



BULLETIN

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To Have or to Be: The Dilemma of EU Sanctions on Russia for the V4

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The crisis in eastern Ukraine has not changed the Czech Republic, Hungary and Slovakia's perception of their relations with Russia, which continues to be defined primarily through economic and energy cooperation, rather than hard security. Therefore, due to expected financial and political losses, these countries treat with much caution the EU's idea to tighten sanctions against Moscow. On the one hand, this is due to a well-founded fear that because of their dependence on trade with Russia, counter-sanctions will mostly hit the EU's eastern flank. On the other hand, though, such a policy is evidence of the short-sightedness of Central European elites, who do not seem to appreciate the importance of the Ukrainian–Russian conflict and its direct threat to the security of their own region.

Although the Russian embargo on meat, fish, fruits, vegetables and dairy products from the European Union brought upon the Czech Republic, Hungary and Slovakia certain financial damage, costs to the overall economy are not significant due to the fact that none of these countries is a leading seller of embargoed goods and agri-food materials (accounting for 1.4%, 0.9%, and 7%, respectively, of exports to Russia). The counter-sanctions have affected mainly small and medium-sized private enterprises (compared, for instance, to Agrofert, a giant food producer on the Czech and Slovak market that was affected only to a small extent as it does not conduct intense activity in Russia), and often, as in Slovakia, those with predominantly foreign capital. The long-term economic impact may be only a temporary destabilisation of the domestic market as the surplus of goods for export will be sold at reduced prices in the country, as well as the gradual reduction of imports—for example, Slovakia has already announced that it will introduce stricter controls on food imported from abroad. However, the current policy of the three members of the Visegrad Group (or V4, Poland is the other member), which sharply criticised the tightening of EU sanctions against Russia, is more preventive in nature: its aim is to prevent the escalation of the EU–Russian trade war, the effect of which would be to freeze exports of industrial products or the long-term suspension of energy supplies, which could considerably damage the economies of these countries.

Russian Leverage in the Three V4 Countries. A statement made by Hungarian Prime Minister Viktor Orbán that Russia is treated by Budapest primarily as an economic challenge (not associated with hard security) seems to be representative of the two other countries, the Czech Republic and Slovakia. First, it is related to the thriving development of trade relations: in 2009–2013 there was a sharp rise in sales of goods and services to Russia that amounted to 25% in Hungary, 80% for Slovakia, and even more than 130% for Czech Republic. What would be particularly painful for the three economies would be embargoes already discussed in Moscow—on cars, automotive products, electrical equipment and dual-use items. In the Czech Republic, Slovakia and Hungary, which are a key production hub for major automotive brands, this whole segment comprises more than 80% of their exports to Russia. The three also pointed to the possibility of the destabilisation of their domestic financial and banking sector if there is an extension of the July sanctions on Russian state bank Sberbank, whose subsidiaries are present in these countries. However, while local Sberbank branches in recent years have been rapidly developing, they are not sufficiently strong so as to see their troubles significantly influence the condition of the entire banking sector.

Second, the focus on economic matters in bilateral relations has been justified by the region's dependence on Russian energy resources. Although since the 2009 gas crisis the three countries have succeeded in strengthening their energy security by expanding internal infrastructure and opening new transmission routes, the volume of oil and natural gas imported from Russia has decreased only slightly.¹ Moreover, Moscow is sometimes considered a major partner in solving problems in the domestic energy sector. This is the case for Hungary, which this year invited Russian company Rosatom to be involved without a tender in the expansion of the Paks nuclear power plant, ensured Hungary's readiness to bring forward the construction of the Hungarian section of the South Stream pipeline, and started talks on the renewal of the gas contact expiring in 2015. A similar agreement—assuming a reduction in prices of gas—was signed by Slovakia in April. It seems thus that the finalising of the Russian–Slovak negotiations that had lasted more than a year, as well as the intensification of the energy dialogue with Hungary is not a coincidence with Moscow's increasing presence in Ukraine: Russia gained an instrument of pressure on Budapest and Bratislava, whose response to the annexation of Crimea and Russia's intervention in Donbas has been very temperate.

A “Do-Nothing” Policy à la Visegrad. Because of their high degree of dependence on Russian raw materials and need to strengthen economic contacts with Russia (especially sought after by local big businesses), the three V4 countries, despite differences in their current political agendas, historical experiences or public opinion,² have in fact chosen a similar strategy towards Moscow. On the one hand, this has been manifested in rhetorical condemnations of Russian activity in southeastern Ukraine, and on the other, in intense efforts to maintain the current level of economic cooperation and casting doubt on projects that could weaken such efforts. The Czech Republic, Hungary and Slovakia share the conviction that Russia is a key partner in the east and as such should not be marginalised and that all disputes, regardless of the scale of action inspired or directly carried out by the country in Ukraine, should be resolved through diplomatic dialogue. Their thesis of non-alienation of Moscow is consistently accompanied by the dogma of their non-interference in its internal affairs, including on issues of democracy and human rights (this is visible even in Czech politics, which has traditionally attached great importance to pro-democracy activities). Finding greater risk from possible deterioration of trade with Moscow than in Russia's aggressive actions in the EU's closest neighbourhood takes the form in practice of passive acceptance of the status quo (a “do-nothing” policy).

This static approach has, though, another side, too: because of the fear of being marginalised in the EU, the Czech Republic, Hungary and Slovakia will participate or silently accept those solutions developed within the EU that are supported by most of the Member States and which do not restrain their dialogue with Russia. Under pressure from Brussels, Bratislava and Budapest have already established reverse gas interconnectors to meet the temporary needs of western Ukraine. The Czech Republic and Slovakia, though excluding the possibility of increasing the number of NATO troops on their territories, did not veto strengthening the Alliance in Poland and the Baltic States. Along with Hungary, they seem to have also changed their attitude to reform of their own armed forces: the first sign of this was an announcement that they would increase in six years the drastically low budgets of the ministries of defence (to 1.4–1.6% of GDP). However, it is difficult to expect that these actions will finally contribute to a permanent modification of their policy towards Russia, which probably will continue to be subordinated to business, trade and investment interests. Public statements by the V4 leaders on “impartiality” in the crisis in Ukraine (Orbán), “unnecessary and harmful sanctions” (Slovak PM Robert Fico) or “civil war between groups of Ukrainian citizenship” (Czech President Miloš Zeman), even if not always fully reflective of the views of their governments, testify to the fact that these Central European elites do not appreciate the importance of the Ukrainian–Russian conflict and its direct threat to their own region.

What Next for the Visegrad Group? The Ukrainian crisis has revealed the limitations of cooperation of the V4, a body which works well as a consultative forum before EU summits, an instrument for financial support (via the International Visegrad Fund), and even the initiator of ambitious energy plans (north-south energy corridors). However, the group has always faced problems taking up common positions on topics of a strategic nature: members of the V4 could not speak with one voice on the 2008 war in Georgia, or the installation of American anti-missile defence systems. The war in southeastern Ukraine is, though, unique as it is about the stability and safety of a V4 neighbour, and so indirectly, also of Central Europe. Although developing a common agenda for the crisis seems difficult given the current political conjuncture, the group still may take a number of actions to improve the coordination of activities and reactions to Russian counter-sanctions. The V4 countries, given their growing interest in Asia, could develop a plan to help entrepreneurs find new areas of export or help re-train employees of branches affected by the embargos. Another challenge is the issue of military assistance and arms sales to Ukraine, which, according to each Member States' own policy, was recently approved by the Secretary General of NATO. Regardless of that, Poland as the largest V4 country should now start to prepare for reform of the group, pushing for greater institutionalisation and using the experiences of the Nordic Council. Warsaw should also aim at strengthening the V4+ formula, as it has firm and nearly identical support on the situation in Ukraine from such countries as Lithuania and Romania, which should well outweigh the resistance of the Czech Republic, Hungary and Slovakia.

¹ J. Ćwiek-Karpowicz, D. Kałan (ed.), *North-South Gas Corridor. Geopolitical Breakthrough in Central Europe*, PISM Report, December 2013.

² D. Kałan, “East of Centre: Can the Visegrad Group Speak with One Voice on Eastern Policy?,” *PISM Policy Paper*, no. 5 (53), February 2013.