



BULLETIN

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Editors: Marcin Zaborowski (Editor-in-Chief) ● Katarzyna Staniewska (Managing Editor)
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The Fragile Unity of the Union: The Future of the EU's Sanctions Policy towards Russia

Elżbieta Kaca, Hélène Galewicz

The solidarity of the EU in the Ukrainian crisis could soon collapse, as a growing number of Member States criticise the sanctions against Russia. The consensus is more difficult to maintain, which presents the risk of lower EU engagement in conflict solution. Therefore Brussels should enhance its diplomacy in order to maintain EU unity in this respect.

The Minsk II agreement, concluded in February 2015, has not fully stabilised the conflict in eastern Ukraine, and the situation in Donbas threatens to escalate again. The lack of prospects for a swift solution to the conflict means that several EU Member States, which do not perceive this crisis as a threat to their security, are looking for a gradual normalisation of relations with Russia and ways to restore economic relations. The argument behind this is clear: Russia is the EU's third largest partner in terms of trade flows, with an 8% share in total trade. The growing scepticism towards the sanctions policy could lead to a breach of solidarity between the Member States.

Critics of the Sanctions Policy. Those Member States (Austria, Greece and Hungary) that criticise the EU's sanctions policy towards Russia have deep economic connections with Moscow, and their heads of state maintain close contacts with Vladimir Putin. Using economic tools, Moscow tries to convince them to weaken EU ostracism and make them share its interpretation of the Ukrainian conflict. During his visit to Budapest in February 2015, Putin declared Hungary's exemption from the "take-or-pay" clause relating to Russian supplies of gas. The sides have not yet concluded any agreement (the old one finishes this year), which opens possibilities for further pressure on Hungary. In addition, at the Budapest meeting a deal for the construction of two nuclear reactors by Rosatom in Paks was confirmed, granting Hungary a loan amounting to €10 billion. The unclear process leading to the conclusion of this agreement (in secret, with no tender proceedings) enhances speculation about the real price Hungary might pay for deepening relations with Moscow.

Cyprus is another country with warm relations with Russia. During his visit to Moscow in February 2015, president Nicos Anastasiades signed an agreement on military cooperation with Russia, enabling, among other things, Russian naval vessels to station in Cypriot ports temporarily. At the same time Russia decreased the interest rate (from 4.5% to 2.5%) on a €2.5 billion loan granted to Cyprus in 2011, and extended the repayment deadline to 2021.

Moscow might also count on good relations with Athens. As a result of Greek prime minister Alexis Tsipras' visit to Moscow, Greece might sign a memorandum on participation in investment in the new Turkish Stream gas pipeline, benefiting in return from a gas price discount. Greece has also announced negotiations on buying missiles for S-300 systems. Regarding Turkish Stream, Russia is also discussing this project with Austria, Macedonia, Serbia, and Turkey. It is worth noting that, in June 2014, Putin visited Vienna, and this was followed by OMV and Gazprom signing a contract regarding the since abandoned South Stream pipeline project. In January 2015, both sides signed an agreement on long-lasting cooperation, the goal of which is to maintain the strategic role of the Baumgarten gas hub in the EU.

A Coalition of Sceptics. A group of Member States (namely the Czech Republic, Finland, France, Italy, Slovakia, and Spain) calls for normalised relations with Russia, but keeps a balanced position on sanctions. These states are afraid of enhancing restrictions because of the risk of a trade war with Russia and the negative impact it would have on their economies. For Finland, Russia is the third largest trade partner (in 2014, Finnish trade with Russia amounted to 8% in

exports and 15% in imports), and both countries cooperate in the energy sector. For example, in December 2014, the Finnish parliament agreed on construction by Rosatom of a nuclear reactor at the new power station in Pyhäjoki. Slovakia and the Czech Republic, exporting respectively 5% and 4% of their total goods and services to Russia, noticed a considerable increase in exports (amounting to 80% and 130% accordingly) in the period 2009–2013. Problems with the Russian economy, due to sanctions, would lower these exports. Sanctions also imply losses for France and Italy, as large French and Italian large companies are active investors in Russia (such companies include Total, Danone, Renault, Safran, Fiat, ENF, ENEL and Saipem). For instance, because of Russia's economic troubles, Italian exports decreased by €1.2 billion in 2014.

For the three major southern countries in the EU (France, Italy, and Spain) maintaining good relations with Russia is also important, due to its role in security policy in Northern Africa and the Middle East. As an example, Italian prime minister Matteo Renzi visited Moscow in March, with the aim of securing Russian support for stabilising the situation in Libya, while for France it is important to cooperate with Moscow regarding negotiations on the Iranian nuclear programme. Calculating the impact that these Member States have on EU policy, Russia tries to maintain positive relations with them. For example, in April 2015, Gazprom, despite financial problems, paid a consortium involving Italian ENI, French EDF, and German Wintershall about €1 billion for shares in the abandoned South Stream project.

A More Difficult Compromise to Reach. The prospect of further economic losses for Member States encourages attempts to normalise these relations. In January 2015, the EU high representative, Federica Mogherini, issued a strategic document, encouraging sanctions to be supplemented with incentives for Russia. In mid-January 2015, in the light of the escalating conflict in Ukraine, the debate came back to the question of reinforcing sanctions. Several Member States, such as Greece, Italy and Austria, were against intensified restrictions. As a result, personal sanctions were extended by six months, and the list was extended to cover 19 people and nine businesses, which had only a symbolic meaning.

The splits are visible also in terms of political interpretation of the Ukrainian crisis. First, some states accuse the ambitious EaP policy, and not Russia, of being responsible for the Ukrainian crisis, and demand a reduction of EU policy towards this region. Second, the pressing need for cooperation with Russia is explained by the risk of far-reaching destabilisation in case of its isolation from the West. Third, the effectiveness of present sanctions as well as usefulness of EU engagement in the fight against Russian propaganda are called into question.

Since the conditions of a ceasefire in Ukraine, negotiated by Germany and France in February 2015, were not fulfilled, the European Council discussed economic sanctions in March. Member States agreed only on the extension of sanctions until the end of 2015, and a legal decision in this respect will most probably be made at the European Council in June. Importantly, several countries have broken out from the informal EU boycott of top-level meetings with Russia, and the president of Cyprus, along with the prime minister of Greece and the prime minister of Slovakia, announced their participation in the commemoration of the anniversary of the end of the Second World War, on 9 May in Moscow.

The Chances of Maintaining the Sanctions Policy. The trembling solidarity of the EU towards Russia could in the short term seriously undermine the Union's consensus in this respect. The EU has already exhausted the range of restrictive measures that would not, in hitting Russia, damage Member States' economies at the same time. In the case of significant escalation of the Ukrainian conflict, it would be difficult for all Member States to reach agreement on additional economic sanctions. Even another extension of the current restrictions could prove troublesome. The EU can always extend personal sanctions in order to not lose face, but these have no crucial impact on Russia.

Withdrawal from the sanctions policy would not be a viable political solution, as it risks long term destabilisation in eastern Ukraine and further attempts by Russia to increase its sphere of influence in Eastern Europe. So far, the economic sanctions have constrained Russia and brought it to the negotiations table. If Brussels wants to maintain this influence, it should extend current sanctions for a meaningful period of time (at least one year) unless the conditions of a ceasefire are implemented fully. If the situation in Ukraine escalates, Brussels should reinforce economic sanctions, namely financial ones. However, in order to achieve consensus in this case, additional political measures in the shape of compensation mechanisms for the countries threatened economically by the restrictions would be required. In comparison to other conflicts, the Ukrainian crisis is impacting directly on the security policy of several Member States, and therefore it requires the EU to engage more.

In the light of the weakening of EU unity towards Russia, Poland should play an active role. Firstly, it should support Germany, a crucial player in the negotiations at Member State level, to continue with the sanctions policy and sustain EU unity in this respect. For instance, the role of Germany will be crucial in managing the Greek crisis, as its solution might have an impact on relations between Greece and Russia. Secondly, the Polish government should enlarge information activities in Brussels about the situation in Ukraine and in the EaP region (using the possibility of a review of the neighbourhood policy). Thirdly, it should work on convincing the opponents of sanctions, namely Spain, France and Italy, during EU meetings and bilateral cooperation. Poland might demonstrate interest in the problems important for southern Member States, and back EU immigration policy. Last but not least, Poland should propose new policy tools regarding Russia, which could get support among countries sceptical about sanctions. This would involve increased support for civil society (such as programmes focused on education, youth, and CSOs), and enhancing dialogue on the visa regime. Such policy should be strengthened through EU communication strategy within Russian society, via the internet.