

EU's Eastern Partnership, the Russia-led Integration Initiatives in the post-Soviet Space, and the Options of the 'States-in-Between'

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Russia and the European Union (EU) have clashing conceptions of regional order, and nowhere is this more evident than in the swath of Europe that adjoins them. While Russia has always defined its 'Near Abroad' as a zone of special interest, and developed corresponding regional organizations, in 2004 the EU established the European Neighborhood Policy (ENP), complemented by the Eastern Partnership initiative (EaP) in 2008. The EaP targets six countries: Ukraine, Moldova, Belarus, Armenia, Georgia, and Azerbaijan. Over the last two decades, and in spite of a large number of initiatives aimed to integrate the countries in the post-Soviet space, Moscow has not been successful in formulating a project capable of competing with the EU's 'power of attraction'. Most initiatives, such as the Common Economic Space, or Russia-Belarus Union State, are considered shams, and Moscow's support of them has varied over time. This state of affairs seemed to have changed with the advancement of the Customs Union and the associated Economic Space (CU/ES): Russia now seems to be both

willing, and able, to attract participants to the new integration initiatives.

EU and Russian Initiatives

Launched a decade ago, the ENP has aimed to avoid the dividing lines in Europe resulting from the EU's Eastward enlargement. Originally entitled 'Wider Europe Initiative', its formulated objective is to bring stability and prosperity to EU's borders by promoting the commitment to common values, including democracy and human rights, the rule of law, good governance, along with the transfer of the *acquis communautaire* to its neighbors. Although explicitly intended to create an alternative to EU enlargement, the ENP in fact adopts the same logic, processes and methods.¹

In 2008, the EaP was created as a more focused approach to the EU's eastern neighbours. The eastern dimension of the ENP has opened channels of cooperation in several areas, including: market reforms and economic integration; energy; and, visa facilitation. It also established the

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1 Alena Vysotskaya Guedes Vieira, "The many patterns of Europeanization: European Union Relations with Russia, Ukraine and Belarus", in Teresa Cierco (ed.), *The European Union Neighbourhood. Challenges and Opportunities* (Farnham: Ashgate, 2013), pp. 57-82.

perspective of Association Agreements and Deep and Comprehensive Free Trade Agreements (DCFTA), which are part of a strong bilateral focus of the EaP, in an effort to bring bordering countries closer to the EU through comprehensive cooperation. Partners are encouraged to cooperate with EU member states as well as among themselves. In terms of results, the ENP has, despite overwhelming criticism, fostered interdependence between the EU and its neighboring states.²

Having said that, the EU is by no means the only actor with the aspiration to organize and integrate what remains of unincorporated eastern and central European countries. Russia has also launched initiatives towards its 'Near Abroad'. Russian-led integration efforts have been especially active in the context of both EU's and NATO's eastward enlargements, but have never resulted in a viable integration project. The Customs Union and the associated Economic Space, to become Eurasian Economic Union (EEU) by 2015, is the most recent organization. It will compose of Russia, Belarus and Kazakhstan. The project was launched in 2010 and departs from the previous practice of empty political declarations. In contrast to the past, the Customs Union and the Economic Space demonstrate tangible results: ready hammered out common tariffs – at the level of Russian tariff – on 6 July 2010.³ Also, the Eurasian Commission and the Council were created,⁴ and the Single Economic Space, which endeavors a common market for goods, services, capital and labor, became operational in January 2012.

This block aims to absorb the countries participating in the EaP and the remaining Central Asian countries. Vladimir Putin has expressed a hope for a 'Eurasian Union',⁵ which is regularly presented by Moscow as a pragmatic, economy-focused entity.⁶ The presidents of Belarus, Aliaksandr Lukashenka, and of Kazakhstan, Nursultan Nazarbayev, also support the notion of a project centered on economic (rather

than political) integration.⁷ The block is also presented as compatible with the EU's integration, which is reinforced by Russia's accession to the WTO, in August 2012.

In contrast to this perspective, this paper explores to what extent the creation of the Eurasian integration project represents a challenge to the participants of the EU-led EaP initiative. So far, only Belarus participates, and only to a limited degree, in the EaP while being part of the Customs Union and the associated Economic Space. The official position of other EaP countries ranges from radical rejection of the Russia-led project (Georgia)⁸ to more or less ambiguous declarations referring to the lack of interest and concerns over the compatibility of the integration with the EU (e.g. Ukraine, Armenia, Moldova).

As Moscow shows its determination to attract further participants to its integration project, the states in between seem to be presented with the 'East-or-West' dilemma, which is increasingly framed in either/or terms. Given these constraints, what are the options of the states in between?

The following analysis of Ukraine's position is justified by Kiev's active participation in the EaP, and its aspiration to develop an especially close and deep relationship with the EU, leading to membership in the bloc. At the same time, Moscow has historically attributed special importance to this country. In the context of Russia's aspiration to attract new members to the CU/ES, the choices of Ukraine on how to advance its cooperation with the EU have important implications for the rest of the EaP countries that find themselves in a similar position.

Moldova and Armenia are among such countries. The official reaction of Moldova's politicians to the creation of the Customs Union was as explicit as Ukraine's: it was not interested in integration. Moscow responded that Chisinau needed to choose between discounts on gas supplies and the tiny landlocked country's prospective membership in the EU.⁹ At the same time, Russia *Moldovagaz*, the national gas transmission system, is half-owned by Gazprom, while a third of Moldova's economy is dependent on the remittances sent from Russia.¹⁰ This provides Moscow with additional leverage over Moldova.

2 Elena Gnedina and Nicu Popescu, "The European Neighbourhood Policy's First Decade in the Eastern Neighborhood" (*Neighbourhood Policy Paper*, No. 3, July 2012).

3 Svetoslav Varadzhakov and Prajakti Kalra, "The Customs Union between Russia, Kazakhstan and Belarus: First Steps Towards the Revival of the Silk Road" (*Law, Institutions & Development Journal*, 03/2011).

4 Rilka Dragneva and Katarzyna Wolczuk, "Russia, the Eurasian Customs Union and the EU: Cooperation, Stagnation, or rivalry?" (*Chatham House Briefing Paper: Russia and Eurasia Programme*, August 2012), p. 4. The intergovernmental character of institutions should be stressed though, along with the fact that the still fragmented organizational structure grants Russia the most powerful vote: 57% against 21,5% for Belarus and Kazakhstan each. João Mourato Pinto, "Da Comunidade de Estados Independentes à Comunidade Económica Eurasiática" (*Pacta*, Dezembro, 2012), pp. 13-14.

5 Vladimir Putin, "A new integration project for Eurasia: The future in the making" (*Izvestia*, 4 October 2011).

6 David G. Tarr, "The Eurasian Customs Union among Russia, Belarus and Kazakhstan: Can It Succeed Where Its Predecessor Failed?" (*Free Policy Brief Series*, 2012). While Tarr points out that both Belarus and Kazakhstan have mostly lost trade capacity with the Customs Union, several experts indicate that the project has a significant potential, provided that transparency is established and the WTO rules are respected. See Dragneva and Wolczuk, op. cit., p. 8.

7 Anaïs Marin, "Trading off sovereignty. The outcome of Belarus's integration with Russia in the security and defence field" (OSW Guest Commentary, Centre for Eastern Studies, No. 107, 25 April 2013).

8 Along with the declarations of the High Officials, such as the Minister of Economy, Giorgi Kerdikoshvili, the parliament confirmed this position in the Resolution adopted in March 2013. According to it, Georgia cannot maintain diplomatic relations with countries that recognize the independence of Abkhazia and South Ossetia, neither can Georgia participate in politico-military of Customs Union in such countries. (*Kommersant-Ukraina*, 11 March 2013).

9 Andrew Wilson and Nicu Popescu, "Russian and European neighbourhood policies compared" (*Southeast European and Black Sea Studies*, Vol. 9, No. 3, 2009), pp. 317-331.

10 Christopher A. Hartwell, "A Eurasian (or a Soviet) Union? Consequences of further economic integration in the Commonwealth of Independent States" (*Business Horizons*, forthcoming), p. 7.



Armenia's official reaction to the CU/ES has been similar to Moldova's,¹¹ but framed in more cautious terms and supported by an argument referring to the absence of physical borders with the Eurasian Union. Russia's influence over Armenia is related to the position assumed by Moscow in the Nagorno-Karabakh conflict, which served to deploy about 3300 ground forces into Armenian territory, eventually balancing Armenia's relations with Turkey and Azerbaijan. While being aware of pressure from Moscow, both Moldova and Armenia are nevertheless pursuing close relations with the EU, including negotiations on the DCFTA.¹² In this context, Kiev's policy direction, and the way it deals with its situation in the overlapping zone of the shared neighborhood of both EU and Russia, are important to the rest of the EaP countries.

Looking into the Position of Ukraine

Originally, Ukraine did not consider the Customs Union membership a viable option because it was viewed as a step back on the path of the accession to the EU.¹³ By February 2011, Ukraine had adapted itself to become a part of the European Energy Community, and the country was actively negotiating the DCFTA. Moscow took this into account: Russian representatives started to highlight the possible negative effects of Ukraine's participation in the DCFTA.¹⁴ According to Moscow, Ukraine's deeper cooperation with the EU would entail a loss of Ukrainian power, since it would not be able to negotiate the legislation that it would have to adopt. In contrast, Russia offered full voting power within its own new integration project. Russian think tanks also argued that Ukraine should not "sacrifice its long struggle for independence and national revival" nor "give away its national sovereignty to the European bureaucracy".¹⁵ Yet, in spite of Russia's efforts, many in Ukraine were of mixed-mind: several companies deemed the DCFTA as their best chance for prosperity, while others feared the prospect of being flooded with Russian products.¹⁶

Just as in the case of several other EaP participants, Moscow maintains important leverage over Ukraine – the pricing policy on gas and oil exports, which were used as a 'carrot' in attracting Kiev's attention to the CU/ES. Russia's policy towards Belarus provides an illustrative example. In 2012, Belarus received an 'integration discount' after joining the Customs Union as part of a package deal that also included the sale of *Beltransgaz*, the national

distribution system, to Russia. As a result, the gas price for Belarus was around US\$ 165,6 per 1000m³ in 2012 and US\$ 166 in 2013. By contrast, Ukraine paid about US\$ 420 in 2013.¹⁷ The price provided to Belarus was supposed to entice Ukraine. At the same time, Kiev had to consider Nord Stream and South Stream, Russian projects for pumping gas into Europe that bypass Ukraine altogether. In 2013, Ukraine expressed interest in joining the Customs Union as an associated member (in the so-called 3+1 format), in the hope of obtaining cheaper gas.¹⁸ The respective negotiations between Moscow and Kiev, which at some point even included the sensitive issue of privatization of the Ukrainian company *Turboatom* (the largest provider of power plant turbines in the CIS),¹⁹ came to a dead end in March 2013. Dmitry Medvedev declared that trade preferences – including reduced gas prices – were only possible in the case of gradual accession to the CU/ES.²⁰ The only alternative compatible with the participation in the EaP and DCFTA would be an observer status (which was subsequently approved in a memorandum of the Ukrainian Council of Ministers²¹ and eventually granted to Ukraine by the Astana Summit of the Supreme Eurasian Economic Council of the CU/EES on 29 May 2013). Similarly, Brussels has also indicated that Ukraine's participation in the DCFTA is incompatible with Kiev's participation in the Customs Union. Therefore, Ukraine was presented with a stark choice.

The most pressing issue, however, was how to deal with Gazprom. In February 2013, Gazprom presented a US\$ 7 billion bill to Ukraine as a part of a 'take-or-pay' clause established by the 2009 'Putin-Timoshenko' contract, according to which Ukraine has to pay even if it has not imported the gas. Gazprom's move came after Ukraine managed to decrease gas imports from Russia by about a quarter, a result made possible by rising imports of gas from Poland and Hungary. In addition, Ukrainian authorities signed an agreement with Shell to develop shale gas in the Donetsk region, and Ukraine also started investing in energy efficiency. In April 2013, Vladimir Putin launched the idea of Yamal-2, a gas pipeline across Belarus that would devalue the transit importance of Ukraine.

While initial attempts to resolve the 'Gazprom dilemma' were linked to Ukraine's accession to the Customs Union, the leadership of Russia and Ukraine eventually decided that the solution could be found 'outside' of integration. As for the eventual trade-off to obtain a reduction in gas prices, it is now related to a consortium managing the gas transit system. Here the issue is whether the EU will be part of the project. According to Moscow, if Ukraine is to receive a re-

11 "Armenian Premier: No Plans To Join Russia's 'Eurasian Union'" (*RFE/RL*, 8 December 2011).

12 "Polish Ambassador considers possible signing Armenia-EU Eastern Partnership Agreement in 2014" (*Armenpress*, 25 April 2013).

13 Dragneva and Wolczuk, *op. cit.*, pp. 10-11.

14 Alena Vysotskaya Guedes Vieira and Francisco de Melo, "A Ucrânia e as incertezas da União Europeia" (*Janus*, forthcoming).

15 Nicu Popescu, "Russia's Soft Power Ambitions" (*CEPS Policy Brief*, No. 115, October 2006), p. 115.

16 Dragneva and Wolczuk, *op. cit.*, pp. 11-12.

17 (*Kommersant*, 26 November 2011).

18 (*Kommersant-Ukraina*, 18 December 2012).

19 (*Kommersant-Ukraina*, 17 December 2012).

20 "Medvedev says No 'Special' Customs Bloc Status for Ukraine" (*RIA Novosti*, 18 March 2013).

21 (*Ukrainska Pravda*, 22 May 2013).



duced price for the Russian gas, Ukraine would be bound to a bilateral consortium (with Russia), thereby excluding the EU. Yet a bilateral option requires a concession over an issue that Ukraine has been adamant about: the ownership of the gas transit system needs to be shared with Russia. The Ukrainian position seems to be changing: in May 2013, Ukraine's Council of Ministers proposed a draft law to lift a 2012 ban on the privatization of the gas transit system, which would make the Russia-Ukrainian venture possible.

Conclusions

The launch of the CU/ES has pasted a new integration scenario onto the region that connects Russia and the EU. Firstly, both Moscow and Brussels have launched an 'upgrade' of neighborhood policies. As for the CU/ES, Moscow has demonstrated that it does not shy away from dissuading some of the EaP participants, including Ukraine, to distance themselves from cooperating with the EU in the name of Eurasian integration. The Customs Union works as a 'soft power' supplement to Russia's foreign policy of supported gas pricing policy and trade embargoes. With the CU/ES, Russia's intentions go beyond economic integration and include an aspiration to situate Russia as a hub of regional integration capable of competing with the EU. Secondly, both Moscow and Brussels insist on the 'exclusivity' of their arrangements, indicating that simultaneous participation in advanced projects is not possible. The resulting dilemma might create the impression that the states in between need to choose between two versions of regional order. However, this perspective is misleading: the states in between will still try to maintain and enhance their maneuvering room over all political decisions. The case of Ukraine demonstrates that, in spite of constraints, the position of Ukraine's leadership has not become more definitively tilted toward either Brussels or Moscow.

On the one hand, Kiev is hardly about to renounce its declared EU orientation course: it is eager to sign the DCFTA, while only some of the 19 items on the so-called 'Füle list' (with release of Yulia Tymoshenko being the most notorious one) remain in the way.²² It is crucial to Kiev that as long as this perception prevails, all direct and undisguised Russia's attempts to attract Ukraine into the CU/ES are seen as a dead-end. On the other hand, Ukraine's leadership has not put the country on clear footing to meet EU membership requirements. Furthermore, President Viktor Yanukovich has declared that a *rapprochement* with Russia is justified. And, according to him, Brussels has shrugged off Ukraine's concerns over the construction of Nord and South Stream. He might also add that the European Energy Community has done nothing about the US\$ 7 billion bill presented to Kiev by Moscow in February 2013. Kiev's strategy has consisted in changing, as much as possible, the original situation of the either/or dilemma presented by Brussels and Moscow. To be sure, this aspiration of Ukraine's leadership has important domestic implications and is related to the aspiration of powerful domestic groups to maintain autonomy over large-scale privatizations while keeping both Russia and the EU as much away as possible. Be that as it may, the issue of Ukraine's participation in the CU/ES has shifted from the center of the Russia-Ukrainian agenda; the attention has been drawn to the gas consortium. And as for Ukraine's relationship with the EU, even the signature of the DCFTA would not mean an end to Kiev's politicking. For starters, the agreement would need to be ratified, providing the Ukrainian leadership more time and perhaps opening a new round of talks.

²² "The 'Window of Opportunity' for European Integration Will be Closed by Ukraine" (*Tishden/Ukrainian Weekly*, 21 February 2013).

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