partnership and Negotiation Agreement (PCA). It was pointed out that Baltic cooperation had served as a substitute for the slow pace of European integration for the Baltics in the 1990s and then also lacked difficult European-Russian issues, such as the transit from and to Kaliningrad.

While one Latvian contribution wished for a stronger unified EU position and the defence of Baltic interests by the EU, various participants acknowledged that the lack of a European strategy towards Russia is a home-made problem. A point was made in that the consensus-based political culture of the EU prohibits a more active representation of interests vis-à-vis Russia. Furthermore, it was said that the EU has difficulties in establishing what European interest should be in the first place. In this context a discussion on value-policy versus realpolitik would be beside the point, since the EU neither has a clear-cut value-policy towards Russia, nor a realpolitik.

In terms of a future outlook the discussion participants saw room for progress in small issues, such as border management and a need tackle wider economic issues, such as the safety of investments.



The Baltic Sea Region: towards economic integration or political “cold peace” ?

Interdependence and institutions

A central aspect for the Baltic Sea region is how existing interdependencies between the bordering states can be managed by institutions. While bringing up a dichotomy of cooperation or confrontation in the Baltic Sea region is controversial among researchers and politicians alike, there is agreement that the complex interdependence and cooperation with Russia is regulated by a very weak institutional framework – the failure to ratify the energy charter or begin negotiations on a new PCA being cases in point. Unregulated interdependence tends to have an asymmetric impact on one of two partners.

One weakness of the strategic partnership concept between Russia and Europe is that it implies a gradual convergence of norms. However, central concepts such as how to interpret the principle of sovereignty are understood quite differently by both sides. Such obstacles at the high politics level also hinder regional cooperation. A conscious choice of drawing regional issues out of the high-politics arena, as has been done with Arctic cooperation, was one participant suggested. For while the institutional outlook in the Baltic Sea region remains unclear the challenges of interdependence, in particular energy and environmental problems, will remain.

The Russian perspective

The EU is crucial for Russian business, which is also highly interested in competing in the Baltics. For Russia the Baltic Sea is the only sea where it can access transit routes and where it wants to be as independent as possible. The Nord Stream project reflects this and also shows that Russia views Germany as its main partner in the region, while relations between Russia and the three Baltic countries are likely to continue to oscillate between a “cold warrior” image and cooperation. It was debated whether the three Baltic states and Poland continue to need Russia as “the other” for their identities. Despite these difficulties, strategic cooperation with the EU remains Russia’s only current perspective for modernization. Russia also has great interest in economic integration and competition with European business in the Caspian Sea region.

Domestically the country is entering a new phase of which observers can only speculate about the outcome. However, domestic and foreign policy in Russia today have become decoupled, so to which extent Russia’s domestic trajectory under Dmitri Medvedev will influence foreign policy is somewhat unclear. A Latvian participant brought up a scenario in which Dmitri Medvedev might actually play to an increased nationalist-sounding agenda in order to prove his

credentials among hardliners, which would weaken Russia's role in Baltic regional cooperation. Russian participants moved the discussion toward the development of a "consumer society" in Russia that might serve as a basis for civil society in the future as property and the incentive to protect it increase.

What seems certain is that Russia is still looking for a long-term perspective that can serve as a guideline for its foreign policy. While cooperation with other countries remains the preferred option, there is currently an objection among policy makers in Russia to develop any kind of dependencies on outside countries. Future EU-Russia cooperation will also depend on whether the European Union can overcome its internal constitutional crisis and the future development of transatlantic relations in Europe.

The Baltic Sea as an inner-EU lake?

Another perspective brought to bear was whether Baltic cooperation should be an inner-EU issue. The Swedish EU presidency's initiative for 2009 and the forthcoming Commission paper on the Baltic Sea region both point toward this direction. Two main areas might become the focus of such Baltic regional integration: the first is energy, not necessarily in terms of gas and oil transit, but rather issues of electricity supply, linking energy grids and transport. The second area could be environmental protection and eco-systems, in particular changes caused by global warming. While the EU offers a framework for Baltic cooperation, Russia is not perceived as a normal economic trade partner by the Baltic states, who point to a gap in common values and a lack of safeguards in the rule of law for investors. However, even sceptic participants did not rule out that Russia's realigned leadership might change its approach to Baltic regional cooperation in the face of the significance of interdependence with Europe.

Bilateral relations: the view from Estonia

Playing in to the general regional framework are bilateral problems between Russia and its Baltic neighbours, the most recent prominent row being between Tallinn and Moscow over the removal of the "Bronze Soldier" statue from the centre of the Estonian capital to a military cemetery. The impressions of the ensuing riots still mark the Estonian view of Russia. Political changeover in Moscow is not viewed as a more liberal policy as such, but rather as a quieter tone of policy. The Baltics and Poland highlight the antagonism between the Russian and European political system more than Western EU-members, as Russia has had subsequent controversies with most of its neighbours in the Baltics, be it Poland, Estonia or Latvia. Another issue of concern are varying perceptions of history. Estonia and Russia remember and commemorate the 2nd World War very differently. This has led to vivid debate in Estonian society as Russia has begun building a new national identity. In a positive outlook however, it was pointed out that a reason for strong criticism of Russia might be more due to proximity to Russia and common experience of many years rather than enmity.

Reasons for failing frameworks

Another point of discussion was the question of the need for an overall new framework in the first place and the lack of a “wish list” of points some countries would like to see embedded in cooperation with Russia. Many participants believed both the PCA and the Northern Dimension to be forms of cooperation that currently are not moving forward. A Russian participant suggested that some of the gaps in the Russia-EU framework could be traced to inconsistencies in the European Common Foreign and Security Policy after the Lisbon treaty. One participant remarked that after Poland is backing down from blocking PCA negotiations the role of the “veto player” might be handed over to Lithuania and that EU-Russia relations might be stalled even further in the wake of the upcoming 70 years anniversary of the Molotov-Ribbentrop act. An idea brought up was that cooperation among Visegrad countries should be linked to the Baltic region within the context of an overall re-evaluation of how regional interests are co-ordinated within the European Union. The perspective of the Baltic states was seen as complicated, as there is both interest for improving the EU-Russia framework, as well as scepticism as to how effective in promoting a common European interest vis-à-vis Russia such a framework would be. One point was made by juxtaposing EU-Russia relations with those of the EU and Norway or the United States, which are not regulated by similar PCAs or calls for an energy charter, yet progress comparatively smoothly.

The role of Germany in the Baltic region

Another subject of debate was the centrality of Germany’s role both in EU-Russia relations, as well as in Baltic regional cooperation. One participant noted a gap between political actors in Germany concerning their preferences in Eastern policy, as well as current domestic political problems of the leaders of major EU members such as Great Britain and France as reasons for a weakened European position as a whole. Views were exchanged on whether Germany’s energy policy and relationship to Russia represent a “national interest” distinct from common European interests or not. Different interpretations became clear: for Poland the Nord Stream project was categorized as a political issue, while German representatives insisted on the economic nature of the project. A novel idea was voiced in suggesting that in certain fields, e.g. visa free travel Russia-sceptic countries such as Poland might in fact be more open to accommodating Russian interests than Germany.

Separating high from low politics

Finally the question was brought up to which degree the “low politics” of economic cooperation could be separated from other more contentious issues. An example is the Polish and Baltic concern over Russia’s pull-out from the Conventional Forces in Europe treaty (CFE) that has not stopped Polish-Russian trade from booming. The concentration on common values was seen by some to cloud the discussion on cooperation. The experience for the Baltic-Nordic dimension certainly has demonstrated the added value that substantial

interweaving and cooperation can provide. It remains to be seen to which degree Russia wants to be part of such a deeper form of cooperation.



Politics of Energy

The broad view: failing energy regimes

Seen from a broader perspective energy cooperation in the Baltics mirrors the general failure of international regimes to regulate global energy flows and the inability of politics to catch up with industrial developments. While the number of states playing a crucial role in supplying energy resources has grown, state control of oil and gas production has also been increased nearly everywhere. Neither has the International Energy Agency offered any solutions to this new structure, nor have novel ideas such as a “gas-OPEC” or energy institutions at the EU-level or the EU-Russia energy dialogue gotten off the ground. In the Russian case a good example for the failure to adapt is the US-Russian business dialogue, which – as it only included businesses, but not state actors - put seasoned US-companies together with inexperienced Russian companies. This asymmetry was in part what led to a strong initial foreign control on Russian resources and also finds its repercussions in the takeover of resource assets by the Russian state. Developments such as geopolitical interests in resource-rich Central Asia or Gazprom’s strategy of expansion into new markets make the search for successful energy institutions and frameworks in Europe a necessity.

Different structures, different interests in energy policy

Energy relations around the Baltic sea should be seen in the broader context of Russian and EU energy interests. Russia is pursuing a path that aims to overcome Soviet-era energy infrastructure and adapt to today’s realities. This includes attempts to circumvent old transit routes through CIS member-states and decrease the importance of Ukraine as a transit country. The Nord Stream and Blue Stream pipeline projects in the Baltic and Black Sea respectively both follow this logic. A similar calculation can be seen in the oil pipeline cut-offs to Mazeikiu Nafta and Ventspils and the aim to construct a new pipeline to the Russian port of Primorsk.

In Europe both the creation of an intra-Baltic electricity and gas market, as well as the formation of an external energy policy area have been discussed as a reaction to Gazprom’s role as a monopolist in the Baltic states. However, EU-members tend to attempt solving their energy problems bilaterally with Russia – not only Germany, but smaller states such as Hungary or Latvia, as well.

Difficulties for European energy cooperation stem from the different infrastructures still influenced by Soviet times in Europe: the Polish and Baltic infrastructures are linked to Russia. Germany buys Russian gas, while Denmark does not. Also, the individual countries in Europe have different energy mixes. Poland’s gas supply for example is not an issue of energy, but of chemical industry supply.

Energy outlook for the Baltic states

The three Baltic states face a structural dependency on energy over the coming years, although their energy structure varies considerably and explains why a common energy policy is all but easy:

Estonia	2006		2007 estim.	
	power	oil / gas	power	oil / gas
import	24	2033	33	1966
export	82	-	252	-

Latvia	2006		2007 estim.	
	power	oil / gas	power	oil / gas
import	242	3471	373	3647
export	26	255	132	164

Lithuania	2006		2007 estim.	
	power	oil / gas	power	oil / gas
import	500	11507	499	9661
export	537	6361	592	3801

Eurostat 2008

Currently Estonia shows a small surplus of electricity export (to Finland) as well does Lithuania (to its Baltic neighbours) while Latvia depends completely on power imports as well as on nearly all other primary energy. Lithuania will become an importer of electricity after the Ignalina plant is shut down and overall the Baltics will remain a net importer of energy. Aside from the closing down of the Ignalina power plant (perhaps 2012), changes in the future will include the proposed construction of two new nuclear plants in Lithuania, the increased exploitation of thermal power plants on oil shale in Narva and potentially the construction of new transmission lines to Finland, Sweden and Poland from Baltic sources. As the cost of coal and peat is likely to rise due to CO₂ emission trading, gas might increase its competitive advantage and chances for renewable energies will grow as show actual Swedish experiments. Prices and consumption can be influenced domestically through sustainable consumption patterns and modern technologies like CHP. Baltic consumers currently spend more on energy than other European households. Without awareness building and political regulations this trend is likely to increase further.

As to the impact of the Russian energy sector, Russia is reforming its electrical energy sector. The expansion of surplus production capacities in the St. Petersburg region are likely to provide greater potential for energy exports from Russia to the Baltics and Finland. Currently, regulated low energy prices in Russia give producers there a competitive advantage adding to an amalgam of economic risks that include the loss of competitiveness, a negative trade balance and dependence on energy imports. One participant brought up the question of the effect a rise in domestic energy prices after Russian WTO

accession might have. Another pointed out that high incomes from resource exports might have contributed to the current situation of Russia's political system.

The case of Nord Stream

The Nord Stream project between Russia and Germany was a hotly debated case in point for failing energy regimes. Rather than being a uniting European experience, it has become highly divisive and demonstrates the institutional inability of Europe to deal with energy projects. The pipeline would be able to cover German market demand, while circumventing Poland and the Baltic states. Many speakers mentioned different perceptions having a role over how Nord Stream is being viewed: easing Russia's impact on EU development and weakening EU energy policies because of internal controversies. One participant drew up a parallel between the Russian perception of NATO-expansion as hostile and the European perception of expansion by Gazprom. Baltic participants pointed out that their countries' positions on Nord Stream might have been different, had there been stronger support from the European Union in matters pertaining to Ventspils and Mazeikiu Nafta. One participant noted that both Dutch and British companies would benefit from Nord Stream and that without the pipeline there would be greater competition for LNG terminals in Europe. There were different views on how Nord Stream would relate to a land-locked pipeline alternative in cost terms and on whether Poland and other countries might wish to participate in the project, should it be realized. Energy was identified as an issue that, though controversial, has highlighted the need for more debate.



Business interest in the context of regional cooperation

With GDP growth still over the average European numbers, the Baltic region remains dynamic. But the macroeconomic climate is deteriorating in the wake of inflation, the social costs of economic downturn and demographic change. Shared by post-communist countries around the Baltic sea is the current situation as consumer societies with a large preference for stability, security and income among the population. This also includes Russia, where Moscow will be the largest consumer region in Europe by 2012.

Russian-Baltic business interests

The transit sector is a strong business for all three Baltic states and Russia. Russia has a calculated interest in developing its own economic infrastructure, due to its disadvantageous geography. Therefore issues that are framed as political controversy are often in fact also economic in nature. Similarly, environmental issues play in, one case being the future of oil shale production in Estonia. Furthermore Russia wants to keep the Baltic states as markets for its oil, gas and raw materials, while Russia is a large market for Baltic consumer and engineering goods. Russian companies such as Gazprom and Lukoil are major investors in the Baltics and businesses in both countries often act more flexible than their respective governments.

Political influences on business

A set of psychological pressures and informal mechanisms have discouraged Russian investment in the Baltics, while a sentiment in the Baltics of “less Russia is better” can be rather popular at both the grassroots level and is used at the political level. Subsequently Baltic business, while free to invest in Russia is not offered any government support for expansion in the East.

Political controversies have however slowed down economic cooperation. For instance, the Bronze Soldier controversy has had a negative effect on Estonian economy with a total loss of up to 3.5% GDP. Other examples include the sale of the Lithuanian Mazeikiu Nafta refinery to Polish PK Orlen (instead to Russian bidders) or Russia’s increase of timber export taxes.

The situation on the Russian-Estonian border since last year’s April riots where transit is stalled, 80% of the transit capacity going through here is from other EU-countries. Another point made were small and medium enterprises, which face problems of bureaucracy and corruption in Russia. While this is no political issue and in fact Dimitri Medvedev has declared tackling it a priority, it continues to be a problem for both domestic and foreign business in Russia.

The Baltic states in the EU

While economically among the smaller trading partners of Russia within the EU, the Baltics hold strong political clout, the PCA veto threat being a case in point. However regional economic projects between the Baltic states, such as a railroad project to circumvent Kaliningrad or the question of energy supply after the closure of the Ignalina power plant in Lithuania are stalling.

As the dimension of European-Russian strategic partnership is important for Russian business, there remains hope that the Northern Dimension with its large number of cross-border issues (economy, ecology, resources or fishing) can be turned into a beneficial cooperation if all partners approach issues on a flexible and pragmatic basis. The past way to tackle these issues is that of “small steps” and address one issue at a time.

Russian-EU business framework

Regarded as central to economic cooperation in the region was the point of balancing the Russian and European business and investment conditions. This was identified as a priority for a Baltic strategy along with the regulation of border crossing and customs regimes with Russia. The Baltic perspective showed scepticism of Russian investment in Baltic infrastructure, but not toward Russian investment in other business sectors, while conditions for foreign investors in Russia were identified by various participants as requiring improvement, both with regard to Russian domestic policy, as well as within the EU-Russia framework. It was discussed that foreign investments in strategic areas in Russia will in the future be restricted to minority stakes, but also that many foreign companies are abiding by this rule, as there is great demand for access to Russian fossil fuels. There was agreement on that investment in Russia’s consumer sector is being made without official restrictions. The issue of reciprocity of investment conditions in Russia and the EU was brought up by both Polish and German participants, who criticized that foreign investors in Russia are left unclear on whether a business is strategic or not. How reciprocity should be interpreted and to which degree was debated, but there was general agreement that there is increasing interconnection between the Russian and European economies. Finally, while the gas, oil and infrastructure sectors were identified as mostly closed to foreign investor control, it remains to be seen how the liberalization of the electricity market in Russia progresses.



Role of NGOs: do they matter?

Debate on Russian civil society

Mapping the Russian NGO landscape with regard to the potential for civil society poses a challenge. Independent think-tanks in Russia have been experiencing strong pressure, as have been critical domestic organisations, such as the “Soldiers’ Mothers”. Democratic transition has stalled and come to a virtual halt. The current political system has left a niche open for self-interest groups, such as environmentalist associations. But from a political point of view Russian civil society has become increasingly disciplined and foreign organizations such as the British Council have been forced to shut down, as well. This situation leaves Baltic and European donors with the dilemma of where the best chances of supporting civil society lie. Since the Orange Revolution in Ukraine another challenge has presented itself to the strengthening of civil society: Drawing the line between the support for NGOs and civil society on the one hand and regime-change oriented attempts at influence-building is difficult, particularly since allegations of the latter have also been used to attack the former. Another point identified as difficult was the new Russian NGO law and the subsequently lacking framework for the public funding of NGOs.

Impact of NGOs

Participants discussed the potential of NGOs both within Russia and the regional Baltic context for support from European organizations. While interest-based NGOs in Russia were pointed out as the area where the risk of state intervention would be the smallest and which might turn into the backbone of an eventual social and economic development toward a more active civil society there was no consensus as to how exclusive such an approach would be and how soon democratic civil society might emerge as a result. One participant pointed out the risk that supporting NGOs in sectors where state services have provided limited results, such as in education or health, might actually have the opposite effect of strengthening government control.

Baltic regional cooperation

For the Baltic sea region the role of NGOs was seen as positive. The experience of the activities of the Council of Europe or the German foundations has contributed to an active NGO landscape in the Baltic states. Examples of environmental cooperation and youth cooperation demonstrate that NGOs have the potential to contribute to a better understanding between societies including national minorities, but require political backing to achieve this. As actual example the *Baltic Sea Forum* of NGOs from all Baltic Sea States was mentioned which took place in Riga in May in cooperation with the hosting

German foundation. This conference was focused on discussing as main common topics for Western European societies and Baltic and Scandinavian societies as well as Russia: *NGO Sustainability and Legislation; Climate Change and Energy; Social Inclusion and Human Rights; Lifelong Learning and Cultural Diversity*. The resulting proposals of the Baltic Sea Forum were forwarded to the Council of Baltic Sea States in order to facilitate the political dialogue between BSR-NGOs and BSR governments representatives.



Policy Recommendations

Policy recommendations were made with reference to the upcoming Baltic Sea Strategy in connection with the Swedish EU presidency during the later half of 2009. One major point of contention was whether this strategy should include reference to Russia or be an EU-internal strategy. Currently the Baltic region still remains a challenge instead of a driver of policy. The Russian-Baltic dimension is not served by the current framework as it is marked by gaps in bilateral relations with the Baltic states and scepticism towards Russia. Similarly, the existing EU-Russia instruments do not govern a number of disputes. A new framework is not needed to demonstrate rhetoric of partnership, but to solve the currently unregulated problems. Questions and ideas brought up in the course of this discussion among participants included:

- To which degree can reciprocity in investment and business environment be achieved in the EU and Russia, what mechanisms can be created to enforce them and how can a common understanding of reciprocity be created?
- What vision of the Baltic sea region should be developed? Points to start with mentioned were energy efficiency, as well as marine economic and environmental issues in the Baltic sea, as well as border management
- To what extent can and should Russia play a role in Baltic sea regional cooperation. Participants noted that even if the EU strategy only includes member states, Russia will remain in policy-makers minds? Obstacles mentioned included the slow pace of the Northern Dimension, where Russia is currently included, as well as a domestic trend against regionalization within Russia. One proposed alternative was an attempt to make a Baltic Sea strategy compatible with the Northern Dimension.
- Business could be a starting point for increased cooperation, as the actors are more secure on what their interests are and how far cooperation is possible.
- One participant brought up the notion of including the United Kingdom in climate and energy issues.
- While there is not much chance of success of the energy charter being signed by Russia, there is a need to regulate foreign investment on the EU energy market. Russian investors are afraid of being discriminated against in the EU.
- Furthermore, it would be positive if Russia and EU could come to a common denominator in the area of civil society increase exchange and cooperation in this sphere; in this context the personal exchange between Russia and the Baltic states is unnaturally low.

The ensuing final discussion highlighted once more different views on how the European Union should approach Russia, which also touched upon the effect of potential NATO enlargement, the effect a NATO-member Ukraine would have on Russia and to which degree the European Union can in the future apply a common values approach toward Russia. The participants agreed that a pragmatic approach to solving individual issues is necessary and that while the discussion over the EU's Russia policy will continue that at the moment it is not possible to base policy on inflexible scenarios of finality in how relations should be in the future. In general the discussion reflected the general development of the Baltic-Russia-EU roundtables which have moved forward from confrontation to debate and bit-by-bit agenda building.