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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

Review of EU-Russia relations

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The Extraordinary European Council of September 1, 2008, requested the Council, with the Commission, to conduct a careful, in-depth examination of the various aspects of EU-Russia relations. This review is to be conducted in the run-up to the EU-Russia Summit scheduled for 14 November 2008, and will be discussed at the GAERC of 10-11 November with the GAERC of 13-14 October 2008 having taken stock of developments in the Georgian-Russian conflict.

The current reflection takes place against a backdrop of developments that have cast a serious shadow over the EU Russia relationship: the violation of Georgia's territorial integrity with the use of force, and Russia's unilateral recognition of Abkhazia and South Ossetia remain unacceptable, while the principles of foreign policy recently articulated including the resurgence of spheres of influence, is a cause for concern.

The EU can approach its relationship with Russia with a certain confidence. Economically, Russia needs the EU. The EU is an important market for its exports of raw materials, notably energy, and Russia would like to improve the conditions for trade in nuclear materials. The recent financial crisis has underlined how acutely Russia needs to modernize and diversify its economy. The EU is the natural partner for this process, and is the main source of its foreign investments. Russia desires engagement with the EU for its own purposes, for example to achieve visa abolition or association to the EC R&D Framework Programme.

In the light of the above, the aim of this review is to consider the complex web of overlapping and shared interests in the EU-Russia relationship, and to make a sober assessment of where the EU's *own* interests now lie. The scope for pursuing and widening these interests has been established in the recently-agreed mandate to open negotiations on a successor agreement to the Partnership and Co-operation Agreement (PCA), and, once the conditions are met, negotiation of a Free Trade agreement.

The attached working document details the development of the EU Russia partnership over the last few years, and the opportunities and challenges we face in the future.

EU-Russia relations are based on the Partnership and Cooperation Agreement (PCA) in force since 1997, which was further complemented by the Four Common Spaces in 2005. This results in an institutional framework which in many respects works well, particularly at political level through the Cooperation Council (now Permanent Partnership Council in Foreign Ministers' format).

Brief review of EU-Russia relations

Trade and investment between the EU and Russia are substantial and growing and it is in our mutual interest that this trend should continue. Russia is our third most important trading partner and we see growth rates of up to 20% every year. Energy is a major factor, but impressive growth figures have also been seen in services. With its sustained high growth rates and emerging middle class, Russia is an important emerging market on our doorstep that offers opportunities to EU enterprises. The EU is the major investor in Russia, accounting for 80% of cumulative foreign investment, giving us an important interest in the continuing development of the economy, which will need European investment even more in future, given Russia's quest for diversification and modernisation. This in turn will depend on Russia guaranteeing the rule of law, with a truly independent judiciary, able to ensure the

enforcement of contracts. A significant share of the Russian foreign exchange reserves are held in euro, making Russia one of the largest holders of euro-denominated assets in the world. Russia has not been immune to the global financial crisis, and given our economic interdependence it is important to maintain an EU dialogue with Russia on unfolding developments.

The considerations noted above have led the EU to firmly support Russia's bid to join the World Trade Organisation. The case for early WTO accession on viable commercial terms remains strong not least because of signs, in the agricultural and natural resource sectors, of greater protectionism. Certain ongoing trade disputes like those concerning Russia's export restrictions on wood require urgent solutions to avoid deterioration of already difficult trading conditions.

Despite the boom in EU/Russia trade and investment and the many sectoral dialogues established under the Common Economic Space, there have been difficulties in several areas, from problematic customs procedures to Siberian Over-flights as well as the inconsistent implementation of international sanitary and phytosanitary standards by Russia.

EU-Russia interdependence in the *Energy* sector is a core element of the relationship. EU Member States are major buyers of energy products, and this is unlikely to change in the short term to medium term. The relationship is one of interdependence not dependence. Exports to the EU have made a major contribution to Russian growth rates. However, the EU and Russia interpret energy security and reciprocal market access differently. While Russia has been a reliable supplier of energy products, disputes with transit states, as well as insufficient upstream investment in the face of expanding demand, raise concern about future supply. A great deal of work is still needed to build up a genuine energy partnership based on the principles of the Energy Charter Treaty and notably transparency, reciprocity and non-discrimination. Cooperation is taking place under the Energy Dialogue and covers such broad issues as energy scenarios and strategies, market developments and energy efficiency. Important tools, such as the energy early warning mechanism could be further developed.

In the *Common Space on External Security*, political dialogue is frequent and takes place at many levels. The EU engages with Russia on Iran, the Middle East, Afghanistan, the Balkans and elsewhere as well as in international settings like the UN and the OSCE, with the aim of developing common views and approaches. Cooperation in the Middle East Peace Process and on non-proliferation in Iran has been positive. The EU and Russia have a common interest in the non-proliferation of WMD. Russia has recently contributed to the EU's ESDP mission in Chad/Central African Republic. Positions on Kosovo and the Common Neighbourhood remain farther apart, in particular after the events in Georgia. The EU should develop a common position on Russia's proposal for a new European security order. The EU has a strong interest in continued efforts to improve co-operation in these areas in the years ahead. Russia is a key geopolitical actor, whose constructive involvement in international affairs is a necessary precondition for an effective international community.

There is an EU-Russia dialogue on regional policy; in the Kaliningrad region the Facilitated Transit Scheme between the region and the mainland has worked positively. Moreover, Russia has shown new interest in the revised Northern Dimension, where the Ministerial meeting of 27 October saw important advances and there is scope for including Arctic issues in the regular dialogue between the EU and Russia.

Human rights are an area of concern. There is a general sense that there is a growing gap with regard to common commitments in the Council of Europe and the OSCE.

The EU underlines to Russia the commitments it has entered into including in the PCA. Human rights consultations with Russia take place twice a year; while their impact remains relatively limited, the latest round took place in an open and constructive atmosphere. It is important to build on what has been achieved.

EU and Russian interests in the *Common Space on Justice, Freedom, and Security* often coincide. This is shown by: the EC-Russia Agreements on Visa Facilitation and Readmission (in force since June 1, 2007); the joint co-operation plan for 2007-2010 between FRONTEX and Russia's Border Guard Service; cooperation between the European Monitoring Centre on Drugs and Drugs Addiction and the Russian Federal Drugs Control Service and between Europol and Russian law enforcement authorities.

The EU/Russia Visa Facilitation Agreement, the first concluded by the EU and a third country, was designed to make life easier for travellers, including those from the EU itself. The Readmission Agreement makes an important contribution to fighting illegal migration. Greater cooperation in the area of Freedom, Security, and Justice is helping to tackle threats posed by challenges such as terrorism and organised crime. More generally, it is important that this cooperation is based on respect for human rights and the promotion of the rule of law.

Contacts between the citizens of EU and Russia are increasing. EU education exchange programmes have expanded, as has research collaboration between scientists. Work should continue on expanding people-to-people contacts across the board. An expansion in contacts, as well as meeting specific goals in defined policy fields, contributes to improving mutual understanding and trust.

The Common Space on Research, Education, Culture is characterised by a strong mutual interest. Research co-operation is governed by the EC-Russia Science and Technology Cooperation Agreement (in force since 2004) which expires in 2009 – renewal is under preparation. Entities from the Russian Federation participate in all thematic and sub-programmes of the 7th Framework Programme on Research and Development (FP7) with a Community contribution of some €29 million. Further co-operation includes the Agreements for co-operation between Euratom and Russia in the fields of nuclear safety and controlled nuclear fusion, both concluded in 2002 for an initial period of 10 years. Russia has signalled its interest in associate status to the FP7. In the field of education Russia is committed to the Bologna process and participates in several EU-funded programmes. An important project is the European Studies Institute (ESI) in Moscow – co-financed by Russia and the EC. Cultural co-operation has started with the Kajaani process launched in 2006 with the first Culture PPC in October 2007. Follow-up since then has been relatively disappointing, with little progress on the Cultural Action Plan.

Russia receives *Financial Assistance* from a range of EC financial instruments. The ENPI is aimed at supporting the implementation of the road maps of the Four Common Spaces and the Kaliningrad region. In a new and positive development, Russia has committed to contribute funding for seven European Neighbourhood Instrument (ENPI) programmes on cross border co-operation over the period 2007-2013. However it has been more difficult to arrive at an agreed basis for the implementation of financial assistance.

Next steps

The EU and Russia should be able to discuss areas of disagreement in an open and constructive manner. This is essential to a confident and mature partnership. We should strive to improve our capacity to manage differences while advancing our common goals. The European Council has condemned Russia's unilateral decision to recognise the breakaway

regions of Georgia and expressed grave concern about the disproportionate Russian reaction in the conflict. While remaining firm on our principles, and rejecting all use of force, it is in the EU's interest to engage with Russia in renewed efforts for the resolution of conflicts in our common neighbourhood. This requires the will and the capacity of the EU to act as one, combining both Community instruments as well as those of CFSP/ESDP. The management of the conflict this summer and its aftermath is encouraging in this respect, as is the withdrawal of the Russian forces from the areas adjacent to South Ossetia and Abkhazia, while more remains to be done.

The EU expects the New EU-Russia Agreement to provide for a comprehensive legally binding framework to cover all main areas of the relationship based on our mutual interests and the international commitments which the EU and Russia have entered into, including promoting respect for human rights and the rule of law. Moreover, in order to underpin our growing economic interdependence a Free Trade Area (FTA) would be of mutual interest.

These negotiations should continue, first because this would allow the EU to pursue its own interests with Russia, and secondly because this is the best way to engage with Russia on the basis of a unified position. When the EU speaks with one voice, and acts as one, Russia takes notice and the EU is able to influence the course of events. The unanimously agreed mandate for the negotiations for the New EU-Russia Agreement provides us with an important instrument to pursue our objectives in a united way.

For these reasons it is the view of the Commission that the next negotiating sessions should be scheduled now. The GAERC of 10 November is an opportunity for Member States to reach a common understanding on the basis for the negotiations to proceed, against the background of the conclusions of the European Council of 1 September which postponed the negotiations.

It remains clear that in line with European Council conclusions the EU does not accept the status quo in Georgia. The Geneva process should continue its important work on the basis of the 12 August and 8 September Agreements addressing security and stability in the region as well as the return of Internally Displaced Persons and refugees, and the territorial integrity of Georgia should be restored. The review of EU/Russia relations should be an ongoing process. As already agreed the Commission and the Council should continue to discuss the general context of EU/Russia relations as the negotiations are pursued.