

## **Policy Department External Policies**

# **THE EASTERN EU NEIGHBOURHOOD – AN AREA OF COMPETING POLICIES: SHARED NEIGHBOURHOOD BETWEEN THE EU AND RUSSIA**

**FOREIGN AFFAIRS**

This briefing paper was requested by the European Parliament's Committee on Foreign Affairs.

This briefing paper is published in the following language: **English**

Coordinating editor and author: **Piret Ehin**  
Co-author: **Graham Avery**  
TRANS EUROPEAN POLICY STUDIES ASSOCIATION

**Dr Piret Ehin** is Research Associate at the *Estonian Foreign Policy Institute* and Senior Researcher at the Department of Political Science at the University of Tartu in Estonia.

**Graham Avery** is Senior Member of St. Antony's College, Oxford University and former Director for Strategy, Coordination and Analysis in the European Commission's Directorate General for External Relations

Responsible Official: **Dag Sourander**  
Directorate-General for External Policies of the Union  
Policy Department  
BD4 06M083  
rue Wiertz  
B-1047 Brussels  
E-mail: [dag.sourander@europarl.europa.eu](mailto:dag.sourander@europarl.europa.eu)

Publisher European Parliament

Manuscript completed on 25 September 2007.

The briefing paper is available on the Internet at  
<http://www.europarl.europa.eu/activities/expert/eStudies.do?languageEN>

If you are unable to download the information you require, please request a paper copy by e-mail : [xp-poldep@europarl.europa.eu](mailto:xp-poldep@europarl.europa.eu)

Brussels: European Parliament, 2007.

Any opinions expressed in this document are the sole responsibility of the author and do not necessarily represent the official position of the European Parliament.

© European Communities, 2007.

Reproduction and translation, except for commercial purposes, are authorised, provided the source is acknowledged and provided the publisher is given prior notice and supplied with a copy of the publication.

## Executive summary

With the formulation of the European Neighbourhood Policy (ENP), the European Union (EU) has become an increasingly important player in a region that Russia regards as its 'near-abroad'.

While both Russia and the EU seek to position themselves as regional actors, there are important differences in their approaches towards their neighbours:

- The EU's main goal is to stabilize its periphery whereas Russia wants to maintain its ability to control developments in the post-Soviet space.
- The EU conceives of its neighbourhood in terms of regional policies and institutionalized cooperation, whereas Russia tends to interpret developments in the region through the lens of 'great power' geopolitics.
- The EU considers democratization in the neighbourhood to be a precondition for security and stability, whereas Russia regards democratic neighbours as a threat to its own increasingly authoritarian regime.
- While the EU's policy in its neighbourhood is based on positive conditionality, Russian policy relies more on sanctions and threats.
- The EU considers that solutions to 'frozen conflicts' must respect the territorial integrity of the countries involved (Georgia, Moldova, Azerbaijan) while Russia supports secessionist entities. (This problem is related to the solution of the status of Kosovo, which Russia considers as a precedent applicable to conflicts in the post-Soviet space, an interpretation rejected by the EU).
- The EU's interest is to diversify its energy supplies by building oil and gas pipelines bypassing Russian territory, while Russia's interest is to control the key transit routes for its energy supplies to the EU and the post-Soviet states.

Russia's policies in the neighbourhood have been increasingly coercive and largely counterproductive, alienating neighbours and pushing them to seek closer ties with the EU and NATO. However, Russia still has the potential to exercise influence over the region's states, including those that have declared their interest in Euro-Atlantic integration. Due to domestic divisions and instability, the 'European choice' of Ukraine, Moldova and Georgia remains inherently fragile, and can be undermined by Russia's economic and political pressure.

Despite Russia's inclination to view relations in the neighbourhood as a zero-sum game, the EU should refrain from defining the situation in terms of a strategic competition. It should remain focused on the core mission of the ENP - the promotion of reforms, support for democratization and stabilization – and allocate increased resources to the policy to ensure its effectiveness. A reinforced ENP should offer stronger incentives to the Eastern ENP countries for their European choice of democratization, stabilization and modernization. By helping the EU's Eastern neighbours strengthen their institutions, diversify energy supply and develop effective instruments for regional cooperation, a reinforced ENP will also reduce their susceptibility to negative Russian pressure.

# Contents

- Introduction ..... 1
- 1. Russia’s approach to the Eastern ENP countries..... 2
  - 1.1 Overview of Russia’s strategies in the post-Soviet space ..... 2
  - 1.2 Assessment of Russian relations with Eastern ENP countries ..... 4
- 2. EU and Russian policy: main points of contestation..... 6
  - 2.1 Democracy and human rights ..... 6
  - 2.2 Energy..... 6
  - 2.3 Regional cooperation..... 7
  - 2.4 Frozen conflicts ..... 8
  - 2.5 Deep free trade versus the Single Economic Space ..... 9
- 3. Conclusions and recommendations ..... 10

## Introduction

The European Neighbourhood Policy aims to promote stability, democracy and prosperity in countries that lie close to the EU's borders, offering closer political cooperation and economic integration in exchange for reforms and commitment to shared values.

The ENP now includes three countries in Eastern Europe (Ukraine, Moldova, Belarus) and three in the South Caucasus (Georgia, Armenia and Azerbaijan). This new neighbourhood, however, overlaps with Russia's 'near abroad,' where Moscow has sought to retain its influence and strategic predominance:

- Ukraine and Belarus hold special importance to Russia as former parts of the Soviet Union's 'Slavic core' and because of their historical and ethnic ties to Russia. They also now have a strategic position geographically separating Russia from the EU and the North Atlantic Treaty Organization (NATO).
- The South Caucasus remains a high priority for Russian foreign policy because of its strategic position, ethnic make-up, energy transit routes, proximity to Chechnya and potential Islamic threats.

A number of developments have amplified the perception that the region has become an arena for competing policies or even geopolitical rivalry. EU and NATO enlargement has integrated former Soviet subjects and satellites into Western structures and brought these structures right to Russia's borders. At the same time, the Commonwealth of Independent States (CIS) – the main post-Soviet regional integration project, with Russia at the core - has largely failed. It has become increasingly irrelevant and dysfunctional as a framework for regional cooperation as well as an instrument for advancing Russian interests. This has coincided with Russia's drift towards authoritarianism under President Putin and a widening 'values gap' in relations with the West. The conflicting reactions to the 'colour revolutions' (most notably in Ukraine) have strengthened the perception of the EU and Russia as competing poles of attraction representing different paths of development for the region's states.

This briefing examines Russian policies towards the Eastern ENP countries with the objectives of:

- sketching the main features of Russian policy towards these countries;
- identifying tendencies that conflict with the principles and methods of the ENP;
- suggesting modifications to the ENP to enable the EU to better achieve its aims.

# 1. Russia's approach to the Eastern ENP countries

## 1.1 Overview of Russia's strategies in the post-Soviet space

A central goal of Russian foreign policy has been to retain its influence and strategic predominance in the former Soviet space. Russia has regarded the 'near abroad' (a term denoting all former Soviet republics) as a zone of vital political, economic and security interests. A persisting characteristic of Russian policy is the tendency to view the neighbourhood through the prism of geopolitics <sup>(1)</sup>. President Putin has reaffirmed that relations with its closest neighbours remain the most important part of the Russian Federation's foreign policy <sup>(2)</sup>.

Following a brief 'honeymoon' in relations with the West in the early 1990s, the Russian Federation defined itself as an opponent of US hegemony, an advocate of a multipolar world order, and effectively a geopolitical rival of the West. While the reduction of its geographic extent and its military and economic capacity limited its ability to engage in a global 'balance of power', building a regional hegemony in the post-Soviet space constituted a more realistic strategic objective. In the Yeltsin era, foreign policy concepts envisioned the post-Soviet space, with Russia as a regional hegemon, as a power centre in a multipolar world <sup>(3)</sup>. However, Russia's weakness and preoccupation with domestic transformation in the 1990s led to a wide gap between its ambitions and accomplishments in the 'near abroad.'

Throughout the 1990s, the Commonwealth of Independent States (CIS) constituted a key instrument for Russian policy in the post-Soviet space. Russia regarded it both as a framework for managing complex interdependencies in the region and as an instrument for ensuring its regional supremacy. However, the CIS has largely failed to fulfil its potential as a framework for promoting cooperation and integration among the region's states. They show little interest in reviving and reforming it, and Russian officials have admitted its increasing irrelevance as an instrument for promoting Russian interests.

The crisis of the CIS was aggravated by the enlargement of the EU and NATO and the 'colour revolutions' that occurred in Ukraine, Georgia and Kyrgyzstan. The replacement of pro-Kremlin governments with Western-oriented leaders eager to join Euro-Atlantic structures dealt a major blow to Russian aspirations, all the more painful not only because it was interpreted as a geopolitical advance of the West, but also because the spread of 'orange' ideas could threaten the survival of the authoritarian regime in the Kremlin.

During President Putin's second term in office, Russia's foreign policy has become more assertive, reflecting its growing economic weight and consolidated domestic power base. Moscow's attempt to reinvent itself as a great power is reflected in its increasingly active and

---

<sup>(1)</sup> Lo, B., *Vladimir Putin and the Evolution of Russian Foreign Policy*, Blackwell Publishing, London, 2003.

<sup>(2)</sup> Putin, V., *Annual Address to the Federal Assembly*, Moscow, May 10, 2006

<http://www.kremlin.ru/eng/speeches> (accessed August 30, 2007).

<sup>(3)</sup> *Russia's strategic course in relations with the states participating in the Commonwealth of Independent States*, Presidential Decree No. 940 of September 14, 1995.

coercive policies towards countries in its neighbourhood. In recent years, economic sanctions, energy blockades, propaganda attacks, and military threats have become usual instruments of Russian policy towards the Eastern ENP countries.

In the past Russia was primarily concerned with NATO's enlargement, but the EU's enlargement and the ENP have led Moscow to regard EU involvement in the region as a threat: the Kremlin's inclination is to interpret the situation as a zero-sum struggle for influence. This is linked to the fact that the EU-Russia strategic partnership declared in 1999 has remained largely void of substantive content, with little progress in building 'common spaces' and mechanisms for interaction <sup>(4)</sup>. Having refused its own inclusion in the ENP framework, and now unable to secure a 'special relationship' with the EU, Russia is not satisfied with its position in the EU's scheme of external relations.

By 2005, the Kremlin was rethinking its policies in the post-Soviet space. The main challenge to Russian foreign policy, according to Defense Minister Sergei Ivanov, is 'interference in Russia's internal affairs by foreign states, either directly or through structures that they support... [and] violent assault on the constitutional order of some post-Soviet states' <sup>(5)</sup>. Russian officials have declared that while the Kremlin is not necessarily opposed to 'healthy competition' on former Soviet soil, it wants to define acceptable rules of engagement <sup>(6)</sup>.

Moscow's new paradigm for relations with the 'near abroad' seems to rest on <sup>(7)</sup>:

- 1) abandoning the CIS as a main instrument of Russian policy in favor of more flexible and differentiated institutional frameworks involving fewer participants;
- 2) distinguishing between 'loyal' and 'disloyal' neighbours and using Russia's economic power and energy resources to reward its politically reliable allies and punish its antagonists;
- 3) establishing relations and tactical alliances with a range of political actors in the neighbouring states, including opposition forces, political parties, NGOs, popular movements, pressure groups, etc;
- 4) actively defending its interests in ex-Soviet countries that have joined the EU and NATO (the Baltic states) as well as those that have declared their intent to do so (Georgia, Ukraine, Moldova).

Russian policy during President Putin's second term provides many examples of the application of these principles. In place of the CIS, the Kremlin has turned its attention to other regional institutions with diverse subsets of ex-Soviet states and others as members. It has waged 'gas wars' with Ukraine and Belarus, imposed economic sanctions on Georgia, and an embargo on Moldovan wines. It supported electoral fraud in the Ukrainian presidential elections of 2004,

---

<sup>(4)</sup> Karaganov, S., Bordachev, T., Guseinov, V., Lukyanov, F., Suslov, D., 'Russia-EU Relations: The Present Situation and Prospects,' *CEPS Working Document No 225*, Centre for European Studies, July 2005.

<sup>(5)</sup> Ivanov, S., 'The New Russian Doctrine', *The Wall Street Journal*, January 11, 2006.

<sup>(6)</sup> Torbakov, I., 'Kremlin wants to set parameters on Western interests in CIS states', *Eurasia Daily Monitor*, Vol.2, Issue 168, September 12, 2005.

<sup>(7)</sup> Vinokurov, E. 'Russian Approaches to Integration on the post-Soviet space in the 2000s' in Malfliet, K., Verpoest, L., Vinokurov, E. (eds.), *The EU, the CIS, and the Challenges of Integration*, Palgrave Macmillan, London, 2007 (forthcoming) and V. Socor, 'Kremlin Redefining Policy in 'Post-Soviet Space,' *Eurasia Daily Monitor*, Vol. 2, Issue 27, February 8, 2005.

encouraged Moldovan opposition forces against President Voronin in 2004, and pursued a strategy of undermining popular support for the Saakashvili government in Georgia. In relations with Estonia (a member of the EU & NATO) it escalated the April-May 2007 crisis <sup>(8)</sup>, and with Georgia its threats have increased as the country absorbs aid from the United States and intensifies relations with the EU and NATO.

## **1.2 Assessment of Russian relations with Eastern ENP countries**

Russia's relations with most of its post-Soviet neighbours deteriorated in 2006-2007 <sup>(9)</sup>. Its excessive reliance on sanctions and threats, combined with an overestimation of its own leverage and appeal, alienated them. However, domestic divisions and instability in some Eastern ENP states have allowed Russia to strengthen its influence on their domestic and foreign policies.

The 2006 gas, oil and transit dispute between Russia and Belarus led to a deterioration of relations: the Belarus-Russia Union project has effectively ceased to exist, and there has been a rapprochement in Minsk's relations with other Newly Independent States as well as the EU <sup>(10)</sup>.

In Ukraine the failure to reestablish the orange coalition, and Yanukovich's return to power as Prime Minister, imply greater Russian influence, although the declared objective of Euro-Atlantic integration has remained unchanged <sup>(11)</sup>.

In Moldova, President Voronin, who set the country on a European course more than three years ago, is now shifting toward a two-vector policy, holding secret negotiations with the Kremlin over the status of Transnistria <sup>(12)</sup>. While the parliament and other actors distance themselves from Voronin, his recent behaviour has raised concerns about Moldova's capacity to sustain a European orientation <sup>(13)</sup>.

Russia's relations with Georgia reached an all-time low in 2006-2007, involving a number of crises, economic sanctions, and the deportation of thousands of Georgians from the Russian Federation. But instead of undermining the Saakashvili regime, the sanctions have accelerated Georgia's reorientation towards alternative markets, energy suppliers, and political partners.

In 2006, Russian relations worsened with oil-rich Azerbaijan, which has eagerly participated in transregional energy and transport projects without Russia, and refused to support the Russian

---

<sup>(8)</sup> The Estonian government's decision to relocate a Soviet-era monument from central Tallinn to a military cemetery elicited a strong Russian reaction, involving a siege of the Estonian embassy in Moscow by the Kremlin-backed youth organization Nashi and a physical attack on the Estonian ambassador. See European Parliament's resolution of 24 May 2007 on Estonia (P6\_TA-PROV(2007)0215).

<sup>(9)</sup> Belkovsky, S., 'Russia's Foreign Policy in the post-Soviet space in 2006', *Eurasian Home*, 31 January, 2007 [www.eurasianhome.org](http://www.eurasianhome.org) (accessed August 26, 2007).

<sup>(10)</sup> Ibid.

<sup>(11)</sup> Kuzio, T., 'Ukraine's Domestic and Foreign Prospects for 2007', *Eurasia Daily Monitor*, Vol. 4, No. 8, January 11, 2007.

<sup>(12)</sup> Socor, V., 'Moldova's Presidential Institution Increasingly Dysfunctional', *Eurasia Daily Monitor*, Vol. 4, No. 149, August 1, 2007.

<sup>(13)</sup> Ibid.

blockade over Georgia. The Russian decision to expel Azerbaijani labor migrants added to the tensions.

In Armenia, which remains a Russian ally in Southern Caucasus, the incumbent, pro-Russian forces won the 2007 parliamentary vote. However, Armenia pursues the strategy of 'complementarism', seeking to balance relations with Russia and the West.

In light of the limited success of its tactics in the neighbourhood, several analysts predict that Russia will develop a new strategy for the post-Soviet space <sup>(14)</sup>. However, it is unlikely that this would happen before the 2008 presidential elections.

---

<sup>(14)</sup> Belkovsky, S., op.cit.

## **2. EU and Russian policy: main points of contestation**

### **2.1 Democracy and human rights**

Russia's authoritarianism and its poor record on human rights have led to a growing normative rift in its relations with the West. The EU regards democratization as a condition for stability and prosperity, and wants commitment to shared values in return for closer relations, while Russia tends to regard democratic states in its neighbourhood as a threat.

These divergent approaches were epitomized by reactions to the 'colour revolutions' that took place between 2003 and 2005 in Georgia, Ukraine and Kyrgyzstan. In Europe and the US, they were regarded as a product of popular demand for democracy, but the Russian government and the Kremlin-controlled media depicted them as manufactured by Western agents, notably US-sponsored non-governmental organizations (NGOs).

The Kremlin's invention of the term 'sovereign democracy' is an attempt to present itself as an alternative normative power. A major instrument for legitimizing the regime and its policies is the state-controlled media, which has a wide audience in the post-Soviet space due to the role of the Russian language and the extensive diaspora of ethnic Russians. Non-standard definitions of democracy are promoted by CIS election observation missions which routinely produce assessments widely divergent from those of EU or OSCE observers.

EU and Russian approaches to civil society are also at odds. The EU regards it as playing a key role in democratization processes, and seeks to increase its involvement in national ENP action plans <sup>(15)</sup>. In contrast, Moscow has developed a state-centred concept of civil society, viewing NGOs as tools of state power. This is evident from Russian legislation restricting the activities of Western-funded NGOs, as well as increasing reliance on Kremlin-created or supported NGOs (e.g youth movement Nashi) as instruments of governmental policy.

### **2.2 Energy**

The Eastern ENP countries are important to both Russia and the EU as transit areas for energy supplies. EU member-states were collateral victims of the Russian-Ukrainian and Russian-Belarusian gas disputes in 2005-2006. At the same time, these 'gas wars' demonstrated that Ukraine and Belarus can exert influence on Russia because the latter is interested in guaranteeing security of energy supplies to Europe.

The South Caucasus is a strategically important transit corridor because of the potential to develop pipelines that connect EU member-states to Caspian Sea and Central Asian supplies without crossing Russian territory. Connections such as the Baku-Tbilisi-Ceyhan pipeline,

---

<sup>(15)</sup> Commission of the European Communities, 'Communication from the Commission to the Council and the European Parliament on Strengthening the European Neighbourhood Policy', COM(2006)726, 4 December 2006.

opened in 2005, which transports Caspian Sea oil to a Turkish port on the Mediterranean, or the South Caucasus gas pipeline, opened in 2006, are crucial to the EU's efforts to diversify its energy supply and reduce dependence on Russia.

Most of the Eastern ENP states are highly dependent on Russian oil and gas supplies. Russia has pursued a conscious strategy of using its natural resources to support its economic revival, increase its international leverage and build up its great power capabilities. It has stopped supplying energy to post-Soviet states at subsidized prices and pushes for a transition to world market prices. In 2005-2007, Russia cut off gas supplies to Ukraine, Moldova, Belarus and Georgia in an apparent attempt to use energy leverage as an instrument for political pressure. These actions have damaged Russia's reputation as a reliable energy supplier.

However, the degree of energy dependence on Russia and the prospects for diversification of supply vary. Azerbaijani oil production exceeds domestic demand, and exports are growing. Its natural gas production is expected to increase substantially as it develops the Shah Deniz offshore field<sup>(16)</sup>. Faced with Russian sanctions, Georgia has been able to reduce its dependence on Russian suppliers and transit routes thanks to the opening of the South Caucasus pipeline. Ukraine is keen on joining the Nabucco pipeline project. The 3400-km pipeline, planned to transport natural gas from Turkey to Austria via Bulgaria, Romania, and Hungary, is scheduled to open in 2012. However, Belarus is highly dependent on Russian oil and gas and will not be able to reduce its dependence in the medium term.

### **2.3 Regional cooperation**

The increasing irrelevance of the CIS as a mechanism for regional cooperation has led to a proliferation of new institutional arrangements in the post-Soviet space. The new geometry reflects the growing division of countries in the neighborhood into pro-West and pro-Kremlin groupings.

Russia is the central actor in such organizations as the Eurasian Economic Community (EURASEC), the Collective Security Treaty Organisation (CSTO) and, together with China, in the Shanghai Cooperation Organization (SCO). Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan participate in several of these organizations. Armenia only participates in the CSTO.

Ukraine, Moldova, Georgia and Azerbaijan mostly participate in regional organizations or groupings that do not involve Russia. Among these is GUAM (Georgia, Ukraine, Azerbaijan, Moldova), created in 1996 as a counterweight to Russian influence in the post-Soviet space. GUAM deals with a range of issues from security to trade and energy. However, GUAM appears to have lost significance, reportedly due to the loss of US interest in the project<sup>(17)</sup>. Another organization, the Community of Democratic Choice (CDC) links three West-leaning ENP states (Ukraine, Georgia, and Moldova) with the Baltic states and Macedonia, Romania and Slovenia. Created in 2005, its main task is to promote democracy, human rights and the

---

<sup>(16)</sup> Energy Information Administration, *Country Analysis Briefs: Azerbaijan: Natural Gas*, <http://www.eia.doe.gov/emeu/cabs/Azerbaijan/NaturalGas.html> (accessed August 22, 2007).

<sup>(17)</sup> Peuch, J.-C., 'East: Leaders Meet in Ukraine to Create New Regional Alliance,' *RFE/RL Newslines*, December 1, 2005.

rule of law in the region between the Baltic, Black and Caspian Seas. While the CDC lacks a clear institutional shape, it is seen as an alliance of countries that do not wish to remain in Russia's orbit (<sup>18</sup>).

## **2.4 Frozen conflicts**

The ENP cannot achieve its 'transformative' objectives in the neighbourhood without addressing the so-called frozen conflicts involving secessionist entities in Moldova (the Transnistrian region), Georgia (South Ossetia and Abkhazia) and in Azerbaijan (Nagorno-Karabakh).

Russia holds a key to the resolution of those conflicts both due its support to the secessionist entities as well as its mediating role in the conflicts. It has refused to fully withdraw its forces from Moldova and Georgia despite repeated promises to do so. It has rendered extensive political, economic and diplomatic support to the non-recognized entities, and has contributed to state and institution-building efforts of the secessionist elites. Russian-led peacekeeping forces have guarded the borders of these pseudo-states, helping to maintain the status quo and preventing the metropolitan authority from regaining control. Moscow has pursued a policy of 'passportisation,' offering Russian citizenship to the residents of these regions in order to support its claim of legitimately representing their interests. Approximately 90% of the residents of South Ossetia and Abkhazia now have Russian citizenship, in Transnistria, about 15% (<sup>19</sup>).

Russia has incentives to back the status quo because the existence of the 'de facto states' provides avenues for Russian influence and leverage in the South Caucasus as well as in Moldova. In Georgia, Russian involvement seems to be driven by a wish to weaken and destabilize the country, thus making it less attractive as a candidate for NATO membership. Indeed, as the status quo lingers on, South Ossetia and Abkhazia are becoming more and more *de facto* parts of the Russian Federation (<sup>20</sup>).

However, Russia is not opposed to conflict resolution provided that the settlement meets a number of conditions. It wishes the secessionist entities to have decisive influence over the affairs of the reunified states, wants to act itself as the main power-broker in any power-sharing and wishes to remain the main external 'guarantor' of the settlement (a status that implies potential military presence) (<sup>21</sup>).

The Kremlin views international efforts for conflict resolution as a struggle for power and influence in the post-Soviet space. The rejection of the Kozak Memorandum, Russia's unilateral proposal for the settlement of the Transnistrian conflict, by Moldovan authorities and Western powers in 2003, as well as the presentation of the EU's ENP Action Plan for Moldova the

---

<sup>18</sup> Ibid.

<sup>19</sup> Popescu, N. 'Outsourcing' de facto Statehood: Russia and the Secessionist Entities in Georgia and Moldova', CEPS Policy Brief, Centre for Policy Studies, No. 109, July 2006.

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

following year, were interpreted as indicators of a worrying trend of increasing EU engagement in the region <sup>(22)</sup>.

Recently, Russia has been stepping up its support to the secessionist entities by arguing that the resolution of the status of Kosovo should be regarded as a universal precedent for solving the frozen conflicts in the post-Soviet space. It has intensified its efforts to settle the Transnistria question, pressurizing the Moldovan president to abandon the multilateral format of talks and engage in non-transparent bilateral negotiations with the Kremlin <sup>(23)</sup>.

## **2.5 Deep free trade versus the Single Economic Space**

Both the EU and Russia regard free trade and economic integration as key elements of their policy in the neighbourhood. While the EU wishes to negotiate free trade agreements involving elements of economic governance with selected ENP countries, Russia has placed its hopes in a Single Economic Space (SES) created in 2003 and involving, in addition to Russia, Ukraine, Kazakhstan and Belarus (the four largest countries in the CIS, representing over 80% of its GDP). The stated objectives of the SES are ambitious, including the creation of a customs union, a unified policy on tariff and non-tariff regulations, unified rules for competition, and eventual harmonization of macroeconomic policies.

Ukraine's membership in the SES raises questions about the compatibility of the economic integration projects of Russia and the EU. Following the orange revolution, Yushchenko's administration declared that Ukraine will not withdraw from the SES but will develop relations within in this project only in sectors and ways that do not contradict convergence with the EU. Evidently, Ukraine is interested in the free trade agreement with the SES but does not intend to participate in the customs union. It has also declared that it opposes the creation of supranational bodies in the SES <sup>(24)</sup>. These statements are consistent with Ukraine's European orientation: while free trade with both the SES and EU is entirely possible, a customs union would not be <sup>(25)</sup>. An arrangement where Ukraine gives up its sovereignty over certain trade-related policies to a supranational SES decision-making body would be incompatible with an EU-Ukrainian free trade agreement <sup>(26)</sup>.

The current political crisis in Ukraine has raised questions about the foreign policy course of the country. However, the negotiation of an Enhanced Partnership and Cooperation Agreement and the formulation of ENP-Plus are likely to strengthen the European vector in Ukraine's foreign policy and, coupled with an increasingly aggressive behaviour of Russia, will make the SES less attractive for Ukraine's elites <sup>(27)</sup>.

---

<sup>(22)</sup> Lynch, D., 'Shared Neighbourhood or New Frontline? The Crossroads in Moldova,' *Russie.Cei.Visions*, Institut Français des Relations Internationales, April 2005.

<sup>(23)</sup> Socor, V., 'In Putin We Trust: Moldovan President Goes for Broke in Deal with Russia', *Eurasia Daily Monitor*, Vol. 4, No. 146, July 27, 2007.

<sup>(24)</sup> Under existing agreements, the key SES decision-making body will be a commission in which each member state will have a voting weight proportional to its economic size. This implies that decisions would be dominated by Russia.

<sup>(25)</sup> Emerson, M. (ed.), *The Prospect of Deep Free Trade between the European Union and Ukraine*, Centre for European Policy Studies 2006.

<sup>(26)</sup> Ibid.

<sup>(27)</sup> Kuzio, T., op.cit.

### 3. Conclusions and recommendations

Currently, the concept of a EU-Russia “shared neighbourhood” has very limited content in terms of shared values, common objectives and coordinated policies. However, despite Russian proclivity to view relations in the neighbourhood as a zero-sum game, the EU should refrain from defining the situation in terms of a strategic competition. It should remain focused on the original mission of the ENP, facilitating reforms and promoting stability, democracy and prosperity. It should demonstrate the seriousness of its commitment by allotting sufficient attention and resources to the ENP. Its involvement in the Eastern neighbourhood should be open and inclusive, and it should demonstrate readiness to engage in dialogue and cooperation with actors sharing its objectives and values.

More specific proposals for ensuring the effectiveness of EU policies in the Eastern neighbourhood include the following:

- upgrading the incentives package of the ENP in order to encourage domestic reforms in the ENP countries. The EU should offer attractive, tangible benefits such as deep free trade agreements, economic integration, visa-facilitation arrangements, and educational and cultural exchanges. Although it is not realistic at the present time to offer EU membership to the ENP countries, the EU should ensure that
  - the possibility of other European countries joining the EU in the longer term is maintained;
  - the development of the ENP remains fully compatible with the conditions for accession;
- strengthening the institutional and administrative capacity of the ENP countries to carry out reforms and – in case of Ukraine, Georgia and Moldova - sustain the European orientation;
- intensifying cooperation in the field of energy security with the aim of helping Eastern ENP countries diversify energy supply and develop or modernize energy transit infrastructure. This will simultaneously enhance the EU’s own energy security;
- allocating more resources to EU’s communication efforts in order to better explain the objectives of the ENP and promote the shared values that underlie it;
- continuing to develop the EU-Russian relationship, including the ‘common spaces’, in areas of mutual interest but without compromising European values:
  - where possible, ensure compatibility between ENP instruments and instruments for developing EU-Russian ‘common spaces;’
  - strive towards a common EU approach to Russia. Greater coordination and consensus among member-states is needed in order to develop effective policies towards Russia;
- strengthening the multilateral dimension of the ENP; develop positions and policies towards key regional organisations in the Eastern neighbourhood, and support those consistent with European values and the EU’s objectives in the region;
- seeking greater complementarity and coordination with US policies in the region, especially in areas of high US interest and involvement (e.g. Georgia);
- playing a more active role in the resolution of the ‘frozen conflicts,’ both in terms of developing proposals for conflict resolution as well as participating in specific missions, such as border monitoring and peace-keeping operations.