

Re-Engaging Russia:

The Case for a Joint U.S.-EU Effort

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Foreword

Russia has long occupied a key place in transatlantic relations. During the Cold War, relations with the Soviet Union were always high on the agenda for U.S.-European discussions. With the disappearance of the Soviet threat, however, the United States and the European Union, along with its member states, sought to create new, constructive relations with the evolving Russian Federation. Today, the priority challenges facing the United States and Europe in the world — especially the threats of terrorism and proliferation of weapons of mass destruction — require effective cooperation with Russia. At the same time, there are growing concerns that Russia's expected transition to a western-style democracy and market economy is stalled, and that authoritarian tendencies are becoming more prevalent.

The question must be asked: how should the United States and Europe deal with Russia under these new circumstances? Should there be greater cooperation between the United States and the European Union in their policies toward Russia? How, specifically, should the United States and the EU work together to ensure a constructive partnership with Russia? To examine these questions, the Atlantic Council convened a workshop of U.S. and European Russian specialists on January 10-11, 2005. The events in Ukraine the month before provided an exciting backdrop to the group's deliberations, especially as they had brought U.S. and European relations with Russia to the top of the policy agenda. Over the course of two days, the group discussed existing U.S. and EU priorities toward Russia, prospects for the Russian economy and energy sector, the course of Russian political developments, Russian involvement in fighting terrorism and WMD proliferation, and the sensitive issue of Russia's relations with its neighbors. The consensus of the group was that U.S. and European policies would be much more effective if better harmonized and coordinated, and the group developed numerous recommendations for specific steps in that direction.

On behalf of the Council, I would like to thank the participants in the workshop, whose comments and insights form the basis for this report. Although there were many diverse opinions among the group, they were united by their desire to find a more effective way to re-engage with Russia. A full list of participants appears with this report. Special thanks are due to those participants who provided the thought-provoking remarks that started each session: Michael Emerson, James Collins, Mark Medish, Pekka Sutela, Friedemann Müller, Fiona Hill, Marie Mendras, Charles William Maynes, Rose Gottemoeller, Hilde Groenblad, Dov Lynch, Angela Stent, Robert Hunter, and István Gyarmati. The workshop was supported by a grant by the European Commission Delegation in Washington; the Council very much appreciates that essential and invaluable assistance. The German Marshall Fund of the United States, through its Key Institution grant to the Council's Transatlantic Relations program, also provided valuable support, including funds for publication of this report. Lisa Barry and ChevronTexaco graciously and generously hosted a dinner associated with the workshop. We also send our thanks to Assistant Secretary of State A. Elizabeth Jones, who spoke at the dinner. Finally, thanks are due to Fran Burwell, director of the Council's Transatlantic Relations Program, who conceived of this project and wrote the report.

Henry Catto, *Chairman*

Re-Engaging Russia:

The Case for a Joint U.S.-EU Effort

Executive Summary

For the past decade, both the United States and the governments of Europe — including the European Union — have sought to engage Russia with the goal of having a stable and democratic country increasingly integrated into the western political and economic system. Recently, however, many U.S. and European observers have become concerned that the Russian government seems to be moving in a more authoritarian direction, centralizing government decision-making, while backsliding on some reforms and neglecting others. Although economic growth has been robust, there is less confidence about the application of the rule of law. Instability persists in many of the states neighboring Russia, offering opportunities for regional conflict and for misunderstanding between Russia and the West.

To date, the U.S. and EU approaches toward Russia have been mostly conducted in distinct and separate tracks. This has reflected differing priorities and interests, with the United States emphasizing the building of an anti-terrorist partnership with Russia, while the European Union has increasingly focused on energy, economic, and border concerns. Neither approach has been as effective as hoped in building a constructive relationship with Russia.

It is now time for the United States and the European Union to coordinate their separate approaches and re-engage with Russia on a joint basis. The European Union and the United States should together reaffirm the desirability of constructive international engagement by Russia. But they should also work together to make clear that Russia must maintain certain standards — especially concerning rule of law and openness of society — if it is to be a true partner of the West. Specifically, this new U.S.-EU collaboration would have as its goals: strengthening the partnership with Russia to better address current global threats, including terrorism and proliferation of weapons of mass destruction (WMD); ensuring that a good balance exists between supply of and demand for Russian energy production; reinvigorating Russia's move toward democracy and market economy; and working toward peace, stability, and openness in the states neighboring Russia.

In pursuit of those aims, the European Union and the United States should bring together their separate efforts whenever appropriate, while also developing new cooperative efforts to work with Russia.

- To meet global security threats, especially terrorism and WMD proliferation, they should expand the comprehensive threat reduction program, bring Russia into transatlantic discussions about Iran and proliferation, engage Russia more fully in the fight against terrorism, and develop a joint approach toward Russia on Chechnya.
- To build more stable energy markets, the United States and the EU should engage Russia in a dialogue based on the principles of the European Energy Charter, include energy issues in the discussion of Iran, and encourage energy projects involving Russia, the EU, and its neighbors.
- To reinvigorate the rule of law in the Russian economy, they should focus on the use of WTO and OECD disciplines; provide incentives to Russia through greater market access, target assistance to small and medium enterprises, and foster the development of a cadre of individuals knowledgeable about economic standards and institutions.
- To reinforce an open Russian society and political climate, the United States and the EU should begin a strategic bilateral discussion about the course of reform in Russia, speak consistently to the Russian government, consider how Russian membership in the G-8 and other institutions might be leveraged, and enhance their support of Russian civil society and of links between Russian, EU, and U.S. civil societies.
- To enhance openness and stability in the Russian neighborhood, the EU and the United States should maintain a common line in discussing these regions with Russia; conduct enhanced dialogues with governments in the neighboring states, seek to reinvigorate conflict management mechanisms in these regions, and build on the work of NATO and others in fostering constructive interaction between Russia and its neighbors.

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A Renewed Focus on Russia

The Ukrainian revolution during the winter of 2004-2005 brought a new focus to U.S. and EU relations with Russia. As the protests against the flawed election persisted, the U.S. administration and various European governments, including the EU institutions, began a process of very frequent consultations across the Atlantic. All realized the importance of putting forward a single, consistent position, so there would be no confusion among the Ukrainians or the Russian government, especially after President Putin's initial reaction to events in Ukraine demonstrated his distance from the U.S. and European perspective. But if the Ukraine experience brought Russia policy to the fore, it also highlighted the extent to which the United States and the EU had kept their relations with Russia separate and distinct. They did not usually collaborate actively in their policies toward that country — as they had on Ukraine — or attempt to achieve consistent harmonization in their approaches. The Ukrainian experience demonstrated to the United States and European Union the value of cooperating more in their approaches toward Russia.

Throughout most of the Cold War, of course, the United States and its European allies had for the most part closely coordinated policy toward the Soviet Union, and relations with that country had been at the top of the transatlantic agenda. But once Russia appeared not to represent a continuation of the Soviet threat, the approaches of the United States and Europe gradually came to reflect different priorities, especially after the terrorist attacks of September 11, 2001, and the admission to the EU of several former Warsaw Pact countries in May 2004.

For the United States, the end of the Cold War not only brought the rivalry with the USSR to an end, it provided an opportunity to build a new partnership with an evolving Russia that retained a global strategic perspective, even though its resources were significantly reduced. Throughout the 1990s, U.S. policy focused on encouraging the development of a stable Russia, oriented toward western norms of democracy and rule of law. Arms control and proliferation of WMD were high priorities, especially the effort to ensure that Russia's nuclear weapons and related material remained secure. The U.S.-Russian relationship was also characterized by a strong personal tie between presidents — first Bill Clinton and Boris Yeltsin, and then George W. Bush and Vladimir Putin. After September 2001, U.S. policy

was focused on gaining Russian cooperation in the fight against terrorism, including acceptance of U.S. troops in Central Asia. There was some criticism of Russian policy in Chechnya and in the Yukos affair, but the dominant U.S. view of Russia has been as a partner against terrorism.

In Europe, the bilateral relationships of governments with Russia, which have remained strong, have been increasingly complemented by the European Union's collective policies, which have been dominated by issues of energy, economics, and European enlargement. Since 1990, Europe has become increasingly important to the Russian economy, notably in the energy sector. This has been reinforced as Russia's traditional economic partners — the former Warsaw Pact states of Central and Eastern Europe — have migrated into the EU. At the same time, the extension of the EU toward the east has been a major new element in the Russian environment. Initially, it was NATO enlargement that seemed problematic, as many Russian analysts chronically underestimated the EU's political role and the attractiveness of the EU for Central and Eastern Europe. But discussions over Kaliningrad made clear the significant impact EU enlargement would have on Russian trade and border issues.

The revolutions in Georgia and Ukraine have only reinforced the new awareness of the EU's significance. Some in Moscow saw the overturning of the Ukrainian election as the result of U.S. and EU interference, rather than a reflection of internal Ukrainian political forces. EU criticism of Russian policy toward Chechnya and of backsliding in Russian economic and political reform has also contributed to tension in the EU-Russia relationship at times. The EU has since 1995 structured its relationship with Russia through a Framework of Partnership and Cooperation Agreement, and recently attempted to enhance this with agreements on four "common policy spaces": education, research, and culture; freedom, security, and justice; economics; and external security. But the frequent meetings under the PCA have not eliminated or even reduced conflicts: the November 2004 EU-Russia summit failed to reach agreement on the four common spaces, in part because of disagreements about Ukraine.

That U.S. and EU policies toward Russia should differ is understandable. The EU-Russia border generates many more issues related to migration and visas, economics, and energy, and those issues have become a priority in the relationship. The United States instead looks to Russia for constructive engagement in addressing global challenges, especially terrorism and WMD proliferation, including the control of fissile material in Russia itself. But neither the United States nor the EU has been totally unified in its approach to Russia. Within the EU, Germany, Italy, and France, and to a lesser extent Britain, have been the most supportive of the Putin government, while the new member states, along with some established northern member states, have brought a heightened sense of wariness and concern to the European debate. In the United States, opinion is also diverse, ranging from those who argue for pursuing a full agenda with Russia to those who accept cooperation on a few vital matters, but see little benefit in encouraging a larger Russian role in the world.

In both the EU and the United States, however, the Russian reaction to the Ukrainian elections, coupled with sharpening concern about the course of reform in Russia itself, has brought to the fore the question of whether closer transatlantic cooperation toward Russia might be more effective. Can the United States and the EU work together to encourage the development of a Russia that is constructively engaged internationally and more open in its domestic economy and political system?

To explore this possibility, the first necessary step is to consider whether the United States and the EU share similar — at least compatible — objectives in five key policy areas:

- Global threats, especially terrorism and WMD proliferation;
- Russian and global energy markets;
- Russian economy and trade;
- Russian political evolution;
- Security and stability in the neighborhood shared by Russia, the EU, and NATO.

A second key task is to assess the priority given to each of these issues by the United States and the European Union and to consider the resources and potential leverage each has in dealing with Russia. It may be that differing U.S. and EU priorities — and distinctive priorities among EU member states — will prove an obstacle to building transatlantic cooperation. The third task is to identify areas in which transatlantic cooperation is possible and appropriate and then develop specific, policy-oriented recommendations.

Meeting Global Security Threats

For the United States, the primary objective vis-à-vis Russia has been, and continues to be, to engage the Putin administration constructively in meeting the challenges of global terrorism and WMD proliferation. Since shortly after the end of the Cold War, the United States and Russia have been engaged in the cooperative threat reduction (CTR) program aimed at ensuring the security of Russian stockpiles of WMD and related material. More recently, the United States has sought to enlist Russian support for efforts aimed at stemming proliferation in North Korea and Iran. Perhaps the most important — and visible — element of the relationship, however, has been the strong mutual support between Presidents Bush and Putin in fighting terrorism.

The European Union generally shares this set of objectives with the United States, and certainly seeks to engage Russia in dealing with WMD proliferation and terrorism. But on the whole, this set of issues has been less of a priority for Europe in its relations with Russia. The EU has contributed funds to non-proliferation efforts in Russia, although mostly to improving safety at nuclear power plants. The EU-3 (Germany, France, and the United Kingdom) have undertaken a major negotiating effort aimed at dissuading Iran from developing a nuclear weapon, and in January 2005, Russian Foreign Minister Sergei Lavrov indicated Russian support for these efforts. But the EU view of Russia as an active partner in

fighting terrorism has been seriously clouded by the Russian policy in Chechnya. Although condemning Chechen acts of terrorism, the EU has criticized Russian military actions in the region as overly destructive and noted the importance of political dialogue in addressing such conflicts, a view that President Putin has vigorously rejected.

Despite these different priorities, however, there is not much disagreement between the United States and Europe on the substance of these issues and the value of further engaging Russia. The CTR, for example, is viewed as such a valuable program that it should be strengthened, if at all possible, and every effort made to insulate it from other tensions in the Russia-West relationship. The development of a joint U.S.-EU approach to Russia on the threat of proliferation in countries such as Iran will be limited by differences within the transatlantic relationship. But to the extent the United States and the EU-3 do cooperate and consult — and the consultations have been extensive if not always harmonious — Russia should be engaged whenever possible.

Building greater U.S.-EU cooperation toward Russia on the issue of terrorism should be a priority endeavor that now moves from mutual support to real action. The United States and the EU already have a very successful program of bilateral cooperation on law enforcement and homeland security issues. If Russia is to be brought into this cooperation, the Kremlin must understand the need for efficient but accountable state security institutions. The big handicap to U.S.-EU cooperation with Russia in this area is the continuing conflict in Chechnya. Engaging Russia constructively on this issue may not only help ease the situation in that troubled region, but also help overcome European reluctance to engage Russia fully on anti-terrorism programs.

In particular, the United States and the European Union would find it beneficial to cooperate more fully in their approach to Russia in the following ways:

Safeguard and expand the comprehensive threat reduction program. Although some may argue that this program could provide leverage over the Putin government, that temptation should be firmly resisted. Because of its central importance to nonproliferation goals, the program should not be curtailed as a way of demonstrating displeasure with Russian political developments. By expanding the program and using it more creatively, it may be possible to construct stronger ties with the involved scientists, technicians, and officials as a way of maintaining open and relatively relaxed access to a key elite group.

Bring Russia more fully into U.S.-EU discussions about Iran and proliferation. Russia's continuing engagement will be essential if this effort is to have even minimal success. While not all discussions should be on a trilateral basis, there should be enough so that the Russians are an integral part of the solution, which recent evidence suggests that they are more inclined to be than in the past. Moreover, bringing Russia into a trilateral dialogue will reduce the opportunities for one to play off against the other, and so help prevent any further widening of views on Iranian proliferation.

Engage Russia with U.S.-EU cooperation on law enforcement and homeland security. The U.S.-EU workplan on counter-terrorism notes the importance of cooperating with third countries such as Russia. This will not be easy, given the questionable capacity of Russian law enforcement to be effective against terrorism, and there certainly should be no diminution of bilateral U.S.-EU cooperation in this area. However, enhanced consultations with Russia officials on these issues, and the sharing of “best practices,” may strengthen Russian law enforcement capability and lead to more concrete trilateral cooperation in the future.

Develop a joint approach on Chechnya. The road to cooperation on terrorism will be considerably eased if Russia could be engaged on the issue of Chechnya. This will be difficult, as Russians regard this as a sovereign internal matter, and the government has rejected involvement by outside institutions such as the United Nations. In December, President Putin indicated that he may be ready to discuss the possibility of greater European involvement in finding a resolution to the Chechen issue, but it is unclear whether this statement represents any real change in Russian policy. EU-U.S. cooperation in opening such discussions should reinforce to Putin the seriousness with which the West regards this issue and the limitations the continuing conflict places on partnership.

Consider trilateral engagement on other global issues, such as HIV/AIDS. The United States and the EU have already have worked together in this area, and given Russia’s rapidly growing rate of HIV/AIDS infection, this should be a productive area of further cooperation, as might be other health- and environment-related issues. To engage Russia constructively, however, it must be clear that Russia is a partner, not simply a recipient of assistance.

Building Stable Energy Markets¹

In contrast with the United States, the highest priority for the European Union related to Russia is ensuring that interdependence in the Russian-EU energy market remains stable. Russia is currently the largest supplier of oil (20 percent) and natural gas (25 percent) used within the EU. At the same time, the EU is by far the largest market for Russian energy supplies, and energy sales comprise about 37 percent of Russian budget revenues. Should the strong current price of oil and gas drop, the impact on the Russian economy could be severe. Such a strong co-dependence can be problematic if either party should suddenly change its behavior. Both Russia and the EU have started to move in the direction of diversifying to other suppliers and markets, but it will be some time before these efforts have a real impact. Russia has started seeking new markets in the growing economies of Asia, particularly China, which is expected to continue to see a tremendous rise in energy consumption. Europe has sought to lessen energy dependence through conservation and renewable resources, but may be faced with greater use of nuclear power, despite its unpopularity across much of the continent.

¹ The statistics cited in this section were graciously provided by Friedemann Müller of the Stiftung Wissenschaft und Politik and Fiona Hill of the Brookings Institution.

For the United States, the Russian energy market is only of marginal direct interest. Although a few U.S. companies have investments in Russia, just over 2 percent of U.S. crude oil imports and petroleum products are imported from Russia. The United States is far more dependent on oil from Nigeria, the Middle East, and Latin America. Yet the United States does have an interest in the Russian energy market at a strategic level. The probability that Russian energy supplies will be crucial to the continuing modernization of the Chinese economy is of great interest to the United States. And the willingness of Russia to sell oil and gas on the world market regardless of U.S. policy in Iraq makes a boycott by Arab states much less likely to be effective and thus less likely to happen. In sum, while the United States and the EU share the same objective of increasing diversity and transparency in the Russian energy market, this is a far more urgent priority for the EU, while the United States is primarily concerned because of longer term strategic considerations.

Given their very different situations, it might not seem likely that the United States and European Union would cooperate on energy issues vis-à-vis Russia. Some might conclude that the EU would find it difficult to stand up to any Russian pressure against such cooperation, but the mutual dependence of Russia and Europe in their energy sectors gives them very little leverage over the other. Still, it is in the interests of all that greater diversity be developed, both in Russian sales and European supplies. It is also not in the long term interests of Russia or the West that the Russian export economy is so dominated by the energy sector (currently oil and gas comprise 55 percent of all exports) and vulnerable to any price drop. Finally, the case of Yukos has generated considerable concern in the United States and Europe, first for its broader political implications, but also because of the lack of transparency and the apparent re-nationalization of the company, which has highlighted the need for better guarantees for property rights. Under these circumstances, transatlantic cooperation, in the form of an enhanced dialogue with Russia on energy issues, is the best insurance against sudden disruptions and should provide more transparency about the direction of the energy industry in Russia.

To build greater cooperation between themselves and with Russia, the United States and the European Union should:

Engage Russia in a dialogue based on the principles of the European Energy Charter. The Charter is intended to strengthen the rule of law on energy issues by protecting foreign investments, encouraging free trade, and establishing mechanisms for dispute resolution. Neither the United States nor Russia has been willing to ratify the Charter because of sovereignty concerns (Russia did sign the Charter in 1994, with the exception of the transit protocol, which should become one of the most important operational provisions). Nevertheless, opening a three-way energy dialogue based on the tenets of the Charter should lead to some productive discussions and less formal ways of addressing rule-of-law issues. This discussion should be embedded in a bilateral U.S.-EU dialogue on global energy supply and demand, and both the trilateral and bilateral discussions should consider the implications of China's role as a major energy consumer.

Include longer-term energy concerns in a three-way dialogue on Iran. If the Iran nuclear issue is to be resolved, there will have to be a consensus among the United States, EU, and Russia on Iranian energy development, especially given the involvement of Russia in the Bushehr nuclear reactor.

Encourage the development of energy infrastructure projects involving Russia, the European Union, and their common neighbors. Fostering partnerships with the Russian energy sector should encourage openness, transparency, and interdependence. Assuming such partnerships are well-balanced, some productive ties and regional cooperation should eventually emerge, perhaps easing concerns about another major issue on the U.S.-EU agenda toward Russia — relations with its near neighbors.

Reinvigorating Rule of Law in the Russian Economy

U.S. and EU objectives related to the Russian economy are very much the same: to encourage economic development based on the rule of law, along with Russian ownership of that reform effort; and to foster constructive Russian involvement in the world economy and related international institutions. They also agree in their assessment of Russian progress toward these objectives, which they see as very problematic.

On the plus side, Russian economic indicators are generally positive: overall growth has continued, the high price of oil exports has provided much revenue for the government, and Russia has been able to pay off much of its external debt in advance of deadlines — a strategy that reduces the leverage of others over Russian policy. But even while the macroeconomic numbers have been good, movement toward continued reform in key sectors of the economy has stalled at best, and there is a growing consensus between U.S. and EU observers that the situation is rapidly worsening. Structural reform is lagging, the rule of law is still very weak, and corruption is becoming even more prevalent. The immediate economic consequences — depressed growth of foreign direct investment and increasing capital flight — are serious, but more important is the loss of legitimacy for the very notion of economic reform. Some recent government reforms, specifically the monetization of housing, transportation, and other subsidies, have led to widespread public unrest.

The question facing the United States and European Union is whether anything they might do together would reinvigorate the process of Russian economic reform, or at least stop the current erosion. The reality is that the Russian government faces few incentives to pursue reform and in some cases, anti-reform measures actually win support for Putin from key constituencies. Market-oriented economic reforms also present challenges over the long term to the construction of a more centralized authoritarian state that seems underway in Russia today. And because high oil prices have filled government coffers, the Kremlin has not been faced with a pressing economic need for real reform.

In the face of this challenging environment, the EU and especially the United States have few levers to encourage reform. U.S. and EU past efforts in this area have been perceived as interference in Russian sovereignty. Technical assistance to Russia has been reduced, and Russia does not see itself as a developing country in need of such aid. Although the Jackson-Vanik amendment remains in force, there is no movement in Europe or the United States to consider sanctions or other “sticks” as useful.² Instead, the emphasis has been on institutional integration, especially Russian accession to the WTO. Although it is anticipated that Russia will join that institution in late 2005, after concluding on-going negotiations with the United States, it is doubtful whether the Russian government has enough technical expertise to implement WTO disciplines. The one incentive the United States and Europe might find effective is enhanced market access beyond that provided by WTO membership, either generally or for specific protected items, such as steel.

Given the current resistance to genuine economic reform in Russia, U.S. and EU efforts to cooperate in this area must be indirect and long-term. The single most important reform to be sought is better adherence to the rule of law in economic interactions. To push Russia in that direction — or at least to reduce the impact of the current anti-reform climate — the United States and the European Union should:

Focus the use of WTO disciplines (once Russia is a member) on the preservation and enhancement of private property rights and, where possible, other rule-of-law issues. U.S. and EU arguments that these reforms are desirable on their own merits will only create resentment of “western interference.” Instead, efforts to encourage Russia to protect property rights should be placed firmly in the context of the WTO, and it should be clear that “joining the club” requires such measures.

Encourage minimal Russian protection of foreign investors by promoting the use of OECD investment disciplines as benchmarks for desirable Russian behavior. As with property rights, EU and U.S. pressure in this area will only backfire if not exercised in this broader institutional context.

Undertake a bilateral dialogue about other ways of providing incentives through greater market access. Once Russia is a WTO member, the next logical step may be to consider a Russian-European free trade area. However, it may be politically difficult to embark on negotiations for an FTA with an increasingly repressive Russia unless that is accompanied by an extension of similar benefits to newly reformist governments in Georgia and Ukraine.

Target assistance efforts on those areas of the economy where reform is more likely, especially among the small and medium-scale enterprises. The large-scale enterprises, even if privatized, have generally shown more resistance to reform. It is the owners and managers of SMEs who seem most supportive of a market economy, and who are most adversely affected by the

² This provision of the Trade Act denies most favored nation status to non-market economies that restrict emigration, and was intended to pressure the Soviet Union to liberalize Jewish emigration.

deterioration in reforms. Especially for neighboring EU states, support for SMEs in Kaliningrad may address some regional disparities and instabilities.

Foster education, research, and investment in creating a cadre of individuals who are knowledgeable about international economic standards, practices, and institutions. Even if the Russian government wanted to implement such standards, it would face a real challenge in finding officials with the necessary expertise. By encouraging the training of these individuals through fellowships, support of practical economic research, and other means, the United States and the EU can aid the development of a constituency for greater Russian involvement in the global economy.

Reinforcing an Open Society and Political System

The evolution of the Russian political system has become a matter of increasing concern for both the United States and the EU. As with economic reform, they share a general objective: development of an open society with access both to and from the West, and a politically responsive state that is accountable to its citizens. They also share a rather gloomy assessment of the Russian situation. Having once viewed Russia as in transition toward a western democratic political system, many U.S. and European analysts now believe that even past progress in that direction may be threatened with reversal.

There is a range of views about Russian political evolution, but President Putin is centralizing power in the Kremlin, sometimes to the detriment of other state bodies that might play a balancing role. Increasingly, the Russian state — and especially the office of the president — is accountable neither to its citizens, nor to other Russian institutions, nor to the international community. Where this will end is an open question: some see a failed state in Russia's future, while other views are much less dire. Although some activists have been imprisoned, few see a revival of totalitarianism, given the exposure of Russians to the west. But the near future will be difficult for non-governmental organizations and others working for more openness, especially since such groups have been blamed for the “loss” of Georgia and Ukraine.

If the EU and the United States have few levers that could influence the course of Russian economic policy, they have even less influence in the political realm. Direct action by the United States and EU is likely to backfire, creating resentment and allowing those opposed to the development of genuine democracy to strengthen their positions. Some observers warn that current western criticisms of Putin are used to create a feeling that Russia is under siege, thus justifying steps towards a more authoritarian political system.

Moreover, the levers that had proven so valuable in guiding the transition of other Warsaw Pact countries — prospective membership in NATO and the EU — are not expected to be available to Russia. While some fear that this has created an artificial division in Europe, the Russian government has indicated that it does not see membership in either institution as

consistent with Russian interests or status. It prefers special partnerships, such as the NATO-Russia Council, and there has been significant cooperation in that body. But institutions such as the Organization for Security and Cooperation in Europe that focus on domestic reforms are increasingly regarded as troublesome by the Putin government, which has made increasingly intensive efforts to discredit and even weaken them.

For the United States and the European Union, the question is whether to be tough with the Putin administration and make domestic reform a requirement for greater cooperation in the international arena. During the Cold War, Soviet domestic behavior was key in determining U.S. and European policies toward the USSR. If Russia was to return to a modified form of authoritarianism, should the East-West relationship again chill? Few question that U.S. and EU leaders should continue to press President Putin on these matters, and do so bluntly (at least in private), consistently, and in a coordinated fashion. It is also important to take opportunities — such as in the State Department annual human rights report — to describe the realities of the Russian situation, without lecturing the Kremlin about what should be changed.

Despite concerns about the course of events in Russia, it is unrealistic to expect the West to disengage, given the need for Russian cooperation against terrorism and nonproliferation, along with the increasing interaction between Russia and the EU. Instead, the United States and the EU should look for opportunities to make clear to the Russian government that international engagement requires the upholding of certain standards. Participation in operations with NATO, for example, requires that Russian troops meet certain standards of preparedness and behavior. If cooperation in the fight against terrorism is to be enhanced, Russian law enforcement must meet basic standards of competence and honesty. Russia's chairing of the G8 in 2006 brings with it wider international legitimacy but also certain responsibilities.

U.S.-EU cooperation should focus on maintaining access to Russian civil society and pressing for a state that has some measure of accountability to its citizens and others. Russian civil society should also have access to western norms and practices, through scholarly exchanges, cultural cooperation, people-to-people contacts, and perhaps less restricted travel arrangements in the future. Specifically, the United States and the EU should:

Engage in a strategic bilateral discussion about the future of reform in Russia and the prospects for joint U.S.-EU responses. Such a dialogue would encompass a wide array of subjects, from reaching out more effectively to civil society to preparing for the most pessimistic scenario of a failed Russian state.

Coordinate the delivery of messages to the top level of the Russia government so that areas of concern are consistently identified and there is no attempt to use such criticism to create divisions between the EU and the United States. Although criticisms must be carefully targeted so that they do not become fodder for further anti-westernism, U.S. and European leaders can usefully make clear which specific behaviors are problematic.

Enhance private and public support of civil society in Russia and of links between Russian, U.S., and EU civil societies. This could happen on several levels, from individual scholarships to support for networks of research institutions. One possibility might be a regular “young leaders” seminar, bringing together future leaders from the United States, Russia, and the EU on a recurring basis and creating a network among them. All efforts to reach out to Russian civil society should involve individuals and groups from the regions, as well as those from Moscow.

Consider how involvement in international institutions, including the G8 and NATO, can be used to encourage Russian adherence to certain basic standards. This will require much engagement, first to build understanding of relevant standards and norms, and then to hold Russia to those benchmarks. Russia’s role as host of the 2006 G8 summit should be an opportunity to showcase Russian progress, but it also presents a risk that any abuses will be highlighted by the visiting international press corps.

Enhancing Openness and Stability in Russia’s Neighborhood

If the Ukraine experience has demonstrated the value of U.S.-EU cooperation toward Russia, it has also made clear that Russia’s relations with its neighbors can be extremely delicate and potentially destabilizing. As a result, the issue of Russia’s relations with its neighborhood has risen quickly to the front of the agenda, and is now regarded with some urgency and concern. Once again, the United States and the European Union are largely agreed on the objectives: to reduce the number of conflicts in these areas and enhance stability; and to promote openness in these transitional societies to access from, and contacts with, the West. While they support any moves toward democracy, there is a general consensus that an indigenous group must take the lead, as happened in Georgia and Ukraine. Where the EU and the United States differ is in the immediacy of this issue and their perspective on how it will affect their own interests.

For the European Union, the Ukrainian election was a watershed. It raised key questions about the strategic relationship between Russia and the EU as well as about local concerns (borders, trade, etc.) in this “shared neighborhood.” Putin’s reaction made clear that Russia was no longer a state in transition, but instead a defensive, status quo power that saw itself as having suffered a series of failures in these regions. While acknowledging the importance of Georgia and Ukraine to Russia — and the perception among the Russian public that these represented significant failures of Russian national interest — the EU was determined that those who sought greater independence and democracy should be supported. The negotiations over access to Kaliningrad had demonstrated that the EU could deal with Russia effectively.

In 2004, the European Union established its European Neighborhood Policy (ENP), designed to provide greater assistance and engagement with specified partners in return for EU-oriented reforms. Although not technically a pre-accession policy, it is likely to bring these neighbors into the EU’s gravitational pull. Russia regards the ENP as encroachment upon its area of

influence and it has the tools (energy dominance and ties to local political allies) to make life difficult for those in its “near abroad” who flirt with Europe. There is a growing consensus across the EU that although Russian acquiescence and cooperation would be desirable in helping these countries make the transition to democracy and market economies, it is not essential. This attitude comes in part from the new member states, which are becoming very influential in constructing EU policy toward Russia and other eastern neighbors. As a result, the EU will continue to pursue the ENP and similar strategies, regardless of Russia’s criticisms.

The U.S. assessment of the situation is similar to that of the EU. The “near abroad” has proven a difficult policy area for Russia, and events in Georgia and Ukraine, although welcomed by the United States, have been widely seen as rejections of Russian political and economic legitimacy in the region. But U.S. interests are more global and strategic than those of Europe, and U.S. involvement in Russia’s neighborhood includes not just the central European states, but also the Central Asian republics. While the United States is committed to supporting the viability and stability of the post-Soviet states, it also wishes to maintain access to bases in Central Asia in order to enhance stability in Afghanistan and to engage Russia in fighting terrorism and organized crime. As a result, the U.S. agenda vis-à-vis the states neighboring Russia is rather focused. U.S. priorities are: first, to reduce the tensions resulting from the persistent conflicts in the region, including those in Nagorno-Karabakh, Abkhazia, South Ossetia, and Transnistria, so as to avoid further instability; and second, to be prepared for the next (hopefully) peaceful revolution. Moving those conflicts toward resolution and managing any future political transitions peacefully will require at least engagement with Russia, if not actual cooperation.

Moreover, it should not be assumed that the states in Russia’s neighborhood are all inevitably marching toward Europe. Russian culture and consumer goods remain very popular, and Russian investment will continue to flow into these areas. There may be a backlash against Europe if, for example, Ukrainians discover that support for the Orange Revolution does not translate into increased opportunities in Europe, such as greater freedom to travel to the EU. And Russia may be able to complicate matters for the West in other areas. For example, the final status of Kosovo may be up for negotiation in 2005.

Neither the United States nor the European Union can avoid dealing with the question of Russia and its neighbors. Given the current Russian perception that it is losing a zero-sum game, there is much potential for tension between Russia and the West. But U.S. and EU efforts will be more effective if they cooperate and lessen the opportunities for Russia to drive a wedge between them. Thus, the United States and the EU should:

Maintain a consistent common line in discussing the “shared neighborhoods” with Russian officials. This will involve greater U.S. understanding and support of the EU “common spaces” policy, but will also require the EU to take into account the broader interests of the United States, despite the desire of some EU members to bring Ukraine and others closer to the EU orbit as quickly as possible.

Conduct enhanced dialogues with interested neighborhood governments, while keeping the Russians aware of their existence. The United States and EU should listen carefully to these governments, which have their own perspectives and interests vis-à-vis Russia. While Russia should not be allowed to veto such interaction, there should be recognition of the close connection between many of these neighborhood states and the Russian sense of national identity and interest. The agendas for U.S. and EU discussions with Russia should include relations with the neighboring states.

Enter into an enhanced bilateral U.S.-EU dialogue aimed at addressing the conflicts in the neighborhood region, leading to a reinvigoration of conflict management mechanisms. This should focus particularly on stalled conflicts and should look to adjust policies that may have contributed to those stalemates. As part of this dialogue, the EU and the United States should seek a common approach to OSCE reform that makes this institution more effective in addressing conflicts and democratization. Other approaches should also be explored such as the possibility of developing a working group on security in the Caucasus region, perhaps along the lines of the Contact group, with involvement by the EU, United States, and Russia, as well as regional actors.

Continue to build on the work of NATO and other international institutions that bring together Russia and the neighborhood states in a multilateral setting to undertake joint projects under internationally agreed procedures. This increased familiarity may reduce Russian concerns if these countries migrate toward NATO, and may also simply build greater Russian understanding of Western norms and practices, reducing the misplaced concerns about “western conspiracies.”

Although the United States and the European Union have had separate policies toward Russia in the past, they should now work actively to coordinate their approaches. Together, they should re-engage with Russia, attempting to build a more effective partnership against such global threats as terrorism and WMD proliferation. But that re-engagement should also be aimed at stopping any slide toward authoritarianism in Russia and ameliorating its effects. Closer U.S.-EU cooperation will be essential if the Kremlin is to receive clear signals about its domestic politics and the impact on its foreign relations. A consistent transatlantic approach should encourage Russia to recognize the standards it should uphold as a member of the international community, and the opportunities and responsibilities associated with membership in international organizations such as the WTO and G8. The United States and the EU should develop a joint approach to the states neighboring Russia, one that reduces instability and enhances openness. This approach should take Russian interests and sensitivities into account, but Russia should not be given a veto over U.S. and EU interaction with these neighbors. By working together to address these issues with Russia, the United States and Europe should be more effective in building a genuine partnership that can meet the challenges of the 21st century.

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