



POLICY PAPER

No. 10 (93), July 2014 © PISM

Editors: Marcin Zaborowski (Editor-in-Chief) ● Wojciech Lorenz (Managing Editor)
Jarosław Ćwiek-Karpowicz ● Aleksandra Gawlikowska-Fyk ● Artur Gradziuk ● Piotr Kościński
Łukasz Kulesa ● Roderick Parkes ● Patrycja Sasnal ● Marcin Terlikowski

Bumps on Russia's Road to the Eurasian Economic Union: Postponed Integration, Costly Enlargement and Delayed International Recognition

Stanislav Secrieru

Eurasian integration has been formally elevated to a new level. On 29 May, Russia, Belarus and Kazakhstan signed in Astana the founding treaty of the Eurasian Economic Union. However, problems related to integration, enlargement and international cooperation with the EEU indicate the effort is far from a point of no return. Despite the upbeat mood in Moscow, integration remains weak and selective, and in several important fields has been shelved until 2025. At the same time, the enlargement process has encountered security-related obstacles and triggered additional costs for Russia.

Road to the Eurasian Economic Union

Back in 1994, President of Kazakhstan Nursultan Nazarbayev coined the term “Eurasian Union” to describe a format of economic integration for the crumbling post-Soviet world. Since then, several attempts to foster multilateral forms of economic cooperation in the region have failed. In 2009, the process received new boosts from Moscow. First, Russia, Belarus and Kazakhstan agreed to set up the Customs Union (CU), thus pledging to liberalise trade in goods among them and to apply a common external tariff. The sides also established the CU Commission as a permanent regulatory institution. Second, Russia revived the concept of the Common Economic Space (CES), which dates back to 2003. CU members in 2009 approved a “roadmap” towards establishing the CES by 2012, aiming to also liberalise services, labour and capital. In 2010, the participants signed 17 sectoral agreements that served as a legal basis for the CES. As the sectoral accords entered into force in 2012, a Eurasian Economic Commission (EEC) with expanded competences took over the role of the supranational body from the CU Commission. Third, in 2011, then-Prime Minister Vladimir Putin resurrected the idea of a Eurasian Union and made it one of Russia’s foreign policy priorities for his third term as president of Russia.

Putin’s proposal to merge the CU and CES under the Eurasian Union roof sought not only to reverse further economic fragmentation of the post-Soviet area but also to institutionalise within the regional multilateral framework Russia’s economic and political dominance along its immediate periphery. After his re-election in 2012, President Putin set 2015 as the deadline for establishing the Eurasian Union. In the aftermath of the annexation of Crimea, question marks emerged concerning whether Russia would manage

to persuade the other CES members to follow its calls for deeper and wider integration. Nevertheless, on 29 May, Russia, Belarus and Kazakhstan signed a treaty to establish the Eurasian Economic Union (EEU). The treaty systematises in one document all previous agreements, adds new fields on integration and policy coordination, and details the competences of the EEU institutions. The EEU should enter into force in January 2015 if the participants fulfil ratification procedures of the treaty by that time.

Weak, Selective and Postponed Integration

Over the last five years, Russia has rushed Belarus and Kazakhstan on an integration sprint. While Russia has hurried to leapfrog through each legal stage, real integration has lagged significantly behind the avalanche of documents approved by the leaders. In looking back at European integration history and previous failed regional initiatives in the post-Soviet space, Russia's partners in the CU warned of hasty decisions. Moreover, they complained that the CU was not working properly as there were many exceptions from the unified customs territory. Instead, the partners advised a focus on first making the CU fully functional by eliminating remaining tariff and non-tariff barriers to trade and turning the EEU into a veritable supranational forum, not a Russian-dominated structure.

To push forward with Eurasian integration, Russia resorted to financial incentives, made concessions on the draft EEU treaty and played prestige politics. The deployment of hard power in Ukraine to protect what Russia considers its vital interests has also produced a silent effect on Minsk¹ and Astana, both careful not to irritate the Kremlin. Moscow reached agreement with Minsk on the amount of duty free supplies of crude oil to Belarus and on export duties on oil products exported by Belarus. As a result of the deal, Russia will receive \$1.5 billion less in transfers from Belarus beginning with 2015 for oil product exports.² Russia also provided Belarus with another financial carrot. Vnesheconombank opened a credit line worth \$500 million to cover Belarus' construction costs of the nuclear power plant in the Grodno region.³

In its relations with Kazakhstan, Moscow praised President Nazarbayev as the father of the Eurasian Union concept. Russia also accepted a watered-down version of the EEU treaty in line with the Kazakh partners' calls to put the accent on economics instead of politics, a line also upheld by Belarus. Apparently, adding the word "economic" to the name of the union makes it clear that the organisation is about economics. But even in that area some limits have been drawn, revealing other concessions made by Moscow in the negotiations process. For instance, despite agreement to coordinate macroeconomic and monetary policy there is no mention of a common currency (or implicitly a monetary union) in the treaty as had been rumoured. The pre-eminence of an inter-governmental approach over a supranational one was also sealed in the treaty via the Supreme Eurasian Economic Council (SEEC), which adopts decisions by unanimity, providing Russia's partners with the ultimate tool to keep in check the extent of integration. On Astana's initiative, reportedly, references to an EEU parliament were eliminated from a draft of the treaty.⁴

Although Russia was capable of getting the necessary signatures on the treaty, the EEU is a project with selective and, in many sectors, postponed integration. The treaty in comparison to the CES blueprint expands the areas of liberalisation (e.g., pharmaceuticals and medical equipment by 2016) and policy coordination (e.g., fiscal, consumer protection and sanitary and phytosanitary measures). The document also sets macroeconomic indicators (inflation calculated by the lowest level of the member countries' plus five percentage points, a budget deficit limit of 3% of GDP and foreign debt limit of 50% of GDP), which will guide members' economic policy. Furthermore, the document contains a more detailed chapter on movement of labour. However, several important economic sectors in which Russia is likely to incur big

¹ For more on the implications of the Eurasian Economic Union for Belarus, see: A.M. Dyer, "Belarus—Political and Economic Perspectives in the Context of Changes in Eastern Europe," *PISM Bulletin*, no. 95 (690), 2 July 2014.

² "Belarus, Russia Agree on Oil Supplies, Export Duties on Oil Products," *Belta News Agency*, 29 May 2014, http://atom.belta.by/en/news_en/view/belarus-russia-agree-on-oil-supplies-export-duties-on-oil-products-2954.

³ "Russia's Vnesheconombank Starts Transferring Belarusian Nuclear Station Loan," *Belta News Agency*, 11 June 2014, http://atom.belta.by/en/belae_en/view/russias-vnesheconombank-starts-transferring-belarusian-nuclear-station-loan-3070.

⁴ R. Coalson, "Despite Ukraine Crisis, Russia Pursues Eurasian Integration Dream," *RFE/RL*, 28 May 2014, www.rferl.org/content/russias-eurasian-integration-dream-steam-ahead-despite-ukraine-crisis/25401714.html.

costs after liberalisation will not be integrated in the short or medium runs. For example, the EEU treaty stipulates harmonisation of legislation in the financial sector and creation of a financial market regulatory body by 2025, establishment of an electricity market by 2019, and formation of a gas, oil and construction industry market by 2025.⁵ As Belarus President Alexander Lukashenka, not without irony, pointed out: “Implementation of innovative agreements after 10 years looks strange ..., then the Eurasian Union should be created after 10 years”⁶

There are serious doubts whether these deadlines will be met or that overall integration will progress smoothly. The project heavily relies on the leadership factor. President Putin played a central role in getting the project this far. His precipitous downfall (though hard to foresee today) would pose an existential question for the EEU. At the same time, the Russian president’s strong political will to advance the EEU runs counter to growing popular negative sentiments in Russia towards immigrants from Caucasus and Central Asia and against moods about large subsidies for economically depressed regions (e.g., the campaign “stop feeding the Caucasus!”). Crimea’s annexation might in the short term reverse public attitudes. But under pressure from a worsening economic situation in Russia, and anti-immigrant and anti-subsidy sentiments, in the medium and long run these attitudes are likely to increase.

Another factor that casts a shadow over the EEU’s potential success is Russia’s commitment problem with respect to written agreements. Russia’s credibility with respect to obligations derived from agreements was heavily shattered in the aftermath of the annexation of Crimea. As the costs of integration will pile up and the Russian economy likely stagnates the temptation to ditch some of the treaty’s expensive obligations to redress domestic concerns will increase in Moscow. According to Russian officials’ estimates, full liberalisation of trade (elimination of exceptions from the customs territory) could produce an annual \$33 billion gap in the Russian budget.⁷ The EEU rests on transactional logic backed sometimes by veiled threats or coercion. In the absence of common values that bind members together, Russia may have to resort to more repressive methods if the EEU fails to deliver on its economic promises. A sluggish economy coupled with systematic intimidation is likely to make Russia less attractive for EEU members, motivating them to pursue alternative economic tracks.

Last, but not least, the lack of an independent judiciary in Russia and the other EEU member states, instrumental to solving impartially any legal conflicts that may arise, might also impede the effectiveness of the supranational body—the EEU Court—tasked with settlement of disputes. In turn, this risks creating blockages and fuelling more mistrust between the EEU members.

Problematic and Costly Enlargement

Besides insisting, at least formally, on deepening integration, Russia has paid significant attention to the enlargement process. Its goal is to increase the number of Customs Union members then later to pull them to the Eurasian Economic Union, sidestepping the Common Economic Space phase. For instance, in Astana, Russian officials made no secret of their hope to see CU candidates inside the EEU as soon as possible. Moreover, Moscow has not ruled out direct accession to the EEU without passing through even the initial stages of integration.⁸ The founding treaty contains provisions that allow such a shortcut. Apparently, for political expediency, in some cases the CU will serve as “waiting room” for prospective EEU members, while in other cases straightforward accession to the EEU will be pushed through. One reason behind Russia’s determination for speedy enlargement is to send a powerful external signal that Eurasian integration is an attractive project for other post-Soviet states. Another rationale is to show the vitality of the integration process by geographic expansion. Finally, enlargement is a way for Russia to prevent

⁵ See: “Dogovor o Evraziiskom ekonomicheskom soyuze,” 29 May 2014, www.economy.gov.ru/wps/wcm/connect/economylib4/mer/about/structure/depsng/agreement-eurasian-economic-union.

⁶ Quoted in N. Nemoľchanova, A. Solodovnikova, “Aleksandr Lukashenka na puti v Emiraty,” *Kommersant*, 12 May 2014, www.kommersant.ru/doc/2468410.

⁷ R. Falyahov, “Soyuz v pol’zu bednyh,” *Gazeta.ru*, 28 April 2014, www.gazeta.ru/business/2014/04/25/6009205.shtml.

⁸ V. Putin, “Zaiyavlenie dlya pressy po itogam zasedaniya Vyshego Evraziiskogo ekonomicheskogo soveta,” *Kremlin.ru*, 29 May 2014, <http://kremlin.ru/transcripts/45790>.

newcomers from pursuing alternative economic integration projects and to mark a no-go area for other regional players who are supposed to take notice of the new rules of economic engagement with Russia's neighbours.

There are two candidate countries to the CU, Kyrgyzstan and Armenia. Both are small economies that once inside the EEU will bring little economic benefit to Russia. Armenia's accession (which does not share borders with any CU member) is particularly driven by Russia on political rather than economic rationales. With Armenia, Moscow has sought to derail Yerevan's plans to initial and sign an Association Agreement (AA) with the EU, and thus deepen economic relations with its most important trade partner. Facing Russian economic (e.g., energy sector), diplomatic and military pressure, Armenia reversed course and unexpectedly announced a bid for CU membership in September 2013. With Kyrgyzstan, Russia is trying to fill the vacuum left by the U.S. withdrawal (after almost 13 years of use, the Transit Center at Manas was transferred in June back to Kyrgyzstan) and to take advantage of the anxiety of Bishkek to lose preferential access to the Russian and Kazakhstan market. Kyrgyzstan's accession also would provide a terrestrial link with Tajikistan, courted too by Moscow to join the CU.

While promising no substantial economic dividends for Russia, the enlargement process instead has brought new security problems and financial costs for Moscow. Although Kyrgyzstan announced its intention to join the CU back in 2011, it bargained hard with Russia to extract financial advantages. As the SEEC approved in May 2014 a roadmap for Kyrgyzstan's accession to the CU, Moscow conceded to Bishkek to provide it with \$1.2 billion: a special development fund (\$500 million), a preferential loan (another \$500 million) and assistance for implementation of the roadmap to the CU (\$200 million).⁹ Moscow also had to face a problem with Kyrgyzstan's WTO membership, which it has held since 1998, as Bishkek joined the organisation agreeing to lower customs tariffs than those applied in the CU. It seems that for this purpose the EEU treaty allows newcomers to keep lower customs tariffs for imported goods from third parties unless they are not introduced on the territory of other EEU member states.¹⁰ However, the treaty is silent about the mechanism and institution tasked to monitor how this exception from the common customs territory is implemented.

The enlargement process has also brought some security-related problems to the CU. Unlike Kazakhstan, Kyrgyzstan has not entirely solved border issues with its neighbours. Kyrgyzstan's border with Uzbekistan and Tajikistan has not been fully delimited and demarcated. Border disputes degenerated into shootouts in 2013 and 2014 between Kyrgyz border guards on one side and Uzbek and Tajik border guards on the other side. Given the recent history of inter-ethnic tensions in the area, the situation in the border regions may escalate anytime. Thus, with Kyrgyzstan in the EEU, part of the external border of the CU (and later the EEU) in Central Asia will look less stable or secure.

Meanwhile, the security tool that served Russia, among others, to enable Armenia's U-turn on the EU, came back to bite Moscow during the enlargement phase. Russia's push for Armenia's accession to the CU inevitably brought the Nagorno-Karabakh conflict to the table. The contentious issue of whether there should be customs checkpoints between Armenia and Nagorno-Karabakh is responsible for the delay in a decision on Armenia's membership. During the SEEC meeting in May 2014, President Nazarbayev raised this issue, referring to a letter from the President of Azerbaijan Ilham Aliyev in which he expressed hope that Armenia would join the CU with internationally recognised borders, as was the case with its WTO membership in 2003.¹¹ President Lukashenka, who defied Russian pressure to recognise the independence of Abkhazia and South Ossetia in 2008, seems ready in this case to carefully play Baku's card on Nagorno-Karabakh as well. Thus, isolated on this issue, Russia is in a difficult position to find a way out from the deadlock triggered by the enlargement process.

⁹ "Rossiya zaplatit Kirghizii za vhozhdenie v Tamozheniy soyuz 1.2 milliarda," *Ekonomicheskaya Pravda*, 30 May 2014, www.epravda.com.ua/rus/news/2014/05/30/459972.

¹⁰ See: "Dogovor o Evraziiskom ...," *op. cit.*

¹¹ "Aliyev Thanks Nazarbayev for Pro-Azeri Stance at Astana Summit," *Asbarez*, 5 June 2014, <http://asbarez.com/123810/aliyev-thanks-nazarbayev-for-pro-azeri-stance-at-astana-summit>.

Russian officials mentioned Tajikistan as the next in line to join the CU. The Russian-friendly Eurasian Development Bank conducted an impact assessment study in 2013 of Tajikistan joining CU. While it forecasts insignificant gains in trade, the analysis anticipates major benefits in labour migration,¹² which, however, is not covered by the CU regulatory framework. Therefore, Tajikistan, with a large migrant community in Russia that sends back home around \$4 billion annually (or 52% of its GDP),¹³ might be interested in participation in the CES or EEU only if Moscow were to denounce bilateral accords that grant Tajiks preferential access to the Russian labour market. But, as in the case of Kyrgyzstan, the absorption of Tajikistan's economy into the Eurasian structure is likely to put an additional financial burden on Russia.

Moscow also invited Azerbaijan and Uzbekistan to consider joining the Eurasian integration process. However, Baku and Tashkent are unlikely to be in the next enlargement wave soon. Besides their guarded reaction to calls from Moscow to accede to the CU, Azerbaijan and Uzbekistan tend to avoid committing to regional integration projects in order to be able to play a multi-vector game, balancing between major regional powers. Although Uzbekistan was part of the dormant Eurasian Economic Community (EurAsEc) in 2006, it withdrew just two years later when several members designed plans to turn it into the CU. In Baku and Tashkent, membership in the CU is perceived as a threat to their political and economic autonomy. So far, the economic situation in both states sustains a more independent course from Moscow. Moreover, it is difficult to imagine Azerbaijan and Armenia engaged in the multilateral economic integration project unless serious progress in the resolution of the Nagorno-Karabakh conflict takes place.

International Recognition That Has Not Come Yet

Russia's foreign policy outlook rests on two assumptions: the multipolar world predicted by Russian officials in the 1990's has arrived; and, the multipolar world order is structured around emerging big regional groupings of states engaged in economic integration.¹⁴ Accordingly, if Russia is to play a significant international role it should come with its own grouping of states and portray itself on the global arena as a regional leader. Towards this end, the Russia-led grouping should not only be created but also gain recognition via international cooperation. Such external activity should implicitly internationally legitimise Russia's "sphere of privileged interest."

The EEU treaty lays the groundwork for international cooperation with other institutions and states. First, the document describes the EEU as an international organisation with a regional character. The treaty also endows it with the status of international legal personhood, opening the way for international cooperation (including signing agreements or treaties) with other states or organisations. Second, the document introduces the status of observer to the EEU. A state granted observer status may participate upon invitation in meetings of the EEU's decision-making bodies and receive open access to EEU non-confidential documents. Third, the EEU treaty empowers the organisation to decide on preferential access to internal market for products originated from developing or less-developed countries.¹⁵ This, in turn, can result in many relations that could prove useful in various international forums (e.g., UN) and cement the EEU's positive international reputation.

Even before the EEU treaty's conclusion, Russia actively advertised the CU internationally. Since 2013, Russia has explored the opportunity to set up Free Trade Areas (FTA) or to establish preferential trade regimes between the CU and India, Vietnam, Mongolia, New Zealand and Israel. These initiatives have made little headway. After the annexation of Crimea, New Zealand suspended FTA talks with the EEC. While Russia strives to expand the geography of CU international cooperation, the institutionalisation of relations with the EU is the ultimate prize for Moscow.

¹² M.V. Demidenko (ed.), *Tajikistan Accession to the CU and SES*, Eurasian Development Bank, St. Petersburg, 2013, www.eabr.org/e/research/centreCIS/projectsandreportsCIS/Tajikistan_CU_SES.

¹³ D. Trilling, "Tajikistan Remittances Now Exceed Half of GDP," *Eurasianet.org*, 15 April 2014, www.eurasianet.org/node/68272.

¹⁴ See: V. Putin, "A New Integration Project for Eurasia: The Future in the Making," *Izvestia*, 3 October 2011, www.russianmission.eu/en/news/article-prime-minister-vladimir-putin-new-integration-project-eurasia-future-making-izvestia-3-.

¹⁵ See: "Dogovor o Evraziiskom ...," *op. cit.*

Ever since the establishment of the CU, Russia has approached the EU on a bilateral level to formalise institutional cooperation between the two entities. Russian officials argue that the CU pursues the same integration philosophy as the EU and thus permanent interaction between the two organisations is only natural. Moscow's insistence on introducing a regular link at the supranational level has grown exponentially with the establishment of the EEC. For instance, in the process of negotiations with the EU on a new basic treaty, the Russian side informed its European counterparts that some competences had been transferred to the EEC and suggested the EU talk to this institution.¹⁶ In other words, Russia implied that instead of dealing on trade issues separately with Russia, Kazakhstan or Belarus, the EU should negotiate with institutions representing the CU. In parallel, Russia tried to lure the EU with a proposal for a "common humanitarian and economic space" from Lisbon to Vladivostok. In the long run, such a grand vision, according to Russia, would result in an FTA that would multiply business opportunities across the entire continent.¹⁷ However, as details behind this vision began to emerge, the offer to the EU was a Europe divided between the EEU and EU.¹⁸ Thus, Russia's idea, instead of nudging Europe into the future, reverted to a continent with a new big deal on "spheres of privileged interests."

The EU received it with big dose of scepticism. Recent experience does not recommend Russia as a credible, closer economic partner of the EU. Since joining the World Trade Organisation (WTO), Russia has introduced more protectionist measures against its EU partners. As result, the EU filed three cases against Russia in the WTO, and more dispute panels could be established in the near future. Moreover, Moscow has shown little interest in negotiating a new treaty with the EU that would put bilateral economic relations beyond what have been agreed to in the WTO framework. Russia's reluctance to go for a "WTO+" with the EU and its protectionist measures have widened the gap between its words on trade liberalisation and its deeds.

The EU has declined to establish political contacts with the EEC. Technical dialogue between the institutions has taken place, but was placed in the context of EU–Russia relations. Representatives of the EEC were accepted as observers during EU–Russia negotiations on the new bilateral treaty.¹⁹ Although President Putin reiterated his proposal for an FTA between the EU and EEU in January 2014, EU negotiators during technical consultations discovered that actually the Russian counterparts did not have a mandate from their political leadership to discuss the matter.²⁰ Thus, it seems that by referring again to a "Common European Home", President Putin sought rather to put the EU on the defensive (portraying it as an actor that clings to an outdated status quo), than genuinely pushing for a new trade deal. The annexation of Crimea has further poisoned the atmosphere by significantly downgrading the level of trust between the EU and Russia, which was not very high before. As a result of the first wave of sanctions, the EU suspended in March 2014 negotiations on a new treaty with Russia, effectively putting on hold any talks about upgraded bilateral economic relations.

Way Forward for the EU

Recent developments around the Russian-led Eurasian integration project has elicited several conclusions. Despite damage to its reputation and the costs caused by the annexation of Crimea, Russia is determined to push forward with its regional project in the post-Soviet world. Moscow has shown in several cases that it is ready to foot the bill to keep integration on track. At the same time, integration remains shallow, and whether it will deepen is tightly connected to the personality factor—President Putin. There are structural and social obstacles in Russia that could significantly undermine the success of the project. Anti-immigrant sentiments, weak adherence to the rule of law, and economic stagnation in Russia are just a few potential roadblocks. On the macroregional level, the EEU aims to marginalise gradually bilateral dialogue between Russia's neighbours and the EU. Russia's final goal is to legitimise its "sphere of privileged interests" and to

¹⁶ Author's interview with EU official, Moscow, 2012.

¹⁷ "Putin Calls on EU to Create Common Economic Space with Russia," *RIA Novosti*, 26 November 2010, <http://en.ria.ru/business/20101126/161516929.html>.

¹⁸ See: V. Putin, "A New Integration Project for Eurasia ...," *op. cit.*

¹⁹ Author's interview with EU diplomat, Brussels, 2014.

²⁰ *Ibidem*.

reshape accordingly the European order to fit Moscow's outlook. The essence of this stance is a new grand bargain between political and economic blocs.

The vision of this bipolar order advocated by Russia challenges the long-standing aspiration of the EU to foster a Europe whole, free and at peace. Therefore, the EU can neither stand idle nor accept Russia's prevailing logic. The EU's answer should be twofold and address relations with its eastern neighbours on the one hand and with Russia on the other.

First, the EU should not allow Russia to sideline bilateral tracks the EU has developed with states in the eastern neighbourhood. The European Commission has a mandate from EU Member States to engage with Belarus, Kazakhstan or Armenia individually. Unless the Member States change these negotiating directives, the EU Commission should treat EU members individually and deal with them on a bilateral basis only. Despite signing up for the Russian-led project, Belarus, Kazakhstan and Armenia have sought to keep or intensify bilateral cooperation with the EU. For instance, Kazakhstan is involved in talks with the EU on enhanced Partnership and Cooperation Agreement (PCA). While the EU contemplates measures to deflect Russia's pressure on the Eastern Partnership front-runners (Georgia, Moldova and Ukraine), the EU has to keep open channels with Yerevan and Minsk in order to explore various avenues for bilateral interaction. How the EU should re-engage with the Central Asian republics as the U.S. and NATO wind down their military presence in Afghanistan, should also be an item for a strategic debate in the EU.

Second, the EU should be ready to unfreeze trade talks with Russia, pending incoming calls from Moscow for cooperation are matched by concrete actions. The EU has to spell out clearly the conditions under which a re-launch of talks is possible. Russia should de-escalate the conflict in Ukraine, remove any military options against Ukraine from its political priorities and engage the authorities in Kyiv in a dialogue to solve outstanding bilateral issues, in particular those that affect the EU (e.g., gas deliveries). Unless Russia stops bullying Ukraine and thus challenging openly the security order in Europe, negotiations on advanced trade relations are counterproductive and ultimately will prove futile. An upgraded regional economic order in Europe cannot flourish without a functional security order. Another pre-condition the EU should set is a strong commitment confirmed by practice to adhere to WTO rules. Since joining the organisation in 2012, Russia has effectively undermined the global trade regime instead of making a contribution to its enhancement. Thus, Russia should adjust its trade policy in order to become a credible partner for the EU. How Russia will deal with cases launched by the EU in the WTO will be indicative in this sense.

Observing the process of Eurasian integration, the EU has to regard the EEU as feeble and unfinished in many aspects. The EU also has to avoid establishing trade relations with it unless all members of the EEU gain a seat in the WTO. Under the current regime, in case of trade disputes originating from EEC decisions, the EU can initiate procedures only against Russia, while the other states are not bound by the WTO trade dispute mechanism. Thus, entering into trade relations with an EEU not fully covered by WTO rules would have certain drawbacks for the EU. Any debate inside the EU on considering the establishment of relations with the EEU should also be linked to the bilateral conditions set above for Russia. Whether Member States will consider issuing a mandate in the future for the EU Commission to engage with the EEU in trade talks, the EU's Directorate General for Trade will have to play an important role in advising states on the economic benefits or downside effects for the EU of such decision.

Last, but not least, whether Russia decide to remain on a confrontational course, the EU has to be prepared to employ a variety of instruments at its disposal to reverse Russia's encroachments on the post-Soviet states and the European order as such.