

THE EUROPEAN UNION'S UNCERTAIN FUTURE: WHAT SHOULD RUSSIA DO?

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Europe in Russian Foreign Policy

Relations between the Russian Federation and European Union have undergone a number of vicissitudes in the 25 years since both entities came into existence. They enjoyed mutual optimism in the first half of the 1990s, but grew tired of each other by the end of the decade. The attempt to overcome that frustration and to galvanize relations in the early 2000s has since given way to conflict and disagreement in recent years. Throughout the entire period, Europe remained a strong and relatively unified player capable of leading the international dialogue. Brussels and the EU institutions have always been willing to propose projects and initiatives, to keep negotiations open, and to offer a relatively positive agenda across the whole spectrum of relations.

Also during this period, Russia operated strictly within the limits of proposals emanating from the European Security Treaty and the EU-Russia Foreign Policy and Security Committee. That prompted

The European Union is struggling internally even as international relations as a whole have entered a period of unusually high turbulence

observers to conclude that Russia was playing a "subordinate" or "supporting role." Now, however, the situation has changed. For the next 10-15 years, Moscow itself will have to propose projects and initiatives more actively to EU member states and institutions of European integration – all of which,

of course, will reflect Russia's own pragmatic interests and firm principles.

The inner transformation of the European Union is driving this fundamental change - a process that finds expression in a series of crises. Those crises affect both the political and economic aspects of EU activity and arise from the increased expectations and demands for political integration that, as it turns out, institutions and member states of the European Union have been unprepared to satisfy. This concerns primarily the desire for domestic and external security. This has led EU institutions to take on uncharacteristic functions that have had a devastating impact on both the EU and Russia. With the EU more politicized than before, it has become a more inflexible negotiating partner - as the whole spectrum of its external relations in recent years demonstrates.

The European Union is struggling internally even as international relations

as a whole have entered a period of unusually high turbulence. The sharp turn in U.S. policy has made the breakdown of the international order that emerged after the Cold War an irreversible process. That order

was most suited to European interests and its collapse poses a serious challenge not only to the philosophy of European foreign policy, but also to Europe's worldview.

The U.S. is reverting to a policy of protectionism and mercantilism. The rise of the Asian economies and the gradual shift

in the center of gravity of world affairs toward Asia has forced Russia to rethink its geographic priorities according to the contribution each can make to national development. The current trend indicates that Russia and Europe are growing less interdependent, and this is largely due to the relative weakening of the EU itself.

Should step up its dialogue with Brussels, in spite of the many differences that have arisen in recent years – at least until Russian economic players feel as comfortable in Asian markets as they do in the traditional EU market

Russia benefits most from a less politicized and more economically powerful European Union that abides scrupulously by its own rules and regulatory guidelines. The collapse of the EU would be something akin to "the greatest geopolitical disaster of the 21st century" and could lead

to far greater unpredictability in all spheres of life in the region – but primarily in the area of security. However, in all probability EU institutions will have to become less politicized and more technocratic to serve the current trends in European integration. If this does not happen, it is very likely that not only political, but

also economic might will flow toward the capitals – a situation that would be fraught with long-term dangers.

If integrative structures tone down their excessive politicization, Russia should step up its dialogue with Brussels, in spite of the many differences that have arisen in recent

years – at least until Russian economic players feel as comfortable in Asian markets as they do in the traditional EU market. And, although EU institutions would preserve their authority in such areas as investment and antitrust legislation, Russia should not compromise on the principles guiding its policy for Europe.

The EU Crisis: What is Happening Now, and What Will Happen Next?

European integration provides an example of not only how sovereign states can find peaceful resolutions to disputes that had earlier led to bloody wars, but also how they can expand opportunities through cooperation rather than competition. For now, the example remains unique, especially because it is currently undergoing a crisis

that is causing concern among the friends and neighbors of the European Union. Valdai Club experts have identified several major trends in the development of the EU, and in the political evolution of Europe as a whole.

Does the EU have effective leadership and unity among all its members? The deepening mood of skepticism in France and the overall economic and political situation have weakened the traditional Franco-German engine of integration. Institutions of the EU are also unwilling to assume greater responsibility. There is a growing gap between the elite and the majority of the population, as well as between the oldest and youngest Europeans. That gap has strengthened the protest vote on the very issues that hold the greatest importance for the future development of the EU. The events surrounding the immigration and Greek crises, and the real sacrifices they have entailed, have tested the limits of solidarity between member states.

Now in question is the system, developed over decades, of coordinating various interests and negotiation processes behind the scenes – an approach that managed to resolve a host of technical issues related to integration with relative ease. It has now become commonplace for this or that country to hold a referendum questioning its fate as a member of the EU. Most alarming is that the crisis of the EU as an institution and as a vehicle for cooperation among European states is undermining

Taken together, these factors cast doubt on whether the slogan "European integration emerges from each crisis stronger than before" will prove true on this occasion

the unity of Europe as a whole. Throughout the years of successful integration – from the early 1980s until the mid-2000s – the world grew accustomed to equating the European Union with Europe as a whole. European leaders themselves encouraged this. Now, with the EU bureaucracy suffering from organizational paralysis, that condition automatically extends to all of Europe. And, although Germany, France, and Italy remain prominent players in international economics and politics, their military-political significance was largely laid on the altar of European integration.

The economic crisis that erupted in 2008 has yet to end. The EU states managed to stabilize their economies to some extent, to create a banking union, and to strengthen budgetary discipline. However, the conceptual question of which principles and philosophies actually guide the EU's common economic policy remains unanswered. The EU has simply internalized the problem, as evidenced, for example, by the continuing decline of Greece, where the unemployment rate now exceeds 20 percent. In general, social inequality is on the rise in the European Union.

Immigration and terrorism pose a major challenge to unity and force the issue of personal

security to the fore. However, the EU is not equipped to deal effectively with the problem and its various achievements in integration do not address that dimension of public life. The citizens' request for security finds the addressees primarily at

the national level, which reduces the legitimacy of the European Union and leads to an increase of populism. In response, leaders blame

CRISES OF THE EUROPEAN UNION

The crisis of leadership and solidarity

- Imbalance of power: leading role of Germany and Brexit
- ► EU is unable to assume more responsibility
- Differences in values and interests

The complex economic crisis

- Single currency, but different economic models
- Asymmetric economic development of European countries
- Social welfare system as a burden
- An imperfect control and enforcement system

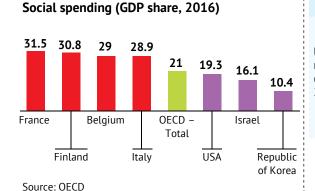
The immigration crisis and terrorism

- Unprecedented influx of migrants
- Schengen crisis and unequal immigration burden
- ► Surge in terrorist attacks
- ▶ Migrant integration problem

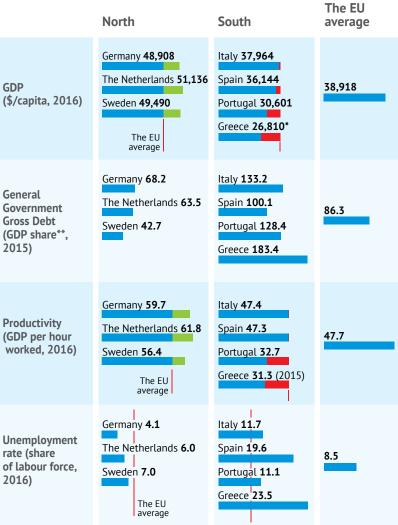
The legitimacy crisis

- Suspension of supranational component's expansion
- High and unfulfilled expectations for integration
- ► Politicization of the EU institutions
- The gap between elite and mass population resulted in euroscepticism
- ► Value relativism of the EU

Economic power of Germany Population (mln)* 66.7 Germany 82.1 France 65.3 UK Source: Eurostat *01.01.2016 Export of goods and services (\$ bn, 2016) 1,800 854 Germany France 806 UK Source: OECD Current account balance (\$ bn, 2016) Germany 301.4 -11.5 France -157.2 UK Source: IMF

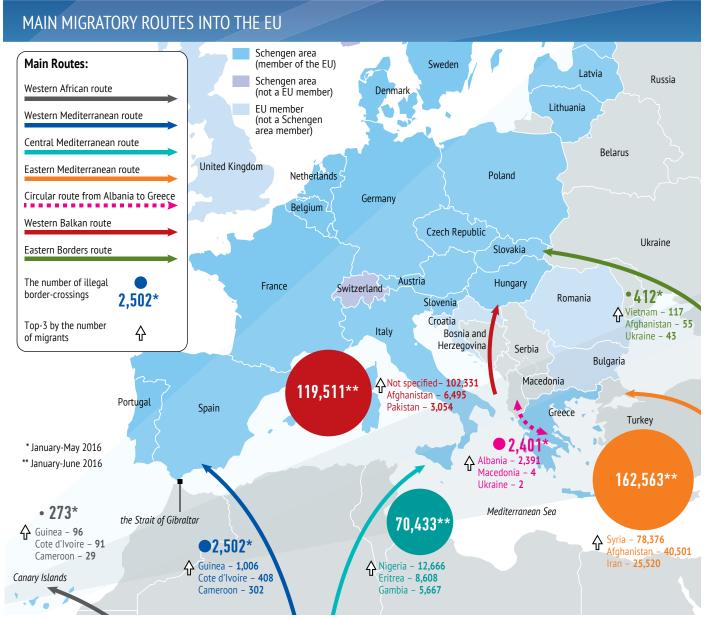


North - South economic divide

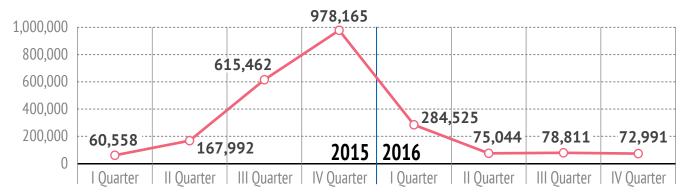


- * IMF data (other from OECD).
- ** Must not exceed 60% according to maastricht criteria.

Sources: OECD, IMF



The data presented refers to detections of illegal border-crossing rather than the number of persons, as the same person may cross the external border several times



Source: Frontex

forces beyond their borders that they allege are attempting to influence the European electorate.

No less dangerous, perhaps even more so, is what experts describe as the "crisis of normative leadership in Europe." Throughout the greater part of its history, the European Union has championed the most advanced rules and norms of civilized communication. However, it cannot claim to be applying those same principles to its own policies at present. The governments of a number of EU member states pursue a course that directly contradicts the basic European values of tolerance and freedom of expression. For the sake of political expediency, those governments are forced to comply with EU requirements that contradict the democratically expressed will of their own citizens. That axiological relativism extends to foreign economic relations, where the EU

On the whole, however, it appears that the current crisis will not prove fatal. The extent to which a common internal market is useful for most of the players remains an important factor affecting the viability of the EU. Germany's role is especially important as it attempts to hold the EU together by dint of its authority and economic might

selectively applies its own legislation. This is especially evident in international energy relations, an area where Russia has had to deal with the problem for many years. All

of this undermines the authority of the EU, both at home and abroad, making it more vulnerable to challenges and diminishing its competitive edge.

Great Britain's withdrawal from the European Union will mark a turning point. First, this is because the largest European state after Russia, Germany, and France will no longer be part of its institutions, thus qualitatively shifting the balance of forces within the EU. No comparable counterweight will remain for Germany, which is even more determined than ever to take the current model of integration to its logical conclusion. Second, the very process of navigating Great Britain's exit will, if not paralyze the EU in the coming years, at least make it more unpredictable in responding to external challenges. Finally, it remains unclear whether Great Britain will manage to develop economically outside the framework

> of the EU. If it does succeed, other EU states might view it as a positive example and decide to follow suit.

> Taken together, these factors cast doubt on whether the slogan "European integration emerges from each crisis stronger than before" will prove true on this occasion. European unity is in crisis, and it remains unclear whether it can recover its overall effectiveness and ability to further the development

of each member state. This is the lowest point Europe has reached since the "Eurosclerosis" of the 1960s and 1970s. This crisis is existential in character, although the EU remains

one of the three most important players of the modern world, along with the United States and China. Some individual EU states such as Germany, the Netherlands, Austria, and some Central and Northern European states demonstrate impressive economic achievements. Europe remains the most attractive focus of investment and a preferred trading partner.

At the same time, the imposition of pan-European regulation has proven to be an

At the same time, most observers do not expect the European Union to collapse.

A powerful bureaucratic inertia – built up over decades – makes it possible to translate the integration process into a systematic ordering of the accumulated regulatory framework

obstacle. For example, the poorer Central and Eastern European countries want to bypass EU institutions and standards to pursue investment with China. To this end, they created a "16 + 1" mechanism that includes 11 CEE countries, five Balkan states, and China – without the direct involvement of Brussels.

No one denies the important role that the more successful individual EU countries play in the world economy, but the European Union as an institution is increasingly viewed as the "sick man of Eurasia" (to paraphrase a famous metaphor that Europeans once applied to the Ottoman Empire). The absence of any restraining mechanisms of integration gives rise to a dangerous uncertainty as to whether individual European states will remain responsible players.

At the same time, most observers do not expect the European Union to collapse. A powerful bureaucratic inertia – built up over decades – makes it possible to translate the integration process into a systematic ordering of the accumulated regulatory framework. Yet, despite this capacity for self-supporting development, the affairs of the EU

have not merely stagnated, but have arguably grown worse over the past 10 years. On the whole, however, it appears that the current crisis will not prove fatal. The extent to which a common internal market is useful for most of the players remains an important factor affecting the viability of the EU. Germany's role is especially important as it

attempts to hold the EU together by dint of its authority and economic might.

With no basis for European integration at the institutional or state level, it is safe to say that the process will not gather appreciable steam in the future. What's more, even "flexible cooperation" – greater integration among a limited group of countries – is unlikely to occur. The apparently reasonable idea that "Europe can move at different speeds for different situations" seems nearly unfeasible in practice because it requires formally abandoning the principle of equality – the most important ideological pillar of the European project. Officially assigning certain countries

to a "second or third" category only contributes to the breakdown of a unified ideological and political space.

It seems that the most important result of the EU's shift from "active development" mode into "sluggish and pragmatic" mode will be the freezing of integrative activities in noneconomic spheres – especially considering that none of the strictly political lines of action has proven very successful since the adoption of the Maastricht Treaty a quarter of a century ago. The enthusiasm over military cooperation seen during the period following the Union's founding in the early 1990s has since practically disappeared. Cooperation on the administration of justice and internal security has yet to produce a solution to the problems of migration and terrorism. In fact, the conflicting results have politicized energy relations. There is no

indication at present that Europe has grown less dependent on traditional energy suppliers, Russia foremost among them. What's more, the imminent implementation of the "Third Energy Package" gives the EU's foreign partners grounds to rebuke it for normative relativism. That might mean the EU will have to "get back to basics" and abandon the politicization of economic decisions. In that case, the EU would have to eliminate the excessive "political" superstructures its institutions have accumulated over the past 25-30 years and that already do more to undermine the traditional technocratic legitimacy of Brussels than to strengthen its position in relation to member states, or the position of the European Union in relation to its partners abroad. Such trends are not only dangerous for the EU, but disadvantageous for Russia as well.

Europe and Russia in a Stormy World

The dramatic changes in Europe's political life come amidst disturbing trends in the world as a whole. The entire post-Cold War period saw a shift toward market democracies, albeit with an uneven but gradual deepening of cooperation and relative unity. The European Union served as the leading prototype of that model, and it could therefore have anticipated the most favorable conditions had the experiment succeeded. Now, however, the global liberal market might begin to crumble rapidly. It is worth noting that not only Europe

is alarmed at this prospect, but also China – itself once seen as a troublemaker.

Domestic political events in the U.S. and that country's new president – who lacks both an interest in and clear understanding of the EU – also play a major role. The European Union lies outside the new American leader's intellectual picture of the world. That makes it impossible for Europe to establish the hypothetical "Berlin-Washington" order it would most like. That is, it cannot create a transatlantic region that is relatively homogenous culturally,

The measures applying economic pressure on Moscow that the European Union unanimously adopted in the spring and summer of 2014 – and that it has consistently extended ever since – have driven an ever wider wedge between the partners. They deepen the Russian people's sense of alienation from Europe and strengthen the perception that this state of affairs is normal

economically, and militarily, with the U.S. at the helm and Germany playing a decisive role. The Washington administration has also postponed the creation of the Transatlantic Trade and Investment Partnership (TTIP) indefinitely, an important political project.

Russia and the European Union are encountering this reality with a growing gap between them. This is primarily because the cooperation paradigm will not satisfy their respective goals for development. The rigid and high-toned position that the EU has taken since the start of the international diplomatic, military, and political crisis over Ukraine has played a role in this. The measures applying economic pressure on Moscow that the European Union unanimously adopted in the spring and summer of 2014 – and that it has consistently extended ever since – have

The main factor determining Russia's behavior is that it now feels less like the periphery of Europe and more like the independent center of Eurasia

driven an ever wider wedge between the partners. They deepen the Russian people's sense of alienation from Europe and strengthen the perception that this state of affairs is normal. In fact, there is a growing realization that Russia has felt such alienation in its relations with Europe ever since the 16th century. The Russian side finds it ironic, irritating, and

hypocritical for European politicians to say that they will lift the economic pressure quickly "if Russia fulfills the Minsk agreements."

The main factor determining Russia's behavior is that it now feels less like the periphery of Europe and more like the independent center of Eurasia. At the same time, both Russia and the EU assign ever less importance to their mutual relations. That is perhaps the most important strategic change. The EU and its member states represent a gradually decreasing share of Russia's foreign trade. That share fell from 53% in 2007 to 42.5 percent in 2016, largely because Russia and the EU have reoriented themselves towards other commodity and raw materials markets. That said, the EU as a whole remains Russia's largest trading partner. At the same time, China has already

surpassed Germany as Russia's largest individual trading partner. Formerly one of the EU's top three trading partners, in 2016 Russia moved to fourth place after the U.S., China, and Switzerland.

Russian Policy: from Principles to Concrete Action

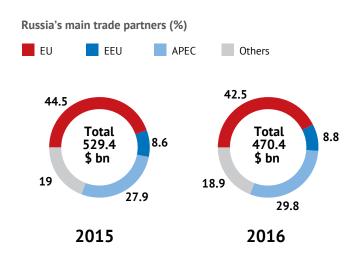
The Valdai Club report issued in spring 2016 enunciated the main principles underlying Russian policy towards Europe. They were based on the understanding that it was necessary to formulate rules of the game. The foundation of civilized relations is the observance of agreed upon rules and norms of communication. Such relations should be freed from a relativist approach to values and the enforcement of international law. Both sides should continue to find creative ways to develop these principles in relation to the changing situation, complementing them with specific bilateral and multilateral projects and initiatives.

It seems that Russia should continue to be guided by one of the most important tenets of a democratic political order - that is, by the principle of subsidiarity, according to which each problem should be considered at the most appropriate scale. The relative weakening of EU institutions creates a good opportunity to involve them in such pragmatic cooperation. This should proceed without detriment to Russia's bilateral relations with individual EU member states – relations that must remain a priority where it corresponds to goals and objectives. It is worthwhile to continue in this vein by developing the existing Russia-EU dialogue on aviation security, customs and veterinary cooperation, the information society, combating terrorism, the fight against drug trafficking, and other issues.

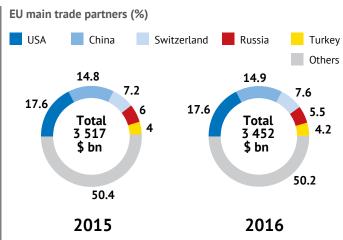
Despite the fact that mutual relations are in crisis, it would be inappropriate to raise the question of terminating the Partnership and Cooperation Agreement of 1997. Although the document is outdated, it provides guarantees of minimum legal protection to Russian economic entities. At the same time, the principle of proportionality in actions and the level of dialogue requires taking a restrained approach to any initiative for resuming talks on a new strategic agreement. Given the current political situation in the EU, negotiations are likely to end up as an exchange of declarations and attempts to cover all areas of cooperation. This has already led to the stagnation of consultations on a new Russia-EU agreement as a follow-up to the one that went into force in December 2010 – that is, three years before the Ukrainian crisis.

In addition, Russia should reaffirm its commitment to Eurasian integration and gradually shift most of the trade and economic agreements it has with the EU to the EEU. As an organization, the EU might be an interesting partner for the emerging institutions of the Eurasian Economic Union, although some of the participating countries of the EEU are calling for greater restraint for now. In any case, the EU should grant official recognition to the Eurasian integration process and its institutions. An important step would be to normalize relations between the EU and such an important EEU member state as Belarus, and subsequently to finalize the accession of all EEU member states to the World Trade Organization. Kazakhstan, by virtue of its objective interests, could play a special role in the normalization of relations with the EU based on these new principles.

EU AND RUSSIA'S MAIN TRADE PARTNERS

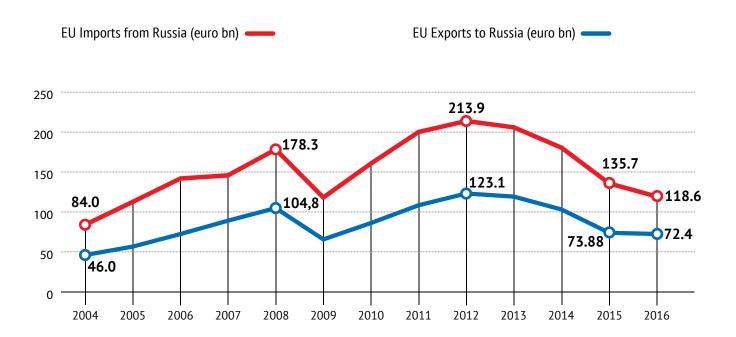


Sources: The Ministry of Economic Development of the Russian Federation (http://www.ved.gov.ru/monitoring/foreign_trade_statistics/countries_breakdown/)



Sources: Eurostat (http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122530.pdf http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122530.02.2017.pdf)

RUSSIA - EU TRADE DYNAMICS



Sources: Eurostat

The framework agreement that Moscow's Eurasian integration partners have already concluded or will soon conclude with the EU could serve as a further stabilizing factor. Russia hardly needs a separate agreement, due to its size and the special role it plays in the EEU. In turn, a "major" future agreement could take the form of a "double mixed agreement" in which the EU and its member states would be signatories on the one hand, and the EEU and its member states on the other.

The foundation of civilized relations is the observance of agreed upon rules and norms of communication. Such relations should be freed from a relativist approach to values and the enforcement of international law

In the interests of strengthening transparency, it would be worthwhile to offer groups of EU member states with whom Russia shares mutual interests to engage in separate dialogues on such important bilateral issues as migration (important for Finland, the Baltic states, and Norway), energy (including nuclear), science, cooperation in space, cyber security, and the formation of a Greater Eurasian Partnership. Such in-depth dialogues could be organized according to the formula of

1 + X (Russia + any number of interested EU countries),

or

1 + X + Y (Russia + any number of interested EU countries + a third party such as China or Iran).

It also appears worthwhile to work with Chinese partners on an initiative for a special China – EEU – EU dialogue on the construction of the Silk Road Economic Belt. It would be possible to draft a "road map" of such cooperation that includes specific business ideas in the fields of transportation, energy, civil science, and customs administration.

In view of the central position and role that Russia plays in the majority of the issues outlined above, the order for determining

the highest priority partners in and outside the EU is important. Developing such a dialogue and involving non-European partners in it also contributes to the diversification of the foreign and foreign economic relations of Russia and individual EU member states. This would reduce the regulatory and

political burden on Brussels as it attempts the difficult task of "putting the European house in order" and negotiating with Great Britain. It would be preferable to hold meetings within the framework of these dialogues on the territory of Russia, one of its EEU allies, or a third country.

A separate issue is how Russia should organize its trade and economic relations with the EU in light of Great Britain's exit and the resultant contraction of the overall EU market – access to which was an important part of the negotiations on Russia's accession to the WTO. It can put on the agenda the question of some form of involvement for Russia and other EU major partners

As an obligatory prerequisite to these efforts, the European Union should end the visa restriction against Crimean residents who received Russian citizenship after 2014

in negotiations between London, Brussels and other European capitals.

At least, it is already necessary to acknowledge that "Brexit" affects more than the EU alone. In addition, because the EU-Russia Partnership and Cooperation Agreement (PCA) was signed in 1994 by both the EU and its member states, Great Britain's departure necessitates a review and possible revision of that document.

The differences that have arisen in the complex relations between various EU member states and institutions make it tempting for Russia to try to "steer" European policy in a particular direction. However, this is not the time for Moscow to rush to interfere in Europe's internal affairs - even more because history shows that such efforts have rarely produced the desired results and because the Balkans threaten to once again become the "powder keg of Europe." The situation in Bosnia and Herzegovina could spin out of control, leading to negative consequences for Serbia and destabilizing the entire microregion. In spite of the consistently unfriendly actions of the EU and its individual member states in recent years, it would be wrong to view Europe as an enemy. Instead, Russia should take clear and consistent steps to strengthen relations with all of its European

partners. The dialogue with civil society and political circles in the EU is especially important. At present, Russian public diplomacy in Europe is associated with the most non-systemic political

forces, and this damages its reputation in the eyes of many ordinary Europeans who are tired of the division between the elites and citizens. It is necessary to expand the Russia-EU dialogue in civil society to include constructive European movements.

Russia should determine which specific practical projects it could offer its neighbors to the West, and because the EU will have a limited ability to participate actively over the next 3-5 years, such initiatives should fit within that timeframe. Much can be accomplished in that time at the Russia-EU level and between Moscow and individual EU member states. This will require a great deal of patience and initiative from Russia and now is the time for it to formulate a proactive strategy for Europe. The projects should be aimed at specific partners - European institutions, governments, private companies, professional associations, and organizations of civil society. Moscow should not abandon the sector-specific Russia-EU dialogues of the past, but adapt them to the real possibilities of the present. Unfortunately, until 2014 most of these dialogues had become purely administrative discussions between the European Commission and the Russian government. Now both sides should redirect these dialogues toward

real market players and free them from all administrative and ritualistic trappings.

It is necessary to revisit the issue of establishing simplified visa rules with, if not all EU countries, then at least individual states. Russia should actively study the question of issuing a great many long-term visas to the citizens of Greece, Italy, Spain, Cyprus, and France in return for those countries having already extended that service to Russia's citizens. This would create the necessary conditions for a dialogue on the issue of unrestricted travel as a means for developing the EU – although the worsening internal security situation there remains a significant obstacle.

Participating countries of the EEU could also develop and propose a "road map" for an EEU – EU dialogue, an effort in which Kazakhstan and Belarus should take the leading role. At both the political and expert level, the EEU needs to incorporate the European factor into its dialogue with China and other Asian partners, especially because, regardless of its future organizational structure, the EU will remain a promising partner for the development of a Greater Eurasian partnership and for Chinese-Russian cooperation.

As an obligatory prerequisite to these efforts, the European Union should end the visa restriction against Crimean residents who received Russian citizenship after 2014. It should also lift the ban on imports to Europe of goods made in Crimea, on investment by European companies in Crimea and Sevastopol, on Europeans purchasing real

estate on the peninsula, and on transport (including the ban on European cruise liners from calling at Crimean ports). In addition, the EU should lift the ban on sales to Crimea of goods and technologies that could find uses in the transport, telecommunications, or energy sectors, or for the extraction of oil, gas, and mineral resources. All these measures are openly discriminatory against not the Russian state – that the European Union seeks to "punish" – but against individual citizens that the EU troubles for no apparent reason. This runs contrary to all of the European Union's own humanitarian and legal norms.

This material represents a continuation and further elaboration of the Valdai Club report prepared in 2016. It seeks to contribute to the discussion of the fate of Europe and the future of Eurasia, in all its many aspects a subject of great importance for Russia and the world as a whole. Like the previous report, it does not claim that the analyses and recommendations it presents are exhaustive. The authors are convinced of the timeliness and relevance of their proposals, but are open to the thoughts and views of those who will discuss them. The dramatic events that have unfolded in Europe in recent years and the potentially negative consequences they carry for civilization only underscore the correctness of our choice. These issues should remain a focus of the social, political, and expert discussion.









