



## Russia, the EU and the Baltic States

The Baltic Sea Regional Dimension in the Context of EU-Russia Relations:  
Interests, Perceptions and Prospects

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RELATIONS:  
INTERESTS, PERCEPTIONS AND PROSPECTS**

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# Introduction

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*By Dr. Andrei Zagorski<sup>1</sup>*

It has been three years since the first roundtable discussion was held in Tallinn, Estonia, in the summer of 2005, to discuss the relations between the Russian Federation and the Baltic states after the latter's accession to the European Union. Now, in Riga, Latvia, in 2008, the fourth such meeting has revealed that this relationship remains very complex and sensitive. There has been little progress either in Russo-Baltic relations, or in the discussion of a number of key issues on the agenda of Russo-EU cooperation, since that time.

In this volume, *Artis Pabriks*, who was Foreign Minister of Latvia when the series of round table meetings was launched, calls the Russian-Baltic dimension "an increasingly challenging relationship".

Indeed, relations between Moscow and Lithuania began gradually deteriorating in 2005 and particularly 2006, and have been in a state of continued stagnation ever since. Relations with Estonia reached their lowest point in the 2007 dispute over the movement of a Soviet war memorial and seem unlikely to recover any time soon. Although a border treaty between Russia and Latvia was signed and ratified in 2007, there has been no similar progress between Russia and Estonia since 2005, when Moscow withdrew its signature from the not yet ratified Treaty.

There has been little progress, if any, on the issues central to the political debate over the future and rationale of a strategic partnership between the Russian Federation and the European Union, as discussed at length in the four round tables between 2005 and 2008.

In July 2008, negotiations were finally launched on a new treaty to replace the 1994 Partnership and Cooperation Agreement, which was the subject of intensive consultations in 2005. However, after the first, largely organizational meeting, they were suspended two months later in the aftermath of the 2008 Georgia crisis.

Russia and the European Union have made little progress in their discussions over energy cooperation except for a series of further deals and asset swaps agreed by individual EU member states or companies with their Russia counterparts. The debate over the allegedly excessive dependence on Russian energy supplies continues within the European Union and its member states. Uncertainty as to the future regulation of investment security in Russia and the possibilities for Russian businesses to invest in the European Union has increased, not decreased. The costs of the North Stream gas pipeline over the Baltic Sea continue to rise, while its route on the sea bed remains to be conclusively determined, pending the completion of studies of its eventual environmental impact.

Except for the readiness of the Russian Federation to send helicopters to support the EU operation in Chad, there was virtually no progress within the Common Space of external security, or on common crisis management or cooperation in the shared neighbourhood. The external security dialogue between Russia and the European Union remains the least advanced, in comparison to the other three dialogue avenues agreed in 2005.

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Finally, there has been little evolution, if any, of the role of the Baltic States within the framework of relations between the Russian Federation and the European Union.

Their skepticism of a strategic partnership has not transformed into enthusiasm. On the contrary, they seem to have become even more wary, over time, of the rationale for a strategic partnership with Russia.

Lithuania was the last member state to endorse the mandate for EU negotiations with Moscow in Spring 2008, after the Polish veto had been lifted. All three Baltic States joined the voices within the European Union demanding that the EU quit, not merely suspend, those negotiations, and calling for sanctions to be imposed on Russia after the Georgia crisis.

They have not eased their rhetoric in opposition to the North Stream project, and express increasing doubt as to the possibilities for cooperation with Russia, particularly on CFSP/ESDP issues.

It is also fair to say that Moscow has done little to resolve the mounting disputes in its relations with the Baltic States, nor to encourage closer cooperation since 2005. Except for some progress in relations with Latvia, Russia has refrained from any attempt to seek solutions. It has clearly failed to address the Baltic States' concerns (and those raised by Poland) by seeking to bypass and overrule them through closer cooperation with Brussels and/or with its close partners within the European Union, such as Germany, France, Italy, Austria, Belgium or Hungary.

Nonetheless, there have been several changes – though not necessarily for the better.

The 2008 Georgia crisis has reopened the debate within the European Union on the rationale for a strategic partnership with the Russian Federation, triggering a second Russia Policy review within a 12-month period. The interim outcome of this development is the falling popularity of the very concept of a partnership in the context of Russo-EU relations.

The Georgia crisis has confirmed the skeptical view, particularly widespread in the Baltic States, that little change could be expected from the new President of the Russian Federation. Indeed, at least for the time being, expectations of and hopes for a more liberal domestic and external policy from Moscow have vanished.

The global financial crisis, however, seems to have pushed the Russian Federation towards a much closer rapprochement with the European Union in particular, after demonstrating once again the continued weakness of the Russian economy and its vulnerability to external shocks, such as world energy and raw materials prices, or financial turbulence. Moscow remains heavily dependent on external capital investment and borrowed capital.

Nonetheless, the financial shock – though obviously pushing Moscow towards closer cooperation with the EU, the US, and international financial institutions – is unlikely to help improve relations with its small neighbours in the Baltic area. Furthermore, in continuing its disputes with them, Moscow may well be compensating for its thwarted ambition to behave again like a world power.

A further notable trend observed in the fourth round table discussions (see, for example, the paper by Atis Pabriks) is that the lack of rapprochement between Russia and the Baltic states – and, indeed, their continued mutual alienation – may well result in, if not the dismantling of some inclusive sub-regional institutions of cooperation, such as the Council of the Baltic Sea States, then at least in a consolidation of exclusive EU-Baltic cooperation in avoidance of the Russia issue.

The idea of the Baltic Sea becoming practically an EU inner lake, as well as the tendency to interpret Sweden's initiative for its forthcoming 2009 EU-presidency as a chance to consolidate cooperation among the Baltic EU member states to the exclusion of the Russian Federation, remain counterproductive. What is required is rather the opposite: to make the border with the Russian Federation more transparent and to promote cooperation.

The overall political climate for Russo-Baltic relations thus remains not conducive to improved economic cooperation, despite the boost in mutual trade between Poland and Russia over the past few years. Nonetheless, economic interests seem to be the main argument for better cooperation in the region, and in a wider European framework.

As *Dr. Boris Frumkin* indicates in his paper, Russia must be crucially interested in retaining its trade routes in the Baltic area, as these process 50% of its exports and 20% of imports. At the same time, Baltic businesses are obviously interested in expanding exports to the Russian markets and attracting more Russian tourists. Increasing mutual investment exchange and boosting cross-border cooperation would serve the interests of both.

The tense political relationship in the area has thus far hindered the development of more pragmatic cooperation in the region. Moreover, it will be even more difficult to reverse this situation if the trend towards encapsulating the Baltic States within an exclusive EU-Baltic strategy framework prevails and is not countered by efforts to transcend it in a more inclusive way.

The participants to the round table discussions – which have been held since 2005 and made possible by the Friedrich-Ebert-Stiftung offices in Moscow and Riga – have never nurtured the illusion that their meetings would change the world or even the region. Their discussions have often been controversial, although they have tended to become more practically oriented over the years.

The core participants of the round table discussions have also come to feel that continued communication and dialogue between experts and the broader public are of utmost importance, particularly in times of political tensions. Such efforts help to generate and spread mutual understanding and trust, even if vertical filters towards the policy-making level are not always open.

The participants welcome and value this rare opportunity and remain committed to the dialogue.

This short volume cannot reproduce the entire picture of the conversations that occurred at the fourth round table meeting held in Riga on 17–18 April, 2008 although, for the first time, it includes not only a few papers written by participants but, also, some minutes of the meeting.

It does, however, document yet another step towards facilitating the dialogue between the Baltic States and the Russian Federation within the context of the overall relationship between Russia and the European Union. This dialogue will remain crucial for the time to come, particularly given the need to transform Russia-Baltic relations from being a liability into becoming a stimulus for Russo-EU cooperation.

# Baltic Sea Regional Cooperation: Changing Frameworks and Challenging Partnerships in a Post- transition Environment

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*By Artis Pabriks<sup>1</sup>*

The Baltic Sea Region is an area that shares a long history of both cooperation and confrontation. From the times of Ivan the Terrible to the Molotov-Ribbentrop pact, these two approaches have prompted divergent interpretations of security in the Baltic region. Can actors in the region be partners, or are they competitors for stability and safety? This dichotomy is subject to constant change. Today it is marked by three developments: the enlargement of the European Union, with the potential for creating an integrated Nordic-Baltic space; the challenge of dealing with Russia's new assertiveness; and the post-transition issues faced by the Baltic States domestically.

## Toward an EU-perspective on the Baltics

Let us consider the most recent shift in Baltic regional cooperation. When the Council of the Baltic Sea States was launched shortly after the end of the Cold War in 1992, it was formed both by countries within and outside of the European Union and NATO. Estonia, Latvia, Lithuania, Poland and Finland were not EU-members yet. Since the European Union's enlargement round of 2004, Baltic Sea cooperation has come to resemble a forum of EU-states "plus Russia". This creates a challenge to regional integration, as cooperation between EU members has become easier while the Russian-Baltic dimension is an increasingly challenging relationship.

This is not only due to changing external circumstances. Within today's Russia itself, Russian involvement in Baltic cooperation is often seen as running counter to national interests, which some believe require maximum independence from outside entanglements. Under such conditions, only issues of low significance stand a chance of resolution. Deeper cooperation between Russia and its European neighbours in the Baltic region, on the other hand, faces broad obstacles. Nevertheless, regardless of Russia's role in the Baltic region, there is another problem which often remains unaddressed, but that has also slowed cooperation around the Baltic Sea. That is the role of some EU-members themselves. Too often, Baltic Sea cooperation is viewed as an association of small and medium-sized states. This is because Germany's involvement is underdeveloped. Germany is not on board most Baltic activities. For instance, there has only been one bilateral visit by a German foreign minister in Latvia during the past seven years. This is highly unfortunate, as German-Baltic relations have come a long way, from a historic perspective. But overcoming the confrontational experience of the first half of the twentieth century has not led to stronger political support from Germany for further development of the Baltic Sea as an integrated European region. A strong Baltic regional dimension and strategy necessitates more active involvement from Germany, as it is not only crucial to various cross-border Baltic Sea issues due to its geographic position, but also because it wields considerable influence as the largest state in the European Union.

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Baltic regional cooperation needs a dose of renewal. Within the European Union, the Baltic countries are seeing their region compete with a French-sponsored Mediterranean Union for attention and funding. As time progresses, more and more actors view the Baltic region as part of a Nordic sphere, as opposed to its previous Eastern connotation. Deeper integration and cooperation between Baltic and Nordic countries with regard to energy and environment issues, or the human dimension in education and research, holds a vast potential to be explored in the coming years. To better tap into this potential, regional cooperation in the Baltic region will require reform. Currently there are various instruments of integration which – perhaps due to their quantity – often fail to deliver adequate results. The Baltic Assembly and the Baltic Council of Ministers, the Nordic Council and the Council of the Baltic Sea States all have different compositions in terms of membership, yet essentially share similar problems. A future EU Baltic Sea strategy that will come to bear with Sweden's EU presidency in 2009 will hopefully add an impulse to renew Nordic-Baltic cooperation and tap into the synergy potential of already existing institutions.

### EU-Russia relations and the Baltic region

The other major regional issue is the role of Russia. Russian power is growing thanks to its resources and the rise of oil and gas prices. Europe is waiting to see how this regained power will be used in the future. One aspect that troubles the Baltic States is Russia's effort to re-brand its national self-esteem. The collapse of the Soviet Union impacted both on the national and personal identities of Russians. While Vladimir Putin has brought back a positive self-image, this has been done by re-energizing old Soviet symbols and imagery which the Baltic countries view with particular dismay. This could have an impact on long-term European-Russian relations. But while Europeans look on Russia's "new assertiveness" with scepticism, this does not constitute a Russia problem, but rather implies a need for more debate within Europe. It is the European Union that cannot agree on a strategy of how to deal with Russia. Europe is unable to define its own interests and perspectives and consequentially has managed neither to contain nor to engage Russia. Looking at recent developments, there is no guarantee this will change. Even the Lisbon treaty, whose ratification remains an open question, does not energize European foreign policy enough to effectively tackle the challenge of a strong neighbouring Russia. Russian policymakers have realized this and have been able to divide Europeans on individual issues, from energy and economy to security issues.

The EU has always proclaimed itself a community based on common values. But with regard to upholding them, the EU has failed to formulate a foreign "value policy" towards Russia (or China, for that matter). While the EU has a strong record of noting and criticizing human rights abuses in many countries, for the past five years, Russia has succeeded in keeping the human rights situation in Russia off the EU-Russia agenda, while simultaneously claiming alleged human rights issues against European states, in particular in the case of the Russian-speaking populations in Latvia and Estonia.

The EU is also failing with regard to its energy policy towards Russia. A truly European energy policy should aim at being able to shift energy supply within the EU should the supply from one source fail. This implies that Europe cannot rely on simply one source of energy. It also means that the development of renewable sources and alternative supply lines must be



increased. In this discussion, there have been mistakes made by European member states themselves, as well. Latvia, for instance, has foregone a debate about conserving energy and energy efficiency. But be that as it may, the EU still fails to maintain a common position regarding Russia's role as a near-monopoly in providing gas and oil to some of its members.

The next internal European problem is the Neighbourhood Policy (ENP). Europe wants to be engaged in the Ukraine, Moldova and the Caucasus. But it is not ready to face Russia on issues in those regions. Russia tends to view EU-involvement in its former zones of influence as a zero-sum game, seeing any rise in EU influence as a corresponding loss of Russian influence. It is the same approach that characterized Russia's stance toward EU-enlargement in the Baltics fifteen years ago. As a result, larger EU countries are blocking measures such as border management in South Ossetia or the differing visa regimes for Georgian citizens and Russian citizens. It is absurd that Russian passport holders in the Georgian breakaway region of Abkhazia have an easier time entering the EU than Georgians have. The neighbouring countries have proclaimed that they want to model their societies and political systems on European values, while Russia would prefer them to stick with a model of pseudo-democracy. Common values are an essential component to deeper cooperation. The OECD, for instance, has common values as a prerequisite to membership. Of course, it is important to have dialogues and coordinate policy with countries that do not share one's values. But this requires a different set of institutions. You cannot sit at the same table of a value-based institution. The EU has made a decision on this issue. We want to support democracy in other countries (Ukraine, Turkey, Georgia), but at the same time we are not ready to offer the proper membership incentives. In the Baltics, membership was a strong incentive for reform. Why should countries pursue democratic and free market reforms if they do not receive anything in return and are left without incentives?

### Prospects and perspectives of post-transition

As the debate over future Baltic cooperation and the role of Russia continues, the three Baltic States – Estonia, Latvia and Lithuania – are entering a new phase of post-transition domestic development that will also shape the future of the region. Latvia itself is currently experiencing “second wave reforms”. In the 1990s the country was highly successful in implementing structural reforms and introducing a market economy. But today it is experiencing the “darker side” effects of transitional democracy aggravated by the global economic crisis. Inflation, rising fuel prices and the decline of the welfare system are leading policy makers to re-think reforms and adjust. The Baltics need a second wave of reforms that returns the “stolen republic” controlled by a small elite back to the middle classes, in order for a sustainable perspective in the Baltic region. A strong example is Latvia's rating on the Gini index, which rates inequality in society. During the 1990s Estonia had a higher inequality reading than Latvia, because their markets reforms were rapidly implemented, while Latvian readings were at the European average. After Latvia joined the EU the Gini-index actually rose in Latvia, while it began sinking in Estonia, and today Latvia is similar to Russia in terms of income inequality. This indicator of asymmetrically held power and wealth in Latvia is a dangerous prospect, in particular because this is occurring under EU-membership. As the Baltic States attempt to find new political answers to slowing economies and to rebuild trust in their political elites, deeper regional cooperation and integration in an EU-focused Baltic-Nordic space can serve as a force of stabilization and renewal.

## Business Interests in the Context of Russian-Baltic Regional Cooperation

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*By Dr. Boris Frumkin<sup>1</sup>*

Since the year 2004, the Baltic Sea has become practically an internal sea within the European Union. The only exceptions are two segments of the East Baltic Coast, occupied by mainland Russia and Russia's Kaliningrad enclave. These territories – situated in between Latvia, Lithuania and Estonia – represent a unique geo-economic configuration. The area might be called the East Baltic Arc: an economically linked and interdependent sub-region within the Baltic Sea macro-region. It is worth examining this sub-region separately in the context of the Baltic Sea region.

Economic relations between Russia and the Baltic countries have always been interesting, as they have combined tangible results with seemingly never-ending quarrels, illustrating a constant interaction of economic and political factors. They prove that common business interests form the core of political and any other cooperation, but also that the diversification of economic ties can lead to political differences.

*One can analyze business interests in the context of Russian-Baltic regional cooperation as a three-level game.* The first level comprises the national level of bilateral relations between Russia and each Baltic country. The second is an EU level of relations between Russia and the Baltic States as collective EU-members. And, finally, there is an all-European level of Russia-Baltic relations in the context of "Wider Europe". These levels differ from each other in character and development, as well as in economic and political balancing factors. Nevertheless, the main motivating force for the sustainable growth and coordination of all three levels is business interests. One can therefore assign a new term to the optimal model for these processes: "fleximatism" – from "flexibility" and "pragmatism".

Let us look at each level in detail. *At the first level Russia and the Baltics behave like the members of four different national teams.* However, the core business interests of Russia and the Baltics are generally solid. Russia holds the 2nd to 4th position in foreign trade with the Baltic States and 5th to 7th position among their foreign investors (11% of aggregate Baltic exports and 17% of imports). The share of the Baltics in Russia's foreign trade is much smaller: in 2006 it comprised only 3% of exports and 1.1% of imports and was negligible in Russian foreign investment (for example, the accumulated investment of Russia in Latvia is almost 17 times larger than Latvian investment in Russia). The trade balance is thus 145% in Russia's favour.

Nevertheless, Russia and the Baltics are at the same shop – though with different shopping lists. Russia needs the Baltics as a stable and reliable, if not large, market for gas, oil and oil-products, metals, timber and chemicals. For the Baltics, Russia is an important export market for a number of items including foodstuffs, chemicals, engineering and consumer goods. The maneuverability of the Baltics here is limited, as their trade policy falls under the dictates of the EU. But they are freer to cooperate with Russia in transport, energy, trans-European networks, ecology, industrial policy and tourism. The main points of mutual interest are transit and logistics. About 50% of Russian exports and 20% of imports pass through the Baltic sea, and revenues from Russian transit through ports and railways form 6-7% of the Baltic

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States' GDP. Thanks to the stable energy resource supply from Russia, prices for gas, electric energy and transport fuels in the Baltics are among the lowest in the EU. Russian tourists comprise 7% and more of the total number of tourists in the Baltics and are among the highest spenders.

These are areas where “fleximatism” is vitally important and possible. The new Russian ports on the Baltic Sea coast and the coming unification of Russia's railway tariffs toward the Baltic ports have weakened the Baltic countries' transit monopoly and strengthened competition within the East Baltic Arc. Under these new conditions, any inflexible or unfriendly policy negatively affects the Baltic States' national competitiveness. Estonia's lack of flexibility and pragmatism toward its Russian minority and its dismantling and removal of the Soviet Soldier Monument and grave in Tallinn in April last year led to the transfer of 30-40% of Russian transit from Estonia to Latvia and Finland, with a loss of 2000 jobs (12% registered unemployment in 2007) as well as 2/3 of Russian tourists. Tallinn's share in cargo turnover among the East Baltic Arc ports decreased from 12% to 10%. Total economic losses are estimated at \$680 million (about 4% of GDP or \$520 per capita), leaving the Estonian budget with a deficit of about \$311 million (1.8% of GDP or \$240 per capita). The decrease in transit resulted in the freezing of investment in the modern Estonian port of Muuga. Lithuania's predominantly political decision to sell its Mazeikiu refinery (which supplies all three Baltic States) to a Polish company (without its own oil resources) led to a decline in its economical competitiveness and the emergence of a project to build an alternative refinery in Latvia, using oil from Russia and Kazakhstan. Russia's introduction of a high export tax for timber also demonstrated a lack of “fleximatism”, but it is now seeking greater reciprocity (improved conditions for Baltic, Finnish and Swedish investment in timber processing in Russia, developing exports of semi-finished products for final processing in these states, etc.). Such incidents, as well as the periodically arising issue of Russian compensation – estimated by Lithuanian politicians at about \$40 billion – to the Baltics for the so-called “Soviet occupation” (although even the CIA website uses the words “annexation” or “incorporation”) are permanent factors of irritation in bilateral relations.

Though it might sound strange to some, Russian companies operating in the Baltics are usually more cosmopolitan than national businesses. In fact, they have tended to defend Baltic interests in Russia, softening the consequences of political disagreements. Both Gazprom, which is practically controlled by the state, and transnational Lukoil have reinvested most of their “Baltic” profit in these countries and have never interrupted their supply. But permanent political conflicts continue to dampen the predictability and attractiveness of economic relations for Russian businesses in the Baltics. Patriotism has become more economically effective, as has business expansion to politically friendlier neighbours (Finland, Germany). Local authorities and many businesses (particularly small and medium enterprises in regions near the Russian border) normally behave more “fleximatically” than the Baltic governments. For example, despite political problems at the governmental level, Lithuanian trade with the Kaliningrad region in 2007 grew by 25%, reaching \$511 million (\$512 for each inhabitant of Kaliningrad), and Lithuanian investments grew to 5% of foreign investments in the region. The consumer-goods market in Gariunai (Lithuania), striving for a revival of the crossborder trade with the Kaliningrad region that is being undermined by the Schengen regime, has begun assisting Russian traders to obtain Schengen visas and transportation starting April this year, and plans to sell them Lithuanian and imported goods for \$2.7 million monthly (about \$3 for each inhabitant of the Kaliningrad region).

While fully de-politicizing bilateral Russian–Baltic economic relations is rather improbable, “fleximatism” will become much more useful both in the medium term (the next 3-5 years,

which face a difficult internal and external economic situation) and in the long term (10-15 years, by which time new challenges of globalisation will be shaped, and cooperation in innovation and development – including the organisation of joint innovation clusters in neighbouring regions – will become crucial).

*At the second level, Russia faces the Baltic States as members of the combined European Union team, even though for Russian businesses, relations with the Baltic trio's share of EU business is less important. The Baltic share of Russian exports to the EU is less than 5% and their import share only 6%. Nevertheless, their potential political influence is much greater. The Baltics have about 4% of the members of the European Parliament and Council (twice as many as Finland or Denmark). In conjunction with Poland and one more middle-size EU state (Romania, for example), they can in fact block any unfavourable decision in the Council. Any of the three Baltic States can veto the preparation and ratification of a partnership agreement with Russia. In fact, Lithuania did veto negotiations in May 2008, taking over from Poland, which had done so up to the end of 2007. Here more "fleximatism" is necessary. The Baltics attempt to speak with a single voice while participating in the development of a unified framework for a common EU policy towards Russia. In practice, this periodically leads to the attempt to put group or even national interests above the common EU interest.*

A typical example is the Baltics' opposition to the North Stream gas pipe-line, which has contributed to delaying and raising the costs of its construction (up to 7.4 billion euro) as well as weakening the EU gas supply. This is particularly senseless at the present time. Exports of Caspian gas via an already existing Russian pipeline system at European prices from 2009 will also render the construction of the alternative Nabucco pipeline (minimal construction costs of 5 billion euro by 2013) economically ineffective. Moreover, this case would make Turkey the basic oil and gas transit country to Europe. This might improve that country's chance for EU membership, but at the same time, it would weaken the Baltics' transit position and isolate them as "European energy islands". These changes will probably mean the "*diworsification*" (as Warren Buffett has coined the phrase) rather than "*diversification*" of Baltic energy supply. The Baltics can also hardly expect the EU to block construction of the North Stream or South Stream (across the Black Sea) projects and support an alternative Amber gas pipeline project through their own territory for purely political reasons, as the EU Commission treats all such projects on a predominantly commercial basis. On the other hand, the Baltics have joined France and Germany in their rather negative attitude toward the Commission's "third energy package" which might improve the stability and efficiency of their gas supply from Gazprom.

A lack of coordination in the Rail Baltica project – which aims to connect Tallinn, Riga, Vilnius and Warsaw by railway, by-passing Kaliningrad – ineffectively circumvents the all-European transport corridor № 1 (Helsinki-Tallinn-Riga-Kaliningrad-Gdansk) earlier agreed between Russia and the EU. Rail Baltica, which is counting on rather limited passenger and cargo flows, will cost 4.3 billion euros (twice as much as initially projected and only 1.7 times less than the North Stream project, which is oriented towards the entire EU). Attempts to decouple the Baltics from Russian energy on the eve of the closure of Lithuania's Ignalina nuclear power station, which has until now supplied much of the region, are also highly expensive and not very promising. Here, too "fleximatism" is indispensable for the effective realisation of the Baltics' collective interest in working within an EU strategic partnership with Russia to solve the problems of EU energy security, trans-European electric energy and transport, logistics nets, Baltic Sea ecology, etc. Latvia is taking steps in this direction by discussing the possibility of organizing a gas-capacity hub and building a new gas-based electric power station on its territory. Relations at this level will not, of course, be limited to traditional spheres.

There is much perspective for cooperating in new postindustrial fields, such as alternative energy (nuclear, biological, wind, wave etc.), bio- and nanotechnology and other aspects of the knowledge-based economy.

*Thirdly, and finally, at the all-European level Russia and the Baltic trio should become members of an "all-European team" in the long-term perspective.* The significance of coordination between Russia and Baltic business interests on this platform will grow greatly. The intensification of the Russian-EU strategic partnership is necessary in order to realise the EU's common interest as part of a "Wider Europe" that is able to address the new challenges of globalisation (e.g. climate change, world food and energy problems). Cross-border cooperation, ecological and fishing issues, as well as trans-continental transportation systems and other common macro-regional problems should attract more attention, particularly within the framework of the Northern Dimension, which also includes Iceland and Norway. If this region is neglected, then EU attention and financial resources will definitively be reoriented toward the Mediterranean, which already absorbs 2/3 of European Neighborhood Policy financing. Only an approach of "fleximatism" toward the East Baltic Arc region can effectively utilise the great new opportunities emerging from global warming in the Arctic, opening up new trans-continental trade-transport routes and enabling access to fossil resources of the Arctic Sea shelf.

# The Baltic Dimension of EU-Russia Cooperation

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*By Dr. Andrei Zagorski*

## 1. The Baltic dimension of EU-Russia relations

The 2004 enlargement of the European Union has added a distinct Baltic dimension to EU-Russia relations. Due to their difficult mutual history and the current strain in bilateral relations between the Russian Federation and the individual Baltic States, this enlargement can appear to be a liability rather than a source of cooperation between Moscow and the European Union. However, given the geography of the region – not to mention its substantial share of the EU-Russia common border – the Baltic dimension could potentially play a much more positive role.

There is a long list of issues dividing Moscow and the Baltic States: from the controversy over the history of the latter's incorporation into the Soviet Union in 1940 to Russian concerns over the rights of non-citizens in Estonia and Latvia, many of whom are of Russian origin. Estonia remains the lone member of the European Union with which Russia has not yet defined a common border. Several current political issues have increased the tension, from the interruption of the oil supply to Lithuania in 2006 to various diverging policies in the common neighborhood. Many Baltic States are strong proponents of EU and NATO integration for Ukraine and Georgia, or are at the forefront of support for the opposition to the Lukashenko regime in Belarus. The most recent crisis in Russo-Georgian relations, which escalated to military action, has further deepened these divisions.

Further controversies include several economic issues, such as the opposition of some Baltic States to the construction of the North Stream gas pipeline over the Baltic Sea connecting Russia with mainland Europe in Germany, and bypassing any eventual transit countries. Moscow has continuously sought to diminish the importance of the Baltic States' sea ports as a transit route for Russian export commodities by developing new terminals on Russian soil.

The uneasy relationship between the Russian Federation and the Baltic States has directly impacted EU-Russia relations ever since 2004. The chorus of critical voices skeptical of the rationale of a strategic partnership with Russia has grown within the European Union. Furthermore, there has been a tendency to bring many of the controversial issues on Russo-Baltic relations onto the agenda of negotiations between Moscow and the European Union. Both Estonia and Lithuania have sought the solidarity of the EU in their disputes with Russia. The controversy over the removal of a Soviet war monument in Tallinn and the siege of the Estonian embassy in Moscow helped bring EU-Russia relations to a low point at the summit meeting in May 2007. And, in 2008, Lithuania was the last member state of the European Union to agree to endorse the mandate for the negotiations of the new treaty with the Russian Federation after its amendment proposals had been sorted out.

The Russian Federation has also allowed Russo-Baltic controversies to mar relations with the European Union. Ever since 2004, Russia has proceeded on the assumption that the EU, in admitting the Baltic States (and Poland), has imported a great deal of russophobia. It has also sought to make the European Union responsible for dealing with the problems Moscow had been unable to resolve with the individual Baltic States. The issues of ethnic minorities



and of the disputed history of the Baltic region have been regularly brought to the agenda of EU-Russia meetings at various levels.

All in all, Moscow expresses the view that the enlarged European Union has become not only a distinct but also a very different partner for Russia. The emergence and growth within the European Union of a group of Russia-skeptics including the Baltic States has, in Moscow's view, slowed – if not blocked – any progress in raising EU-Russia relations to a new level of strategic partnership.

## 2. The institutional dimension of addressing specific Russo-Baltic controversies

The most effective way of addressing the mounting controversies between Russia and the Baltic States has yet to be determined. If there is any prospect of settling current disputes in the near future:

- Shall they be predominantly addressed in a multilateral framework, i.e. within the Russia-EU talks, or within a sub-regional framework, such as the Council of the Baltic Sea States?
- Shall they remain predominantly the subject of bilateral relations between the Russian Federation and the individual Baltic States, in order to avoid, as far as possible, overburdening multilateral talks and, in particular, those with the European Union? or
- Shall they be addressed through a mixture of both bilateral and multilateral institutions?

For the time being, the Russo-Baltic dimension appears to be insufficiently governed either by the relevant bilateral or the relevant sub-regional or multilateral (EU-Russia) regulatory frameworks.

There are obvious gaps in the still rudimentary bilateral regulatory frameworks between the Russian Federation and the individual Baltic States. Although numerous agreements have been negotiated or are under discussion, the bilateral legal basis for cooperation and dispute settlement is far from satisfactory. Many agreements negotiated and initialed by Russia and Latvia, and particularly Estonia, remain to be signed or ratified. The admission of the Baltic States into the European Union, as well as the extension of the *aquis* and the EU-Russia regulatory frameworks, help in some cases but do not bridge the entire gap. Thus, upgrading the bilateral frameworks governing Russo-Baltic relations remains a vital task which can hardly be substituted with solutions sought at the sub-regional or at the Russia-EU level.

The Council of the Baltic Sea States was established in the 1990s in order to facilitate sub-regional cooperation involving Russia, the three Baltic States, and other countries including, not least, Poland and Germany. While filling the gap of the then low integration of the Baltic States into the relevant Euro-Atlantic institutions, it was supposed to promote the settlement of existing disputes through enhanced cooperation in different areas. Addressing minority issues through the Commissioner of the Council of the Baltic Sea States was one of the officially endorsed functions of the Council. Although Moscow never demonstrated complete satisfaction with the results of that work, it explicitly appreciated this mission of the Council in

particular, as well as its work in a number of less politically sensitive areas, such as environmental protection.

It is hard to assert that the Council of the Baltic Sea States has demonstrated the capacity to become a crucial actor in the region, or has proved capable of developing a strong regulatory capacity to fill existing gaps. It has been helpful, however, in promoting communication within the sub-region, and in developing and implementing specific projects of common interest.

Nonetheless, since the Baltic States' accession to the European Union, there has been some debate as to whether the Council of the Baltic Sea States can help to alleviate existing disputes between the Russian Federation and the Baltic States through intensified communication and increased cooperation in less politically sensitive areas. Many in the Baltic States have come to believe that the Council's framework is insufficient and is becoming, or has already become, obsolete. They feel that, having entered the European Union, the Baltic States can more effectively address the issues on the Council's agenda through the EU's frameworks and instruments of cooperation. Abolishing or down-sizing the activities of the Council of the Baltic Sea States would further help to avoid the controversial discussion of the minorities issues championed by the Russian Federation.

Precisely for this reason, it seems, Moscow is not prepared to fully abandon the Council of the Baltic Sea States. However, the Council's capacity to resolve disputes in the region appears limited, as well.

For the past few years, the Baltic States have occasionally sought recourse to the solidarity pledge of the European Union in order to internationalize their disputes with the Russian Federation. Moscow shows little appreciation of this manifestation of EU solidarity on such occasions, seeking to avoid any sign of weakness and being extremely reluctant to compromise with individual member states for the sake of a good relationship with the European Union. On the contrary, it continuously warned the European Union that elevating individual disputes to the multilateral level and pursuing the particular interests of individual member states through the EU could seriously harm Russo-EU relations while thwarting the potential for enhanced cooperation.

At the same time, following the closure of the OSCE missions in Estonia and Latvia, and with the disputed capacity of the Council of the Baltic Sea States to act as a guardian of minority rights, Moscow continuously sought to make the EU responsible for developments in the Baltics by repeatedly raising those issues at different levels, including at summit meetings with the European Union.

It would be hard to assert, however, that the European Union has developed as a relevant avenue to solve the issues on the agenda. Both institutional and political factors have prevented this. Instead, a sort of fatigue has been spreading among many member states of the EU as well as in Brussels, as far as dealing with the legacies of Russo-Baltic relations is concerned. The extent to which the EU-Russia multilateral framework can really help improve Russo-Baltic relations thus remains an open question.

### 3. Addressing non-region-specific issues in a new EU-Russia treaty

There are still issues on the Russo-Baltic agenda which are not region-specific and appear relevant for the further development of the regulatory framework governing cooperation between the Russian Federation and the European Union. This is particularly true in the context of the recently opened negotiations on a new EU-Russia treaty.



The very existence of a number of disputes not limited exclusively to Russo-Baltic cooperation, and the gaps in the multilateral regulative framework preventing the current Partnership and Cooperation Agreement from governing the settlement of those disputes, underline the need for a new treaty between the Russian Federation and the European Union.

The need to improve the EU-Russia regulatory framework further emphasizes that the new treaty should be legally, rather than politically, binding. It should be as specific as possible rather than provide a loose general framework.

The level of detail of the new treaty provisions, and the level of detail to be left for subsequent sectoral agreements, remains to be determined, however.

In order to help address outstanding issues on the agenda of Russo-Baltic and, more generally, Russo-EU relations, the new treaty must seek to provide regulation, in particular, in the following areas:

- energy cooperation (relevant provisions of the European Energy Charter Treaty and of the forthcoming 3<sup>rd</sup> directive of the European Parliament and Council giving the Commission a role in external energy cooperation)
- reciprocal rules for the promotion and for the protection of mutual investment
- the development of transportation and other relevant infrastructure to interconnect the countries in the region, rather than allowing them to bypass one another
- border management as a priority
- cross-border cooperation
- the facilitation of increased communication and interaction between the civil societies.

Apart from this, it is also worthwhile exploring the extent to which the forthcoming Baltic Sea strategy of the European Union can be helpful and instrumental in addressing the relevant outstanding issues on the Russo-Baltic agenda.

Based on this assessment, it would be worth exploring the sectors in which the Baltic Sea Strategy of the European Union could and should be complemented with an offer to include the Russian Federation further, in order to avoid the explicit development of an exclusive sub-regional framework which could produce a further divisive effect in the region.

# The Baltic Sea Regional Dimension in the Context of EU-Russia relations: Interests, Perceptions and Perspectives

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## *Notes from the fourth Russia-EU-Baltic Roundtable*

*By Daniel Grotzky<sup>1</sup>*

The fourth session of the Russia-EU-Baltic Roundtable was held in Riga on the 17th and 18<sup>th</sup> of April 2008 and was 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.

### Session 1: National versus common interests in the European Union

Participants highlighted the uncertain outcome of the shifting political landscape in the Baltic region. The effects of the Medvedev-Putin leadership of Russia remain to be seen, with European states unsure how to respond to newly confident Russian foreign policy and Russian economic and business interests in the region. Also, there is increasing discussion of the changes within the Baltic States. Latvia is currently experiencing a political upheaval and the region is reviewing the relationship between its rapid economic growth and social structures.

#### *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 without the EU and NATO to a group of EU-states plus Russia. The resulting asymmetrical framework, while able to resolve smaller issues, presents 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, which 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 growing stronger through its wealth in resources. This development is mirrored in a newfound self-esteem that makes reference to symbolism often derived from the Soviet era. The EU has not been able to reach a consensus on how to confront Russia on its new trajectory. Calls for diversified energy supplies vary among member states. In the common neighbourhood, Europe wishes to be engaged with countries seeking 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 continues

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to pursue a value-based institutional framework with Russia, while Russia seems to be heading away from the model of European democracy.

### *Domestic change in the Baltic States*

Meanwhile, the Baltic States are faced with the repercussions from their political and free market reforms of the 1990s. Latvia, in particular, has witnessed an erosion of trust in the political system due to scandals and rising income inequality. It remains to be seen how these post-transition challenges will met without the incentive of imminent EU membership,

### *Discussing the slowdown of cooperation*

A Russian participant stressed that one reason for Russia's lack of enthusiasm for Baltic cooperation and its willingness to bypass the European level in favour of direct bilateral negotiations with Italy or Germany might stem from the negative overtone of Baltic-Russian relations. Examples include rows over the Mazeikiu Nafta and Ventspils refineries, the North Stream pipeline and the Polish veto on negotiations for a new Partnership and Cooperation 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 did not then include such difficult European-Russian issues as a transit corridor to Kaliningrad.

While one Latvian contributor 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 self-made problem. The point was made that the consensus-based political culture of the EU prohibits a more active representation of interests vis-à-vis Russia. Furthermore, it was noted that the EU has difficulties in establishing priorities among European interests. In this context a discussion on value-policy versus realpolitik would be beside the point, since the EU has neither a clear-cut value-policy towards Russia, nor a definitive realpolitik.

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

## Session 2: The Baltic Sea Region: Towards economic integration or a political "cold peace"?

### *Interdependence and institutions*

A central concern for the Baltic Sea region is the management of existing interdependencies among bordering states through institutions. While the dichotomy of cooperation vs. confrontation in the Baltic Sea region is controversial among researchers and politicians alike, most agree that the complex interdependence and cooperation with Russia is regulated by a very weak institutional framework – as exemplified by the failure to ratify the energy charter or begin negotiations on a new PCA. 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, even such fundamental concepts as the principle of sovereignty are understood quite differently by both sides. Such obstacles at a

high political level also hinder regional cooperation. One participant suggested a conscious choice to remove regional issues from the high-level political arena, as in the case of Arctic cooperation. As long as the institutional outlook in the Baltic Sea region remains unclear, the challenges of interdependence, in particular on energy and environmental issues, will remain.

### *The Russian perspective*

The EU is crucial for Russian businesses, which are also highly interested in competing in the Baltics. For Russia, the Baltic Sea provides the only maritime access to transit routes, and it wants as much independence as possible. The North 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 their oscillation between a “cold war” image and cooperation. It was debated as to whether the three Baltic States and Poland continue to base their own identities on the image of Russia as “the other”. Despite these difficulties, strategic cooperation with the EU remains Russia’s only current perspective for modernization. Russia also has substantial interests in economic integration and competition with European business in the Caspian Sea region.

Domestically, the country is entering a new phase, the outcome of which observers can only guess at. However, domestic and foreign policy in today’s Russia have become decoupled, so that the extent to which Russia’s domestic trajectory under Dmitri Medvedev will influence foreign policy remains somewhat unclear. A Latvian participant brought up a scenario in which Medvedev might actually play to an increased nationalist-sounding agenda in order to prove his credentials among hardliners, thereby weakening Russia’s role in Baltic regional cooperation. Russian participants steered the discussion toward Russia’s developing “consumer society,” which 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 developing any kind of dependency on outside countries. Future EU-Russia cooperation will also depend on whether the European Union can overcome its internal constitutional crisis and on the development of transatlantic relations in Europe.

### *The Baltic Sea as an inner-EU lake?*

Another perspective considered 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, energy grid linkage and transport. The second area could be environmental protection and eco-systems, in particular the 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 ap-

proach to Baltic regional cooperation in the face of the significance of interdependence with Europe.

#### *Bilateral relations: the view from Estonia*

Complicating the general regional framework are bilateral conflicts 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. The images of the ensuing riots still colour the Estonian view of Russia. Political changes in Moscow are not perceived to be more liberal as such, but rather as more subdued versions of previous policies. The Baltics and Poland stress the antagonism between the Russian and European political systems more than the Western EU-members do, as Russia has had recent controversies with most of its Baltic neighbours, whether Poland, Estonia or Latvia. Another issue of concern is the divergent perception of history. Estonia and Russia remember and commemorate the Second World War very differently. This has led to vivid debate in Estonian society as Russia builds a new national identity. One positive observation, however, was that perhaps strong criticism of Russia might result more from proximity to Russia and the common experience of many years rather than from enmity.

#### *Reasons for failing frameworks*

Another point of discussion was to question whether a new overall framework was necessary in the first place, and to note the lack of a “wish list” of points that the countries would like to include as part of cooperation with Russia. Many participants found both the PCA and the Northern Dimension to have stagnated. 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 since Poland had retreated from blocking PCA negotiations, the role of “veto player” might be passed on to Lithuania, and that EU-Russia relations might stall even further in the wake of the upcoming 70th anniversary of the Molotov-Ribbentrop Pact. It was suggested that cooperation among Visegrad countries should be linked to the Baltic region within the context of an overall re-evaluation of the coordination of regional interests within the European Union. The perspective of the Baltic States was seen as complicated, as there is both interest in improving the EU-Russia framework, as well as scepticism as to how effective the promotion of a common European interest vis-à-vis Russia could be. One point was made by juxtaposing EU-Russia relations with those of the EU with Norway or the United States, neither of which is regulated by similar PCAs or calls for an energy charter, yet both of which progress comparatively smoothly.

#### *The role of Germany in the Baltic region*

Another subject of debate was the centrality of Germany’s role in both EU-Russia relations and in Baltic regional cooperation. One participant noted that the disparity among political actors in Germany regarding Eastern policy – in addition to the current domestic political problems of the leaders of major EU members such as Great Britain and France – had led to 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. Different interpretations became clear: for Poland the North Stream pro-

ject 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 arose as to what extent the “low politics” of economic cooperation could be separated from other more contentious issues. One example is how Polish and Baltic concern over Russia’s pull-out from the Conventional Forces in Europe treaty (CFE) has not hindered the boom in Polish-Russian trade. Some felt that the focus on common values was obscuring the discussion on cooperation. The experience of the Baltic-Nordic dimension has certainly demonstrated the added value that substantial interdependency and cooperation can provide. The extent to which Russia wishes to participate in such deeper cooperation remains to be seen.

### Session 3: The politics of energy

#### *The broad view: failing energy regimes*

Seen from a broader perspective, the issue of energy cooperation in the Baltics reflects 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 increased nearly everywhere. Not only has the International Energy Agency been unable to offer any solutions to this new structure, but novel ideas such as a “gas-OPEC” or energy institutions at the EU-level have failed to get off the ground. In the Russian case, a good example of the failure to adapt is the US-Russian business dialogue, which – as it only included businesses, but not state actors – placed seasoned US companies together with inexperienced Russian firms. This asymmetry led in part to a strong initial foreign control of Russian resources, spawning such repercussions as the takeover of resource assets by the Russian state. Developments such as geopolitical ambitions in resource-rich Central Asia or Gazprom’s strategy of expansion into new markets render 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 overhaul 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 the Ukraine as a transit country. The North 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, the monopolist role of Gazprom in the Baltic States has prompted both the creation of an intra-Baltic electricity and gas market, as well as the formation of an external en-



ergy policy. However, EU-members have tended to seek energy solutions bilaterally with Russia – not only Germany, but also smaller states such as Hungary and Latvia.

European energy cooperation faces further difficulties stemming from historically determined infrastructures. Poland and the Baltics remain linked to Russia from Soviet times. Germany buys Russian gas, while Denmark does not. Also, the individual countries in Europe have different energy mixes. Poland's use of gas, for example, is geared not so much for energy but for the chemical industry.

#### *Energy outlook for the Baltic States*

The three Baltic States face a structural dependency on energy in the coming years. The general risks of increased production costs through fuel price hikes and of limited links to countries with electrical energy surpluses are seen mostly as economic and not political. Currently Estonia and Latvia export only small amounts of electricity, while Lithuania imports. Latvia 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, changes in the future will include the proposed construction of two new thermal plants in Lithuania, the increased exploitation of thermal power plants in Narva and potentially the construction of new transmission lines to Finland, Sweden and Poland. As the costs of coal and peat are likely to rise due to CO<sub>2</sub> emission trading, gas will receive a competitive advantage. The only resource where prices can be domestically influenced is Estonian oil shale. Baltic consumers currently spend more on energy than other European households; this trend is likely to increase further. As to the impact from Russia, its electrical energy sector is being transformed. The expansion of surplus production capacities in the St. Petersburg region is 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 for the Baltics that include the loss of competitiveness, a negative trade balance and dependence on energy imports. One participant brought up the question of the potential effect of a rise in domestic energy prices after Russian WTO accession. Another pointed out that high incomes from resource exports might have contributed to the current situation of Russia's political system.

#### *The case of North Stream*

The North Stream project between Russia and Germany was hotly debated as an example of an ineffective energy regime. Rather than serving as a unifying European experience, it has become highly divisive and has demonstrated the institutional inability of Europe to manage energy projects. The pipeline would be able to cover German market demand while circumventing Poland and the Baltic States. Many speakers mentioned the influence of different perspectives on interpretations of the North Stream project. One participant noted the parallel between the Russian perception of NATO-expansion as hostile and the similar European perception of expansion by Gazprom. Baltic participants pointed out that their countries' positions on North 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 North Stream and that without the pipeline there would be greater competition for LNG terminals in Europe. There were different views on how North Stream would compare 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.

#### Session 4: Business interests in the context of regional cooperation

With GDP growth still above average European figures, the Baltic region remains dynamic. But the macroeconomic climate is deteriorating in the face of inflation, the social costs of the economic downturn and demographic change. The post-communist countries around the Baltic Sea share a current situation as consumer societies whose populations strongly prefer stability, security and income. This also includes Russia, with Moscow becoming 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 come into play, as in the case of the future of oil shale production. Furthermore, Russia wants to keep the Baltic States as markets for its oil, gas and raw materials, while Russia remains 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 flexibly than their respective governments.

##### *Political influences on business*

A set of psychological pressures and informal mechanisms have discouraged Russian investment in the Baltics, while the popular grass-roots sentiment in the Baltics of “less Russia is more” often applies at the political level. As a result, Baltic businesses, while free to invest in Russia, are not offered any government support for expansion in the East.

Political controversies have, however, slowed economic cooperation. For instance, the Bronze Soldier controversy has had a negative effect on the Estonian economy, with a total loss of up to 3.5% GDP. Transit stalled on the Russian-Estonian border, where 80% of transit capacity is from other EU countries. Other examples include the sale of the Lithuanian Mazeikiu Nafta refinery to Polish PK Orlen (instead of to Russian bidders) or Russia’s increase of timber export taxes.

Small and medium enterprises also face problems of bureaucracy and corruption in Russia. While this is no political issue – and, in fact, Dmitri Medvedev has declared tackling it a priority – it continues to be a problem for both domestic and foreign businesses in Russia.

##### *The Baltic States in the EU*

While numbering among the smaller trading partners of Russia within the EU, the Baltics have a great deal of political clout, the PCA veto threat being a case in point. However, regional economic projects among the Baltic States have stalled, including a railroad project to



circumvent Kaliningrad and the issue of finding an alternative energy supply once the Ignalina power plant in Lithuania closes.

Given the importance of the European-Russian strategic partnership for Russian businesses, there remains hope that the Northern Dimension, with its large number of cross-border issues (economy, ecology, resources and fishing) can lead to beneficial cooperation if all partners approach issues on a flexible and pragmatic basis. Such issues were previously addressed in “small steps” of one issue at a time.

#### *Russian-EU business framework*

Balancing Russian and European business and investment conditions remains a central issue in economic cooperation in the region. 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 expressed scepticism of Russian investment in Baltic infrastructure, but not toward Russian investment in other business sectors, while several participants felt that conditions for foreign investors in Russia required improvement, both with regard to Russian domestic policy, as well as within the EU-Russia framework. It was noted 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. Participants agreed that investment in Russia’s consumer sector is not hampered by 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 the fact that foreign investors in Russia are not clearly informed as to whether or not a business is considered strategic. The nature and extent of reciprocity was debated, but there was general agreement that interconnection between the Russian and European economies is increasing. 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 will progress.

#### Session 5: The role of NGOs: Do they matter?

##### *The 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 domestic organisations critical of the government, such as the “Soldiers’ Mothers”. Democratic transition has stalled and come to a virtual halt. Although an open niche remains for interest groups, such as environmentalist associations, from a political point of view Russian civil society has become increasingly disciplined, even forcing some foreign organizations such as the British Council to shut down. This situation leaves Baltic and European donors with the dilemma of determining how best to support civil society. The Orange Revolution in the Ukraine has presented yet another challenge with regard to strengthening civil society: Where does one draw the line between support for NGOs and civil society on the one hand, and attempts to influence regime-change on the other? This is particularly difficult since allegations of the latter have also been used to attack the former. Other obstacles mentioned were the new Russian NGO law and the lack of a framework for the public funding of NGOs.

### *The impact of NGOs*

Participants discussed both the potential of NGOs within Russia and the regional Baltic context for support from European organizations. Interest-based NGOs in Russia were considered the area with the smallest risk of state intervention and with the highest potential to supply a basis for eventual social and economic development toward a more active civil society. However, no consensus emerged as to how exclusive such an approach would be nor 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, encouraged by the activities of the Council of Europe and the German foundations. Examples of environmental cooperation and youth cooperation demonstrate that NGOs have the potential to contribute to a better understanding between societies and nationalities, but require political backing to achieve this. In all cases, a lack both of adequate funding for NGOs, as well as of interested Russian and European partners, limits their effectiveness.

### Policy recommendations

Policy recommendations were made with reference to the upcoming Baltic Sea Strategy in connection with the Swedish EU presidency during the latter half of 2009. One major point of contention was whether this strategy should include reference to Russia or remain an EU-internal strategy. Currently the Baltic region is still a challenge to – rather than a driver of – policy. The Russian-Baltic dimension is not served by the current framework, which is marked by gaps in bilateral relations with the Baltic States and scepticism towards Russia. Similarly, the existing EU-Russia instruments remain irrelevant to a number of disputes. The need for a new framework is not to showcase more partnership rhetoric, but rather to solve currently unregulated problems. Questions and ideas brought up in the course of this discussion included:

- To what degree can reciprocity in investment and the business environment be achieved in the EU and Russia? What mechanisms can be created to enforce it and how can a common understanding of reciprocity be created?
- What vision of the Baltic sea region should be developed? Starting points included energy efficiency, economic and environmental issues in the Baltic Sea, and also 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 the minds of policy-makers. Obstacles mentioned included the slow pace of the Northern Dimension, which includes Russia, as well as the 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 more clearly define their interests and the extent of possible cooperation.
- One participant brought up the notion of including the United Kingdom in climate and energy issues.
- While there is not much chance 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.
- It would be positive if Russia and the EU could reach a common denominator in the area of civil society, increasing exchange and cooperation in this sphere; in this context the personnel exchange between Russia and the Baltic States is unnaturally low.

The ensuing final discussion highlighted once again the different views on the European Union's approach to Russia, noting the effect of potential NATO enlargement, the effect that a NATO-member such as Ukraine would have on Russia, and the extent to which 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 as long as the discussion over the EU's Russia policy continues, it is not currently possible to base policies on inflexible scenarios of finality in future relations. In general, the discussion reflected the overall development of the Baltic-Russia-EU roundtables, which have gradually progressed from confrontation to debate and agenda-building.

## Conference Programme

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**THE BALTIC SEA REGIONAL DIMENSION IN THE CONTEXT OF EU-RUSSIA  
RELATIONS:  
INTERESTS, PERCEPTIONS AND PROSPECTS**

*RIGA, 17-18 APRIL 2008*

The conference aims to continue the previously held discussions on Russia-Baltic relations in the context of the Russia-EU-Baltic roundtables and simultaneously to expand and integrate a more explicit regional dimension. The conference intends to highlight diverging and converging approaches to regional cooperation among the Baltic Sea region states, including its non-EU members, Norway and Russia. Of particular interest are contributions from Germany, Poland and the Scandinavian countries. Special attention is devoted to economic and energy issues in regional development. We aim to assess the current state of political, economic and energy relations between Russia and the EU, as well as the contributions of various member states to EU-Russia policy. Moreover, the conference will attempt to determine the role of government, societal and interest groups in defining national responses in the context of EU-Russia relations and regionalization – and hopefully to identify common interests.

**April 17****16.00-16.30 Opening Remarks**

Elmar Rompczyk, *Regional Director, Friedrich Ebert Stiftung, Riga*

Atis Lejins, *Director, Latvian Institute of International Affairs, Riga*

Reinhard Krumm, *Director, Friedrich Ebert Stiftung, Russian Federation*

**16.30-18.00 Session 1: National versus common interests in the European Union**

Keynote speeches:

Michael Emerson, *Associate Senior Research Fellow, Centre for European Policy Studies, Brussels*

Artis Pabriks, *Member of Latvian Parliament, former Minister of Foreign Affairs*

**20.00 Welcome Dinner**

**April 18****9.00-11.00 Session 2: The Baltic Sea Region: Towards economic integration or a political “cold peace”?**

Chair: Martin Kremer, *Head, Science and Political Counsellor, German Embassy, London*

Introductory remarks:

Geir Flikke, *Assistant Director, Norwegian Institute of International Affairs, Oslo*

Irina Kobrinskaya, *Senior Fellow, Institute for World Economy and International Relations, Moscow*

Eugeniusz Smolar, *Director, Centre for International Relations, Warsaw*

Kadri Liik, *Director, Estonia’s International Centre for Defence Studies, Tallinn*

11.00-11.30 Coffee break

**11.30-13.00 Session 3: The politics of energy**

Chair: Andres Kasekamp, *Director, Estonian Foreign Policy Institute, Tallinn*

Introductory remarks:

Robert Larsson, *Research Fellow, Swedish Defense Research Agency, Stockholm*

Vladimir Averchev, *BP Russia, Moscow*

Grzegorz Gromadzki, *Director of International Cooperation Programme, The Stefan Batory Foundation, Warsaw*

Andris Spruds, *Research Fellow, Latvian Institute of International Affairs, Riga*

13.00-14.00 Lunch

**14.00-15.00 Session 4: Business interests in the context of regional cooperation**

Chair: Kai-Olaf Lang, *Research Fellow, SWP, Berlin*

Introductory remarks:

Vare Raivo, *Consultant, Estonian Railways, Tallinn*

Boris Frumkin, *Head of section, Institute of Economics, Moscow*

*Representative of Latvian Energy Company Latvenergo*

**15.00-16.00 Session 5: The role of NGOs: Do they matter?**

Chair: Vaahtoranta Tapani, *Senior Research Fellow, Finnish Institute of International Affairs, Helsinki*

Introductory remarks: (still to be decided)

Janis Matulis, *Friends of Earth Latvia, Riga*  
Boris Kuznetsov, *Director, CIRP, St. Petersburg*  
Medalinskas Alvydas, *Director, International Policy Centre, Vilnius*

16.00-16.30 Coffee break

**16.30-17.30 Policy Recommendations**

Chair: Iris Kempe, *Research Fellow, Centre for Applied Policy Research, Munich*

**Final remarks:**

Andrei Zagorski, *Professor, MGIMO University, Moscow*  
Atis Lejins, *Director, Latvian Institute of International Affairs, Riga*

## List of Participants

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Mr. Reinis Aboltins	PA Project Director, Baltic Communication Partners
Dr. Vladimir Averchev	BP Russia
Dr. Dzintra Bungsfairs	Senior Research Fellow, Latvian Institute of International Affairs
Dr. Geir Flikke	Assistant Director, Norwegian Institute of International Affairs
Prof. Boris Frumkin	Head of section, Institute of Economics
Mr. Grzegorz Gromadzki	Director of International Cooperation Programme, Stefan Batory Foundation
Mr. Daniel Grotzky	Researcher, Centre for Applied Policy Research
H.E. Göran Håkansson	Ambassador of Sweden
Mr. Gints Jegermanis	Head Strategic Planning Department, Latvian Ministry of Foreign Affairs
Ms. Riina Kaljurand	Deputy Director of the International Centre for Defence Studies
Dr. Iris Kempe	Research Fellow, Centre for Applied Policy Research
Dr. Irina Kobrinskaya	Senior Fellow, Institute for World Economy and International Relations
Dr. Martin Kremer	Head, Science and Political Counsellor, German Embassy
Dr. Reinhard Krumm	Representative of Friedrich Ebert Stiftung, Moscow
Mr. Boris Kuznetsov	Director, CIRP
Dr. Kai-Olaf Lang	Research Fellow, SWP
Dr. Atis Lejins	Director, Latvian Institute of International Affairs
Ms. Kadri Liik	Director, Estonia's International Centre for Defence Studies
Mr. Andres Mae	Research Associate, Estonian Foreign Policy Institute
Mr. Victors Makarovs	Director of Research Programme, Baltic Forum
Mr. Alvydas Medalinskas	Director, International Policy Centre
Mr. Karlis Mikelsons	Chairman of the Board, Latvian Energy Company "Latvenergo"
Mr. Martins Murnieks	The Soros Foundation Latvia
Dr. Artis Pabriks	Member of Latvian Parliament, Former Minister of Foreign Affairs
Dr. Elmar Rompczyk	Representative of Friedrich Ebert Stiftung in Baltic Countries
Mr. Toms Rostoks	Research Fellow, Latvian Institute of International Affairs
Dr. Eugeniusz Smolar	Director, Centre for International Relations
Dr. Andris Spruds	Research Fellow, Latvian Institute of International Affairs
Mr. Karmo Tüür	Political Scientist, Tartu University
Ms. Nina Tynkkynen	Researcher, Finnish Institute of International Affairs
Mr. Raivo Vare	Consultant, Port of Tallinn
Prof. Andrei Zagorski	Professor, MGIMO University