

---

## EU POLICY TOWARDS RUSSIA: WILL WE FILL THE STRATEGIC VACUUM?

**Laurynas Kasčiūnas, Linas Kojala\***

Since the end of the Cold War, the European Union (EU) has not been able to offer any solution for its relations with Russia that would encourage Russia to adapt to European rules. This has often led to false assumptions and political puzzles in relations with Russia. For instance, in 2008 after the exchange of official office involving Vladimir Putin and Dmitry Medvedev, the majority of EU member states hoped that the latter would be capable and motivated to transform Russia into a modern state governed by Western rules.

In order to strengthen Medvedev's position in the Russian political system, the EU even initiated the Partnership for Modernisation programme and started more intensive discussions about the idea of a visa-free regime between the EU and Russia, which was unofficially referred to as an incentive to Medvedev in return for his political and economic reforms. However, this was a fallacy, because it soon became obvious that Medvedev was only acting as a Russian "business card" for the West, while remaining Putin's protégé, and could not take any independent action or vision.

The strengths of Russia's political system are personalised power and a business-politics nexus, which act specifically as the cement for the current system. "Putin's Russia" stands for the model of "fusion" between politics and business, where groups of the political elite have taken over control of the main business structures and, therefore, strengthened the centralisation of the political system. In other words, the *silovarchy* organisational model, where the function of public corporations and energy companies is to "feed" groups of the Russian political elite, has replaced the oligarchy that was rampant in Russia during the time of Boris Yeltsin. This supports the internal stability: the so-called vertical politics.

The energy sector is Russia's most important platform for the business-politics nexus. Back in 2006–2007, with rising energy prices, certain analysts of Russian politics associated with the Kremlin declared that the economic formula

---

\* **Laurynas Kasčiūnas** – Head of Policy Analysis and Research Division of the Eastern Europe Studies Centre (email: Laurynas.Kasciunas@eesc.lt).

**Linas Kojala** – Project Assistant of the Eastern Europe Studies Centre (email: Linas.Kojala@eesc.lt).

(a centralised energy sector) discovered by Moscow would allow the Russian rouble to become a global currency, and that Moscow would become one of the financial centres of the world. Revenue in dollars from oil and gas also led to the emergence of the phenomenon of “Putin consensus” between those in power and society,<sup>1</sup> whereby the stability of the vertical political system was ensured in exchange for relative economic well-being.

At the same time, Russia’s political elite increasingly nurtured the vision of “Russia as an energy superpower”, the most important pillars of which were: the control of the country’s energy sector by the Russian government; restrictions on foreign direct investment in strategic sectors of the economy (in particular, the energy sector); and the establishment of large public corporations that would control strategic industries. This economic recipe was reinforced by the ideological pillar of a sovereign democracy<sup>2</sup> based on the assumption that each cultural community has its own understanding of freedom. This was an attempt to challenge the concept of Western liberal democracy.

However, in 2008, like all of Europe, Russia was in for an economic shock. The rhetoric about the “energy superpower” was replaced by the need to diversify the economy and attract foreign investment and technology. It is obvious that the only source of this is the EU, which also means that the EU will gain more leverage in respect of Russia’s internal economic and political processes. Furthermore, Russia needs a new energy and transport infrastructure, because petroleum product sales, which were booming over the past decade, will begin to stagnate over the next ten years.<sup>3</sup> Therefore, when discussing the future model of EU-Russia relations, it is important to identify the factors that support the stability of Russia’s political system and to evaluate the opportunities for an external factor (in particular, the EU) to make an impact on the Russian political and economic system.

## **1. Recent trends in domestic policy: rearrangement of the political elite?**

Recent opinion polls show that the majority of Russians approve of Putin’s work as president. Although his ratings are no longer as high as they were during his first

---

<sup>1</sup> Juidah, B., Kobzova, J. & Popescu, N., “Dealing with a Post-BRIC Russia”, *European Council on Foreign Relations*, November, 2011, p. 16, <[http://www.academia.edu/1266423/Dealing\\_with\\_a\\_post-BRIC\\_Russia](http://www.academia.edu/1266423/Dealing_with_a_post-BRIC_Russia)>, 28 05 2013.

<sup>2</sup> *Ibid.*, p.17.

<sup>3</sup> *Ibid.*, p. 20.

two terms in office, around 30% of Russians would vote for him again. He is well ahead of his closest competitors, the Communist Party leader, Gennady Ziuganov (7%) and the leader of the Liberal Democratic Party, Vladimir Zhirinovskiy (3%).<sup>4</sup>

Nevertheless, analysts note increasing signs of rearrangement in the vertical political structure created by Putin. Possible changes are indicated by the changing attitude of the Russian president towards the United Russia Party and the recently initiated massive anti-corruption campaign, which will not bypass Putin's associates in high positions.

### 1.1 The fight against corruption – a government consolidation tool?

The Corruption Perceptions Index 2012, published by Transparency International, ranks Russia in 133rd place only, which is an even poorer indicator than that of countries such as Mozambique or Togo.<sup>5</sup> The extent of corruption in Russia, which is most rampant in the sectors of administration of state property, natural resources and law enforcement, amounts to about 300 billion dollars each year. Nevertheless, the Kremlin has not considered this problem as a priority. On the contrary, after Putin's rise to power the scope of corruption steadily increased as this indicator was sacrificed in order to appoint loyal staff, "repay" political comrades and create a vertical political structure. Anecdotally, Putin once even referred to corruption as a "natural phenomenon"; "the Russian tradition".<sup>6</sup>

However, the situation is changing and this could be felt during Medvedev's presidency, when laws were first adopted obliging state officials to make public information about their income. Yet it seems that this campaign will not become a systemic reform, but rather a tool to fight political opponents. It serves two purposes: it helps to solve internal puzzles of the political elite and also to improve the public image of government in society.

The anti-corruption campaign coincides with the transformation of the elite, and this transformation, according to analysts, is becoming more visible in Russia.

<sup>4</sup> Левада-Центр, Возможные результаты президентских и парламентских выборов [Possible results for the Parliamentary and Presidential elections], <<http://www.levada.ru/03-10-2013/vozmozhnye-rezultaty-prezidentskikh-i-parlamentskikh-vyborov>>, 04 10 2013

<sup>5</sup> Transparency International, Corruption Perceptions Index 2012, <<http://www.transparency.org/cpi2012/results>>, 21 05 2013.

<sup>6</sup> Whitmore, B., "Russia Is Keeping its Elites on a Shorter Leash", *The Atlantic*, 12 March 2013, <<http://www.theatlantic.com/international/archive/2013/03/russia-is-keeping-its-elites-on-a-shorter-leash/273965/>>, 23 05 2013.

In the words of experts from the Institute of Modern Russia, “if anyone is thrown in prison, it will not be because they violated the law, but because they disobeyed Putin.”<sup>7</sup> Igor Bunin, Director of the Centre for Political Technologies, adds that the previous logic whereby opponents of United Russia had no rights, while those who were loyal were untouchable, is becoming less and less true.<sup>8</sup>

The transformation process was given an added impetus by the law adopted by the State Duma at the beginning of 2013, by which the country’s top officials are prohibited from holding bank accounts abroad and investing in foreign bonds. In addition, they are required to declare any foreign property holdings. As a result, Vladimir Pehktin, one of the founders of United Russia, was forced to resign after it transpired that he had a 1.3 million dollar luxury home abroad, which he had not officially declared. Soon afterward, two other MPs followed in his footsteps: Anatoly Lomakin, who is ranked 79th in the Forbes list of richest Russians, and Vasily Topstopiatov. Over a period of a few months, nine MPs and three members of the Federation Council have withdrawn their mandates.<sup>9</sup>

Indeed, Putin has two tasks: not only is he trying to “bind” groups of the political elite closer to him, but he is also trying to reduce the vulnerability of the regime in case of potential international sanctions against it. Gleb Pavlovsky, the former advisor to Putin, commented that “for this reason, officials at all levels perceive the president’s behaviour as a signal: remain silent, don’t act, and don’t stand out. Remain sitting, do not move, and be afraid. Stagnation is setting in.” In other words, the elite have ended up with a stick, but without the carrot.<sup>10</sup>

## **1.2 Creating an alternative to United Russia?**

The reputation of United Russia, formally led by Medvedev, has been seriously damaged lately by corruption scandals and internal divisions. This was particularly evident when the Governance and Problem Analysis Centre associated with the

---

<sup>7</sup> Stanovaya, T., “Putin’s Corruption Trap”, Institute of Modern Russia, <<http://imrussia.org/en/politics/435-putins-corruption-trap>>, 21 05 2013.

<sup>8</sup> *Ibid.*

<sup>9</sup> Alexandrova, L., “Russia’s new elite must consist of people indifferent to material values”, Itar-Tass News Agency, 27 March 2013, <<http://www.itar-tass.com/en/c39/688810.html>>, 21 05 2013.

<sup>10</sup> Whitmore, B., “Russia Is Keeping its Elites on a Shorter Leash”, *The Atlantic*, 12 March 2013, <<http://www.theatlantic.com/international/archive/2013/03/russia-is-keeping-its-elites-on-a-shorter-leash/273965/>>, 23 05 2013.

Kremlin (primarily with Vladimir Jakunin, Head of Russian Railways) exposed that the December 2011 parliamentary elections could actually have been won by the Communist Party and the formal victory of the United Russia Party was due to ballot-rigging. The United Russia Party remains the most popular in non-governmental opinion polls, but the approval ratings has fallen to 29%, while the rating of the Communist Party stands at 12%.<sup>11</sup> The president, it seems, has taken advantage of these circumstances to distance himself from the party.<sup>12</sup>

Jadwiga Rogoza of the Polish Centre for Eastern Studies maintained that in order to solve the internal problems of the elite and retain popularity in society, Putin might have to change his political platform. In other words, United Russia is becoming more like ballast in danger of being sunk politically, together with the scandal-ridden former comrades who are so annoying to the electorate and politicians with unrestrained ambitions. It is predicted that the All-Russia People's Front, a social movement established by Putin – then Prime Minister – with traditional rhetoric and patriotic ideas, could become this new political platform.<sup>13</sup>

### 1.3 Putin seeks to prevent the emergence of nationalist opposition

With the weakening “Putin consensus”, the political elite has started a new strategy to mobilise society, based on strengthening the conservative identity. Stronger union of the Russian authorities with the Orthodox Church and orientation toward the concept of Russia as a “distinctive civilisation” can be interpreted as an attempt to prevent the rise of the nationalist opposition. For the current Russian political elite, only the Communists or pro-American liberals can be at the forefront of opposition in Russia.<sup>14</sup> By deduction, this restricts the impact of the opposition on Russian society, while the nationalist movement may dislodge the ideological foundation of the regime. If, in this decade, the apparent

<sup>11</sup> Левада-Центр, Возможные результаты президентских и парламентских выборов [Possible results for the Prliamentary and Presidential elections], <<http://www.levada.ru/03-10-2013/voz-mozhnyye-rezultaty-prezidentskikh-i-parlamentskikh-vyborov>>, 04 10 2013

<sup>12</sup> Всероссийский центр изучения общественного мнения, Опрос 25-26 мая 2013. [Public Polls 25-26 May 2013], <<http://wciom.ru/>>, 21 06 2013.

<sup>13</sup> Rogoza, J., “The Kremlin’s New Political Project”, *OSW Eastweek* (20), 2013, <<http://www.osw.waw.pl/en/publikacje/eastweek/2013-03-20/kremlin-s-new-political-project>>, 23 05 2013.

<sup>14</sup> Trenin, D., “Responding to the Russian Awakening”, Carnegie Moscow Centre, 31 March 2013, <<http://www.carnegie.ru/2013/03/31/responding-to-russian-awakening/fzyu>>, 23 05 2013

integration of Russia with the West were observed, Russia now wants to build an alternative to the Western value system.

Recently, anti-Western value rhetoric has increased in Russia; it is manifested not only in prohibiting Americans from adopting Russian children, but also in discussing the application of the same measures in relations with countries that have legalised same-sex marriage and adoption. In parallel, emphasis on the moral decline of the West and the Russian Orthodox Church as a cultural and civilisation counterbalance is made.<sup>15</sup>

#### **1.4. Rearrangements in the Russian energy sector**

Recently, changes have also been observed in the internal Russian energy pyramid. If the position of gas giant Gazprom, which controls 75% of the Russian domestic market and holds a monopoly on raw material expertise, seemed unshaken, the latest trends in the market cast doubt on this. Over the past five years, the market value of Gazprom stock has shrunk by almost four times. The main causes of this include the financial crisis; the development of a common EU energy policy; the development of a network of liquefied-gas terminals; and the shale-gas “boom”. In addition, fewer large customers, such as Statoil, are agreeing to sign long-term gas-supply contracts pegged to the price of oil.

Furthermore, the growing influence of Rosneft, Novatek and other companies, and their share of the domestic market (from 15% in 2007 to 25% in 2011) make one wonder how strong the pressure on Gazprom will be. All these trends are related to the question of whether the Russian government has deliberately decided to replace the locomotive (Rosneft in place of Gazprom) that guarantees the stability of the vertical political structure, or whether these rearrangements are the result of the beginning of disintegration of the Russian political elite.

## **2. The EU’s relations with Russia: the search for leverage**

As shown, current developments undermined Gazprom’s position in Europe. Even the governments and companies of Italy, Germany and the Netherlands,

---

<sup>15</sup> Rogoza, J., “The Kremlin’s New Political Project”, *OSW Eastweek* (20), 2013, <<http://www.osw.waw.pl/en/publikacje/eastweek/2013-03-20/kremlin-s-new-political-project>>, 23 05 2013.

bound by long-term contracts with Gazprom, have exerted pressure on the Russian energy giant to cut prices or they would choose another alternative – international arbitration. Furthermore, the EU-initiated third liberalisation package for the gas and electricity sector had a significant impact on Gazprom's interests in the European markets, as it weakened Gazprom's position as a monopolist in the EU domestic market. All this significantly curtailed the lopsidedness in EU-Russia relations in the gas sector, as it introduced safeguards for access to the EU domestic market. Russia became the "successor to the policy" and was forced to negotiate regarding application of the provisions introduced by the EU. The EU also gained new leverage with respect to Russia and perhaps even caused turmoil within the Russian political elite.

Nevertheless, analysts point out that the EU lacks ideas to force Russia to behave according to the European rules of the game. The EU still tends to identify Russia as a strategic partner, but the content of the partnership has been completely washed out. Therefore, according to Kobzova, the EU should seriously consider the possibility of a strategic pause in relations with Russia.<sup>16</sup> During this pause, the EU should do its homework. For example, a highly efficient tool would be the implementation of the European anti-corruption legislation. This could be based on the British model, where, since 2010, it is possible to apply sanctions against companies operating in Great Britain that get involved in corrupt relations in other countries. This would prevent EU companies from forming corrupt relations in Russia. At the same time, it would be appropriate to promote coordination between EU business and diplomatic structures, so that business and political interests would not be mutually exclusive, but rather would complement one another.

Energy will remain the most important components in relations with Russia. In recent years, there have been an increasing number of arbitration cases where Gazprom's customers have disputed the price formulas for energy. One priority of the EU should be to ensure the most favourable prices, which would be dependent on competitive conditions (liquefied-gas terminals, shale gas and other alternative sources) rather than on volatile oil prices.<sup>17</sup>

<sup>16</sup> Kobzova, J., Time for a Strategic Pause in EU-Russia Relations? European Council on Foreign Relations, 2013, <[http://ecfr.eu/content/entry/commentary\\_eu\\_russia\\_relations\\_time\\_for\\_a\\_strategic\\_pause130](http://ecfr.eu/content/entry/commentary_eu_russia_relations_time_for_a_strategic_pause130)>, 23 05 2013.

<sup>17</sup> More about these and other tools mentioned in the text: Juidah, B., Kobzova, J. & Popescu, N., "Dealing with a Post-BRIC Russia", *European Council on Foreign Relations*, November, 2011, p. 16, <[http://www.academia.edu/1266423/Dealing\\_with\\_a\\_post-BRIC\\_Russia](http://www.academia.edu/1266423/Dealing_with_a_post-BRIC_Russia)>, 28 05 2013.

Another leverage, which the EU exerts very little, is the issue of a visa-free regime between the EU and Russia. Russia needs visa-free travel much more than the EU does, and the EU must take advantage of this. The EU must look for opportunities to link this issue with the factors that promote Russia's political and economic transformation.

A possibility to adopt the "European" version of the Magnitsky Act should also be considered.<sup>18</sup> Coordinated actions of the USA and the EU would put more pressure on the Russian political elite. Targeted sanctions may undermine the authority of the leaders who control the rules of the game within the elite and, eventually, would lead to the inner turmoil. This could be one of the few EU attempts to apply the principle of conditionality with respect to Russia, under which the opportunities for the Russian political elite to create a zone of personal security in the West would be linked to their behaviour in Russia.

In addition, the EU can and must wait for a favourable situation. With the receding concept of the "energy superpower", the need for Russia's modernisation, whereby it will inevitably have to diversify its economy, will become more prominent. This process is essentially impossible without direct foreign investment and access to advanced technology and management practices. This means that the modernisation of Russia without the EU would be practically impossible. However, thus far Russia is not going to change its economic system. Any such change would affect the functioning of the Russian political system – the system of patronage and clientelism within the elite. As long as Russia's export structure is dominated by energy resources, Russia has no interest in developing a free trade area with the EU because tariff restrictions do not affect energy resources.

### **3. Is it possible to "reset" Lithuania's relations with Russia? Lessons from history**

The development of Lithuanian-Russian relations over the past two decades has shown certain trends. On the level of rhetoric and at the same time the practical political level, we can distinguish two models in the approach of Lithuanian politicians to Russia: rigorous, based on values; and softer, based on "resetting" the

---

<sup>18</sup> Dempsey, J., "Judy Asks: Is There a Way for Europe to Deal With Russia?" Carnegie Moscow Center, 2013, <<http://carnegieeurope.eu/strategieurope/?fa=51537>>, 28 05 2013.



past hurts and, in the context of *realpolitik*, seeking more friendly relations. These approaches first manifested in 1992, when the new ruling majority compared the continuity of the rhetoric in the period of the re-establishment of independence to a “witch-hunt” that prevented the implementation of practical economic interests. Such public attitude was strengthened by the fact that Lithuania remained completely economically dependent on Russia, particularly in the sectors of raw materials, energy sources and trade.

According to political scientist Gediminas Vitkus, expectations that Lithuanian pragmatism and a softer approach would warm relations with Russia were not realised. This was evident when the issue of military transit via the territory of Lithuania was discussed: after Vilnius prepared the rules for the transportation of hazardous goods, Moscow declared that these rules were unacceptable; therefore, they would not comply with them. Since the negotiations were bilateral, Lithuania essentially had no leverage (except for unilateral concessions) to force Russia to comply with the rules. The lesson has been twofold: on the one hand, successful negotiations with Russia are practically impossible if they are not attended by a significant international actor, such as EU; and on the other hand, the illusion that abandoning the “anti-Russian” rhetoric and attempting to establish a friendly relationship would directly and positively affect the most important political decisions has been dispelled.

Today, the “warming-up” trend in bilateral relations is primarily related to the desire to reduce energy prices, but the negotiations between the government and Gazprom have revealed the political price of this energy “candy”: in exchange for a discount on gas, Gazprom is asking Lithuania to freeze arbitration proceedings against Gazprom and to sign a long-term gas-supply agreement to ensure an undisturbed supply of gas to Kaliningrad (although this would be a counter-flow to the gas coming from the future Klaipėda LNG terminal) and, possibly, put off the implementation of the EU’s Third Energy Package.

In other words, softer rhetoric due to the lopsidedness of power is not conducive to real concessions on the Russian side: concessions are based on pressure exerted on Lithuania to abandon its strategic interests. A typical example is the 1997 suggestion from Moscow to guarantee security for Vilnius in exchange for Vilnius abandoning its transatlantic security strategy. It is true that, as Vitkus notes, it would be easier to solve practical and technical issues by dissociating from the implementation of strategic objectives and, therefore, working in a less stressful atmosphere of cross-border relations, but there is also a risk that this would lead towards a move to strategic geopolitical exchange governed by a completely different logic.

So, the essential lesson from history as far as relations with Russia are concerned is the involvement of an international factor (in this case, the EU) in order to strengthen Lithuania's negotiating power. And this formula should be extended to as many areas of Lithuanian-Russian bilateral relationships as possible.