

# Paper tiger or game-changer? Challenges of and opportunities for EU engagement with the Eurasian Economic Union

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### **Paper Tiger or Game-Changer? Challenges of and Opportunities for EU Engagement with the Eurasian Economic Union**

**Andrea Chiarello**

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Joint working paper series of the *EU International Relations and Diplomacy Studies* Department at the College of Europe and the *United Nations University Institute on Comparative Regional Integration Studies* (UNU-CRIS), Bruges

## About the Author

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## **Abstract**

The Eurasian Economic Union (EEU) started work on 1 January 2015. Considered as Russia's response to the EU's Eastern Partnership (EaP), it has been almost ignored in Brussels. However, with the Ukraine crisis and the deteriorating relations with Moscow, some European leaders have begun to reconsider Putin's proposal for a region-to-region engagement. This paper tries to analyse under which conditions this could represent a long-term solution for a new European order. First, it is argued that the EEU is still far from being a credible international interlocutor. Second, Russia's commitment to international trade rules and liberalization is questioned, whereas its geopolitical objectives seem predominant. EU engagement with the EEU in Ukraine would mean, in the short term, legitimizing Russia's vision of a 'bipolar Europe' divided in spheres of influence. In the long run, prospects for inter-regional cooperation remain open, but the way to go is long and full of obstacles.

## Introduction

On 1 January 2015, the Eurasian Economic Union (EEU) between the Russian Federation, Belarus, Kazakhstan and Armenia officially started work. It establishes the free movement of goods, services, capital and labour within a market of 170 million people. In other words, on paper this ambitious integration project aims to have achieved in the last five years since the creation of the Eurasian Customs Union (ECU) the same objectives that have been pursued by the EU for several decades. The EEU is not the first attempt to reintegrate the post-Soviet space. However, from the creation in 2010 of the ECU with Belarus and Kazakhstan up to the EEU, President Putin's ambitions have increased significantly.

In much of the existing literature, the EEU is considered as a Russia-led reaction to the European Union's policies towards the 'shared neighbourhood'.<sup>1</sup> In particular, the 2009 Eastern Partnership initiative (EaP) was perceived in Moscow as an attempt to undermine Russia's influence in former Soviet countries. The *de facto* annexation of Crimea in March 2014 and the current tensions in Eastern Ukraine helped confirm this hypothesis. The joint ratification of the Association Agreement and Deep and Comprehensive Free Trade Area (AA/DCFTA) by the European Parliament and the Ukrainian Rada on 16 September 2014 is said to have dealt a blow to Putin's aspirations to include Ukraine in the EEU. Without Ukraine, many argued, the whole economic as well as geopolitical significance of the Eurasian project is jeopardized. Nevertheless, the EEU eventually saw the light and it is likely to become an important regional actor in the years to come.

Building on the existing literature, this paper aims, on the one hand, to present the current state of EEU developments. On the other hand, thanks also to a series of interviews with EU officials in early 2015, it tries to assess the response by Brussels to the emergence of the EEU. The 2010 proposal by Putin to establish formal trade relations between the EEA and the EU was initially ignored. It has recently gained political momentum.<sup>2</sup> In light of these developments, this paper addresses the following question: what challenges and opportunities would the EU face when engaging with the Eurasian Economic Union?

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<sup>1</sup> I. Dreyer and N. Popescu, "The Eurasian Customs Union: the economics and the politics", *EU Institute for Security Studies Brief*, 21 March 2014, p. 1.

<sup>2</sup> A. Merkel, *Speech at the German Bundestag*, Berlin, 26 November 2014.

The paper argues that that the EEU is still far from being a credible international interlocutor for the EU, and Russia's commitment to international trade rules remains questionable. EU engagement with the EEU in Ukraine would risk legitimizing Russia's vision of a 'bipolar Europe'. In the long run, prospects for inter-regional cooperation remain open, but the way ahead is long and cumbersome.

Section 2 sheds light on the history of post-Soviet Eurasian integration, as well as the reasons behind the establishment of the EEU. It focuses in particular on its very nature: is it inspired by an economic rationale, or is it a purely geopolitical project? Furthermore, a deeper look at the institutional framework allows for assessing the credibility of the EEU as an international actor: is it a paper tiger or a game-changer in the European and global landscape?

Section 3 investigates the EU's approach, characterized as 'wait and see'. Only recently was EU engagement with the EEU considered by some European leaders, notably German Chancellor Merkel and EU High Representative Mogherini.<sup>3</sup> It is important to identify, on the one hand, the main obstacles and risks that have so far hindered the establishment of official bloc-to-bloc relations and recognition of the EEU; on the other hand, the opportunities and potential added-value the EEU could bring, notably in facilitating a political solution of the Ukraine crisis need to be explored.

The conclusion assesses the EU's 'wait and see' approach, highlighting the lack of a comprehensive strategy but also its pragmatism. As argued throughout the paper, there is still a long way to go before reaching a 'fresh start' of EU-Russia relations. However, it is in the EU's interest to preserve such a new approach as a long-term goal.

## **The ambiguous nature of the Eurasian Economic Union**

This section firstly compares the EEU with previous attempts of (re)integration of the post-Soviet space. Secondly, it tries to identify both the economic and geopolitical rationales behind the EEU's inception. Thirdly, it analyses the Union's elaborated institutional framework and intrinsic contradictions, which prevent the EEU from being a credible international actor at the current stage.

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<sup>3</sup> "Mogherini suggests détente with Russia", *Euractiv*, 15 January 2015. For the scope of this paper, the term 'engagement' means political recognition and official relations with the EEU.

*This time it's different, isn't it?*

The breakup of the USSR was defined by Vladimir Putin as “a major geopolitical disaster of the century”.<sup>4</sup> Indeed, Moscow had to redefine its role taking a step back “from a global to a regional power”.<sup>5</sup> It was in these circumstances that the Commonwealth of Independent States (CIS) saw the light in December 1991. In this framework, CIS members established a network of overlapping bilateral and multilateral agreements, albeit with numerous exceptions and no permanent institutional structure. The primary functions of the CIS were the management of the separation of former Soviet republics and the continuation of political and economic dialogue in a new format. On Moscow's agenda, however, the most pressing topics were domestic reform and modernization, as well as the establishment of positive relations with the United States and Europe.<sup>6</sup> This partly explains why the CIS was allowed to remain weak and largely ineffective. Moreover, in economic terms the CIS regime did not seem particularly favourable to Russia: within its bilateral agreements, it opened its market to imports coming from the less competitive CIS countries and committed itself to providing them with raw materials and energy at discount prices.<sup>7</sup> The post-Soviet space was characterized by an intrinsic dualism: on the one hand, a dependence on Russia mainly due to the considerable debt accumulated by former Soviet states and their low international competitiveness; on the other hand, a resistance against any integration that could re-establish Moscow's traditional hegemonic role. Consequently, Russia's economic support to the CIS countries did not turn into political loyalty nor increased influence.

Against the backdrop of such an imbalance between the costs and benefits of the CIS framework, in the early 2000s Russia started focusing more on Eurasian integration in order to ensure a fair economic and political return.<sup>8</sup> The main goal of Russia's regional policy was to consolidate its influence, notably given the progressive involvement of the EU in the region with the launch in 2004 of the

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<sup>4</sup> V. Putin, *Annual Address to the Federal Assembly of the Russian Federation*, Moscow, The Kremlin, 25 April 2005.

<sup>5</sup> T. V. Bordachev and A. S. Skriba, “Russia's Eurasian Integration Policies”, in D. Calier (eds.), *The Geopolitics of the Eurasian Economic Integration*, London, LSE Special Report, no. 19, June 2014, p. 16.

<sup>6</sup> R. Dragneva and J. De Kort, “The Legal Regime for Free Trade in the Commonwealth of Independent States”, *International and Comparative Law Quarterly* no. 56, 2007, p. 236.

<sup>7</sup> Bordachev and Skriba, *op. cit.*, p. 17.

<sup>8</sup> Bordachev and Skriba, *op. cit.*, p. 18.

European Neighbourhood Policy (ENP). In recent years, the situation has evolved further, notably with the latest, again Russia-driven, call for a Eurasian Union. More precisely, this had originally been suggested by the Kazakh President Nazarbayev in 1994, albeit without an appropriate follow-up plan.<sup>9</sup> Fifteen years later, the time was ripe for the implementation of the Eurasian idea.

This 'multiphase' process started with a Customs Union between Russia, Belarus and Kazakhstan in July 2010. The three members negotiated a common external tariff (CET, for the first time since 1991), customs norms and the setup of regulatory bodies.<sup>10</sup> The second step was the Single Economic Space (SES) in 2012. Beyond the elimination of internal tariffs for goods, freedom of circulation was proclaimed also for services, capital and labour, and coordination in key policy areas was agreed. In Putin's words, the European integration process served as a model as "[w]e see their strengths and weaknesses. And this is our obvious advantage since it means we are in a position to avoid mistakes and unnecessary bureaucratic superstructures".<sup>11</sup> As the paper tries to show, this statement needs to be nuanced. As a third step, on 29 May 2014 the leaders of Russia, Belarus and Kazakhstan gathered in Astana to sign the Treaty on the Eurasian Economic Union, a moment that Putin defined as "epoch-making".<sup>12</sup> Armenia officially joined on 2 January 2015 and Kyrgyzstan's signature, twice postponed, arrived on 21 May 2015.<sup>13</sup>

The EEU was the result of intense negotiations with specific interests in each of the Member States' capitals, often conflicting with Moscow's agenda. Belarus has so far participated in all Russia-led attempts to foster Eurasian integration. On the one hand, its economy is heavily dependent on Russia, which accounts for around 50% of its trade. On the other hand, President Lukashenko has always made his loyalty conditional upon Russian loans and preferential treatment, for instance energy supply at discount prices. The decision to join the EEU was arguably driven

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<sup>9</sup> N. Nazarbayev, speech at the Lomonosov Moscow State University, 29 March 1994.

<sup>10</sup> R. Dragneva and K. Wolczuk, "The Eurasian Economic Union - What kind of alternative to the Eastern Partnership?", in A. Hug (ed.), *Trouble in the Neighbourhood? The Future of the EU's Eastern Partnership*, London, The Foreign Policy Centre, February 2015, p. 25.

<sup>11</sup> V. Putin, "A new integration project for Eurasia: the future in the making", *Izvestia*, 3 October 2011.

<sup>12</sup> R. Dragneva and K. Wolczuk, "The Eurasian Economic Union - What kind of alternative to the Eastern Partnership?", *op. cit.*, p. 26.

<sup>13</sup> C. Putz, "Kyrgyzstan (Finally) joins the Eurasia Economic Union", *The Diplomat*, 22 May 2015.



by “political rent-seeking rather than strategic decision-making”.<sup>14</sup> As to Kazakhstan, President Nazarbayev’s support to Eurasian integration allowed him to be remembered as one of the ‘founding fathers’ of the EEU. Although for some experts political motives were predominant, on several occasions he underlined the purely ‘economic’ nature of the project.<sup>15</sup> Kazakhstan’s opposition to any political development of the EEU was manifest during treaty negotiations. Significantly, the formulation “Eurasian Union” proposed by Russia was turned into “Eurasian Economic Union”. Moreover, the EEU Parliamentary Assembly was excluded from the final version.<sup>16</sup> Some commonalities exist between the approaches of Belarus and Kazakhstan. On the one hand, both Lukashenko and Nazarbayev belong to the generation of ‘post-Soviet elites’ and display strong solidarity and closeness to Russia. On the other hand, they share a strong attachment to national sovereignty against any subjection to Russian hegemony. Given this ambivalence, it is important to investigate what were the main reasons for the establishment of the EEU: can an economic rationale with concrete benefits for participating countries be observed? Or are geopolitical interplays predominant?

#### *The rationale(s) behind the EEU*

A Customs Union, differently from a Free Trade Area (FTA), requires a CET and prevents members from carrying out autonomous trade policies towards third countries. Aiming to liberalize trade only internally, Customs Unions show rather ‘protectionist’ intents and are often included within a wider political project.<sup>17</sup> Their success depends on the balance between ‘trade creation’ and ‘trade diversion’ effects. Moreover, complementarity and relative wealth of the customs unions countries are essential for triggering economies of scale. These factors, among others, help in assessing the economic rationale of Eurasian integration.

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<sup>14</sup> C. Atilgan *et al.*, “The Eurasian Union - An Integration Project under the Microscope”, *KAS International Reports*, no. 2, 2014, p. 34.

<sup>15</sup> N. Nazarbayev, “Eurasian Union: From the Idea to the History of the Future”, *Izvestia*, 25 October 2011.

<sup>16</sup> S. Secrieru, “Bumps on Russia’s road to the Eurasian Economic Union: postponed integration, costly enlargement and delayed international recognition”, *PISM Policy Paper*, no. 10, Issue 93, Polish Institute of International Affairs, July 2014, p. 2.

<sup>17</sup> Dreyer and Popescu, *op. cit.*, p. 2.

First, according to the European Bank for Reconstruction and Development (EBRD) there is no evidence of trade creation directly connected with the ECU.<sup>18</sup> On the contrary, intra-ECU trade overall decreased in 2013 by 5,5% and in 2014 by almost 12%.<sup>19</sup> Considerable 'trade diversion' effects were instead generated, notably at the expense of Kazakhstan which significantly increased its tariffs to align them to Russia's.<sup>20</sup> Interestingly, tariff harmonization was ruled out by Moscow in the case of export duties on energy resources, a key sector of its economy. As to the state of the economy within the ECU, compared to the EU, post-Soviet countries are less advanced and dispose of lower levels of technology. Second, Kazakhstan and Belarus do not represent a considerable perspective for market expansion for Russian companies. Third, their complementarity is doubtful, as raw materials and energy sources constitute the main export for both Russia and Kazakhstan.<sup>21</sup> With the establishment of the Single Economic Space in 2012, tariff liberalization was accompanied by an effort to deepen integration: macro-economic policies were to be coordinated among members and free circulation was extended also to services, capital and labour. Importantly, Russia already welcomes a considerable number of workers from Central Asian countries: for those poor economies, this is one of the most attractive perspectives of the EEU. However, an internal debate on this topic is growing in Russia, especially in current times of deep economic crisis.<sup>22</sup>

The Eurasian economic integration is far from complete. However, these first years seem to confirm De Souza's 2011 preliminary estimation that the ECU "would be a GDP-reducing framework in which the negative trade-diversion effects surpass positive trade-creation ones".<sup>23</sup> Moreover, there are considerable differences between the quick evolution of integration on paper and its uncertain implementation on the ground.

Another relevant parameter to assess the development of the EEU is its degree of compliance with WTO standards. Russia joined the WTO in 2012 after

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<sup>18</sup> European Bank for Reconstruction and Development, "Integration across borders", *Transition Report 2012*, London, 2012.

<sup>19</sup> Eurasian Economic Commission's website, figures published on 25 August 2014.

<sup>20</sup> I. Wiśniewska et al., "Eurasian Integration. Russia's attempt at an economic unification of the post-soviet area", Warsaw, *OSW Studies*, no. 44, July 2013, p. 12.

<sup>21</sup> Atilgan et al., *op. cit.*, p. 13.

<sup>22</sup> *Ibid.*

<sup>23</sup> L.V. De Souza, "An initial estimation of the economic effects of the creation of the EurASEC Customs Union on its Members", *World Bank PREM*, no. 47, January 2011, p. 1.

almost 20 years of negotiations, the longest accession process ever.<sup>24</sup> In the last stage, it was further delayed by Moscow in order to launch the ECU. President Putin's original intention was to enter the WTO with a single representation for the Eurasian bloc.<sup>25</sup> Several issues still need to be solved before the EEU fully complies with WTO rules: among others, the selective liberalization, WTO accession of all EEU countries and the overall increase in the level of customs duties.

As regards the first criterion, after the launch of the ECU the CET covered 95% of tariff lines.<sup>26</sup> However, as mentioned above, internal tariff barriers were not completely dismantled nor properly tackled, especially in more politically sensitive sectors like energy. As regards WTO membership, Kazakhstan was the latest to join on 27 July 2015 and now only Belarus is missing.<sup>27</sup> The adjustment of import duty levels is in breach of these countries' commitments to the other WTO members. The fact that Russia would be willing to bear the costs of eventual compensation measures suggests that Eurasian integration is seen as a long-term project with a political dimension.<sup>28</sup>

Under this perspective, the EEU may be considered as the policy application of an overarching political and ideological conception of Europe. In 2013, Andrey Tsygankov distinguished three main types of foreign policy attitudes in Russia's elites: in his categorization, there is conflict between "Westernizers" and "Civilizationists" who are respectively positive and negative towards deepening ties with Europe.<sup>29</sup> Vladimir Putin's approach would belong to a third group of leaders (the 'Statists') who struggle for recognition by Europe as an equal partner. However, 'Civilizationist' rhetoric seems to gain space in recent years. In particular, Alexander Dugin and the anti-Western and anti-liberal 'Eurasianist' currently arguably play an important role in Putin's politics. Erecting barriers to trade with non-EEU countries

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<sup>24</sup> Interview with an official, European Commission, DG Trade, Brussels, 27 April 2015.

<sup>25</sup> O. Shumylo-Tapiola, "The Eurasian Customs Union: Friend or Foe of the EU?", *The Carnegie Papers*, October 2012, p. 4.

<sup>26</sup> R. Vilpišauskas *et al.*, *Eurasian Union: A Challenge for the European Union and Eastern Partnership Countries*, Vilnius, EESC, 19 December 2012, p. 20.

<sup>27</sup> WTO website, updated on 27 July 2015.

<sup>28</sup> C. Matlack, "Putin's Eurasian Union Looks Like a Bad Deal, Even for Russia", *Bloomberg Business*, 29 May 2014.

<sup>29</sup> A.P. Tsygankov, *Russia's Foreign Policy – Change and Continuity in National Identity*, Lanham, Rowman & Littlefield Publishers, 3<sup>rd</sup> edn, 2013, p. 4.

and through powerful media campaigns, Putin is promoting his vision of a 'bipolar Europe' where the EU and the EEU are the main competitors.<sup>30</sup>

This argument is confirmed by the fact that, since 2010, Russia has pushed for rapid EEU enlargement, unsustainable in the long term. In his article of 2011, Putin declared: "we are not going to hurry up or nudge anyone. A state must only join on its sovereign decision based on its long-term national interests".<sup>31</sup> Instead, ahead of the 2013 EaP Vilnius Summit, heavy political pressure convinced the Armenian President Serzh Sargsyan to drop the Association Agreement with the EU at the very last stage, joining the EEU on 2 January 2015 predominantly for security reasons related to the Nagorno-Karabakh region.<sup>32</sup> A similar policy was carried out towards Ukraine, albeit with a different outcome. Russian pressure and the 'trade war' against Kiev in the summer of 2013 resulted in the postponement of the signature of the EU-Ukraine AA/DCFTA by the then-President Yanukovich.<sup>33</sup> After the Maidan protests, Yanukovich's overthrow in February 2014, the *de facto* annexation of Crimea and the unsettled situation in Eastern Ukraine, the newly elected President Poroshenko reaffirmed the 'European choice' of his country and signed the AA/DCFTA in June 2014. While the simultaneous ratification by the Ukrainian Rada and the European Parliament took place on 16 September 2014, Russia obtained the postponement of the provisional application to January 2016. More than any other post-Soviet country, Ukraine would have been a crucial element of the Eurasian project. Some authors argue that the geopolitical aspirations of the EEU died after its refusal to join.<sup>34</sup>

A relevant question is whether its ambitious, politically driven roadmap of integration will survive the current leaders. Much will depend on the quality and strength of the EEU institutional system: although allegedly modeled after the EU, it still displays certain 'post-Soviet characteristics' that could undermine its success.

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<sup>30</sup> N. Popescu, "Eurasian Union: the real, the imaginary and the likely", Paris, EU Institute for Security Studies, *Chaillot Paper*, no. 132, September 2014, p. 36.

<sup>31</sup> Putin, "A new integration project", *op. cit.*

<sup>32</sup> M. Shipenkov, "Armenia joins Russia-led Eurasian Economic Union", *The Moscow Times*, 2 January 2015.

<sup>33</sup> R. Dragneva and K. Wolczuk, "The EU-Ukraine Association Agreement and the Challenges of Inter-Regionalism", Leiden, *Review of Central and Eastern European Law*, no. 39, 2014, pp. 213-244.

<sup>34</sup> Popescu, *op. cit.*, p. 28.

*The institutional framework: an 'EU shell with a Soviet soul'*

The European Union is arguably the most successful existing regional integration process. In a world where regions are affirming themselves as a new type of actor in the global arena, other organizations often consider the EU as a model for lesson-drawing.<sup>35</sup> The EEU institutional architects were undoubtedly inspired by the European Union.<sup>36</sup> However, the mere transfer of a template into a completely different context may often be problematic: indeed, the 'supranational' character of EEU institutions is considerably limited by the Member States. It is still unclear whether the development of such institutions "is underpinned by their functional relevance, or rather by other considerations such as, for instance, quests for international legitimacy and global prestige".<sup>37</sup>

The Eurasian Economic Commission (EEC) is composed of a Board (or *Collegium*) and a Council. The members of the Board, two per Member State, constitute the real 'executive' branch responsible for the policy areas of EEC competence (divided in 23 Departments), like the EU Commissioners in Brussels.<sup>38</sup> The Chair of the Board, Viktor Khristenko, was even presented in 2012 as the "Eurasian Barroso".<sup>39</sup> The Council, at Deputy Prime Minister level, represents instead a supervisory and decision-making body comparable to the Council of the EU. At the top of the institutional pyramid are the Eurasian Intergovernmental Council, at Prime Ministers level, and the Supreme Eurasian Economic Council (SEEC) at Presidential level.

The EEU Court is composed by two judges per Member State, with a nine-year mandate. It displays certain supranational characteristics: for example, economic operators may challenge EEC legal acts in Minsk, and so far many of them have been successful.<sup>40</sup> However, with the EEU Treaty Member States considerably limited the Court's powers: first, bearing in mind the role played by the Court of Justice of the EU in the European integration process, EEU leaders prevented the new Court from attributing new competences to EEU bodies and

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<sup>35</sup> T.A. Börzel and T. Risse, "Diffusing Inter-Regionalism: the EU as a Model of Regional Integration", Berlin, *KFG Working Paper Series*, no. 7, September 2009.

<sup>36</sup> A. Kazharski, "The Eurasian Union: rivalling the EU through institutional isomorphism", Bratislava, *IESIR Working paper*, no. 4, December 2012.

<sup>37</sup> *Ibid*, p. 5.

<sup>38</sup> Before the accession of Armenia the Board counted 9 members, 3 per Member State.

<sup>39</sup> A. Klimkov, Interview, *Voice of Russia*, 2012.

<sup>40</sup> Danilov, *op. cit.*

creating new legal norms. Secondly, they can jointly interpret the Treaties in a presumption of regularity (previously an exclusive prerogative of the Court). Thirdly, the power of issuing non-binding opinions on the EEU Treaty and Agreements upon the request of national supreme courts, similar to the EU 'preliminary ruling', was taken out of the EEU Treaty.<sup>41</sup>

Remarkably, the EEU institutional framework grants equal voting rights to every Member State and some authors even argued that "Russia agreed to limit its own powers".<sup>42</sup> The standard principle within the EEU is the so-called "Belarusian elevator", according to which upper level bodies may, by consensus, invalidate decisions taken by a lower-level body.<sup>43</sup> At the top of the hierarchy, the SEEC has the last word on controversial issues, ensuring that no decision is taken without the agreement of one of the Presidents. The massive asymmetries in terms of both political and economic power in favour of Russia, however, created a situation where the formal consensus decision-making does not represent a serious limitation to the pursuit of Russian national priorities. In conclusion, it may be argued that, more than a proper process of "lesson-drawing" from the EU case, the EEU represents an example of "ceremonial mimicry" with stronger international legitimacy as the ultimate goal.<sup>44</sup>

Given these factors, the 'actorness' of the Eurasian Economic Commission may be called into question. This concept was originally introduced by Sjöstedt with reference to the emerging European Community, as "the ability to function actively and deliberately in relation to other actors on the international system".<sup>45</sup> Jupille and Caporaso applied it to the EU's "capacity to act" externally, referring to four main variables: authority, autonomy, cohesion and recognition.<sup>46</sup> Bearing in mind the *sui generis* nature of the EU, these may nevertheless be applied to the EEU.

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<sup>41</sup> E. Borovikov, I. Danilov, "B2B: Balancing the Court of the Eurasian Economic Union", *The Moscow Times*, 17 March 2015.

<sup>42</sup> Atilgan *et al.*, *op. cit.*, p. 9.

<sup>43</sup> V. Shykh, former Head of the Department of Eurasian Integration, Ministry of Foreign Affairs of the Republic of Belarus, speech at the seminar "Challenges of integration on the way to the Eurasian Economic Union", Minsk, 10 December 2013.

<sup>44</sup> A. Kazharski, "Eurasian Union and Institutional Mimicry", *The Third International Congress of Belarusian Studies, Working Papers*, vol. 3, 2014.

<sup>45</sup> G. Sjöstedt, *The External Role of the European Community*, Saxon House, Swedish Institute of International Affairs, 1977, p. 15.

<sup>46</sup> J. Jupille and J.A. Caporaso, "States, agency and rules: The European Union in global environmental politics", in C. Rhodes (ed.), *The European Union in the World Community*, Boulder, CO, Lynne Rienner, 1998, pp. 213-229.

The 'autonomy' of the EEU needs to be assessed through two indicators: 'institutional distinctiveness' (the extent to which it disposes of its own structures and bureaucracy) and 'independence' from its Member States in the formulation of policy objectives and strategies. On the former, the approximately 1000 EEC staff headquartered in Moscow formally enjoy a similar status to the European Commission officials, hence they do not represent their respective countries. Yet, the predominance of Russian officials could play a role in the everyday practice. As regards independence, the supranational Board is overseen by the intergovernmental Council and the SEEC, where each member has a veto power. Although in a number of cases, such as the Common Foreign and Security Policy, unanimity is the standard practice also in the EU Council, the power Russia enjoys over the other EEU Member States allows for side-payments and sometimes coercive practices which remain rather alien to an EU system characterized by a higher number of checks and balances.

'Authority' indicates a clear and concrete competence to act and legislate in certain policy areas. The EEU Treaty formally allows the EEC Board to take decisions in its areas of competence. However, according to the 'Belarusian elevator' system, upper-level intergovernmental bodies have the possibility to change or revoke it. Externally, the EEC is entitled to negotiate trade agreements with third countries on behalf of the whole bloc, as trade policy falls under EEU competence. For example, Vietnam signed an FTA with the EEU in June 2015, and there is growing interest from countries such as China, India, Egypt and Iran.<sup>47</sup>

'Cohesion' is here interpreted as unitary external action. The *de facto* annexation of Crimea suggests that "the Eurasian regime is a pliant tool for Russian foreign-policy making".<sup>48</sup> Moscow's 'sanction war' against Ukraine and the West showed that, when it comes to politically sensitive issues, Russia does not hesitate to break EEU rules and act unilaterally. Belarus and Kazakhstan, which refused to join this policy, tried instead to take advantage of it whenever possible.

'Recognition' refers to internal and international acceptance. Although the EEU Treaty attributed international legal personality to the EEC, there is resistance, notably among Western countries, to recognize the EEU as a credible and

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<sup>47</sup> "India confirms bid to join Russia-led bloc", *PressTV*, 19 June 2015.

<sup>48</sup> R. Dragneva and K. Wolczuk, "The Eurasian Economic Union - What kind of alternative to the Eastern Partnership?", *op. cit.*, p. 27.

legitimate interlocutor.<sup>49</sup> The first step would be WTO membership, conditional at least upon the (so far complex) accession of Belarus (Kazakhstan being in the process of ratifying WTO membership). Notwithstanding this, Putin clearly expressed the wish to establish an EU-EEU “common humanitarian and economic space” from Lisbon to Vladivostok.<sup>50</sup> The proposal, formally still on the table, has not been seriously considered in Brussels yet.<sup>51</sup>

This section underlined that the EEU is not Russia’s first attempt to re-integrate the post-Soviet space. However, given the elements of supranationalism in its institutional framework and the political push coming from its Member States’ leaders, it looks qualitatively different from past examples. Yet, a deeper analysis reveals how the geopolitical dimension of this project largely outweighs any economic logic. Moreover, the high centralization of power and other authoritarian tendencies show the intrinsic limits of the EEU as an international actor.

## **The European Union and Eurasian integration**

This section reflects on the EEU’s current and future relations with the European Union. It shows that the current ‘competition’ on, notably, Ukraine is a Russia-driven “political artifice” rather than a natural development of regional economic integration models. Under this perspective, the hypothesis of a region-to-region engagement is assessed.

### *A ‘shared neighbourhood’, two competing visions*

The creation of the ENP in the 2000s was *inter alia* based on the (false) conviction that the “EU model” would be attractive to everyone.<sup>52</sup> However, considering the comparison with smaller Eastern European and South Caucasian countries as humiliating, Moscow refused to join the ENP.<sup>53</sup> The current legal basis for EU-Russia relations is the (outdated) Partnership and Cooperation Agreement of 1994. Since then the concept of ‘Strategic Partnership’ was applied and several attempts were

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<sup>49</sup> Secieru, *op. cit.*, p. 5.

<sup>50</sup> “Putin Calls on EU to Create Common Economic Space with Russia”, *RIA Novosti*, 26 November 2010.

<sup>51</sup> “Moscow says proposal on Eurasian Economic Union free trade deal with EU still on table”, *TASS News Agency*, 8 April 2015.

<sup>52</sup> Popescu, *op. cit.*, p. 35.

<sup>53</sup> S. Stewart, “EU relations with Russia and the eastern neighbourhood”, in European Strategy Forum, *Setting EU priorities 2009*, Ponte de Lima, January 2009, p. 2.



made to deepen bilateral cooperation.<sup>54</sup> Among others, talks on a 'New Basic Agreement' started in 2008 and in 2010 a 'Partnership for Modernization' was launched.<sup>56</sup> Despite all these attempts, no significant results were achieved in bilateral talks. On the contrary, many dialogues were frozen when Russia became more and more assertive in its 'near abroad'.<sup>55</sup> Russia's underlying logic was different, as it aimed to be recognized as a regional power, on an equal footing with the EU. Notwithstanding this, it is important to point out that at the time of the creation of the ENP, Russia did not voice any concerns about the EU's policies in Eastern Europe nor towards Ukraine specifically, the only opposition being addressed to the latter's possible accession to NATO.<sup>56</sup> Yet, after the launch of the Eurasian Customs Union, Russia increasingly started to use political, economic and even military means in order to persuade EaP countries to withdraw from AA/DCFTA negotiations with the EU and to join the Eurasian project. In this context Ukraine, far from being a mere victim, acted as a full-fledged player: Kiev's 'multivectoral policy' was traditionally aimed at maximizing the benefits of cooperation both with the EU and Russia.<sup>57</sup> The Ukraine-EEU *rapprochement* operated under Yanukovich was aimed, in Putin's view, at ensuring a subsequent membership and not, as Ukraine wanted, to establish a balance with the EU. Mainly for this reason, even after the signature of the political chapters of the Association Agreement on 27 June 2014, Moscow was not ready to accept Ukraine's 'European choice' and denounced the potential negative effects of the EU-Ukraine AA/DCFTA on the Russian economy.<sup>58</sup>

In order to address these issues, the EU proposed to hold bilateral expert meetings with Russia. First of all, there seemed to be a controversy whether a simultaneous Ukrainian participation in the ECU and the DCFTA with the EU was incompatible. The establishment of the ECU was perceived in Brussels as a sudden and unexpected change of direction in Russia's policy, as talks on a possible EU-Russia FTA were ongoing since 2008.<sup>59</sup> Moreover, in order to accommodate Russia's requests and adhere to the ECU, Ukraine would have had to abandon the already

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<sup>54</sup> For an overview, see H. Haukkala, *The EU-Russia Strategic Partnership. The Limits of post-Sovereignty in International Relations*, New York, Routledge, 2010.

<sup>55</sup> E. Pfeifer, "The long winter ahead for EU-Russia relations", *IMR Analysis*, 30 March 2015.

<sup>56</sup> Dragneva and Wolczuk, "The EU-Ukraine Association Agreement", *op. cit.*, p. 221.

<sup>57</sup> M.R. Freire, "Ukraine's multivectoral foreign policy: looking West while not overlooking its Eastern neighbour", *UNISCI Discussion Papers*, no. 20, May 2009.

<sup>58</sup> Dragneva and Wolczuk, "The EU-Ukraine Association Agreement", *op. cit.*, p. 231.

<sup>59</sup> Interview with a European Commission official, DG Trade, Brussels, 27 April 2015.

advanced AA/DCFTA negotiations with the EU. This pressure resulted from the very nature of Russia's proposed customs union, while it would not have been necessary if Ukraine had been offered to join a free trade area.

With regard to the assessment of gains and losses, EU officials underlined the positive effect of increased competition in the Ukrainian market.<sup>60</sup> The DCFTA with the EU would gradually establish a level-playing field, with EU and Russian products competing on equal terms: while for the Russian side this would constitute a loss, according to the EU it would be beneficial for Russian-owned companies operating in Ukraine, which would gain preferential access to the wider EU market. Moreover, one could even question the very presence of damage for Russia due to the EU-Ukraine DCFTA: Ukraine represents 5% of Moscow's exports, predominantly energy sources and nuclear equipment that the DCFTA left largely untouched.<sup>61</sup>

In July 2014 bilateral EU-Russia consultations became trilateral, involving also Ukraine. Interestingly, Russia seemed to consider itself as having "the guardianship of Ukraine's sovereign choice" regarding which integration to pursue.<sup>62</sup> After months of intense negotiations, and Russia's threats to escalate military tensions and trade sanctions towards Ukraine, the provisional application of the DCFTA was postponed to 1 January 2016.<sup>63</sup>

While DG Trade officials engaged in expert meetings with Russian counterparts and efficiently unveiled trade-related myths, European political leaders were lacking a strategic approach: in fact, both with regard to the Ukraine crisis and the emerging Eurasian Economic Union, the EU showed a 'reactive' rather than 'proactive' approach that needs to be further analyzed.

*'Wait and see': Brussels' short-term syndrome?*

The evolution of Eurasian integration and its potential consequences for the EU have not been the subject of a comprehensive strategic debate within the EU institutions, and even less among Member States.<sup>64</sup> Both at Foreign Affairs Council and

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<sup>60</sup> *Ibid.*

<sup>61</sup> I. Dreyer and N. Popescu, "Trading with Moscow: the law, the politics and the economics", *EUISS Brief Issue Papers*, no. 31, November 2014, p. 2.

<sup>62</sup> Dragneva and Wolczuk, "The EU-Ukraine Association Agreement", *op. cit.*, p. 237.

<sup>63</sup> R. Sadowski and A. Wierzbowska-Miazga, "Russia is blocking a free trade area between the EU and Ukraine", *OSW analyses*, 17 September 2014.

<sup>64</sup> Interview with an official, General Secretariat of the Council of the EU, Unit 'Trade', Brussels, 13 April 2015.

European Council level, the attention has mainly focused on the management of the Ukraine crisis, with the 'Minsk process' aiming to reach a ceasefire in the East of the country and on the restrictive measures against Russia.<sup>65</sup> With the *de facto* annexation of Crimea in March 2014, the security dimension became predominant and policy formulation more reactive and short-term oriented. The non-recognition of this annexation has always been a firm point of the EU's position. Moreover, the second EU-Russia Summit in 2014 was cancelled upon decision of the European Council.<sup>66</sup>

The EU's position was built under the prism of the Ukraine crisis, without a longer-term vision. One of the few EU official documents mentioning the EEU reads:

While the EU in general supports regional economic integration, it believes that any such integration, including the Eurasian Economic Union, must be fully based on WTO principles and rules, must respect the sovereign and autonomous decisions of States to decide on their participation, and should not create obstacles to trade between its members and the EU.<sup>67</sup>

In March 2015, European leaders reaffirmed that:

the duration of the restrictive measures against the Russian Federation, adopted on 31 July 2014 and enhanced on 8 September 2014, should be clearly linked to the complete implementation of the Minsk agreements, bearing in mind that this is only foreseen by 31 December 2015. The necessary decisions will be taken in the coming months. The European Council stands ready to take further measures if necessary.<sup>68</sup>

Despite the common position reached, EU Member States have displayed different attitudes towards the Russian Federation. For some Central and Eastern European countries the security dimension remained a priority, given their geographical proximity and historical ties with Russia. Conversely, other European leaders such as Chancellor Merkel were not fully supportive of a long-lasting sanctions regime. Germany is in fact the first destination of Russian petroleum and gas in Europe, and more than 6000 German companies have invested in Russia a total amount of around € 20 billion in recent years.<sup>69</sup> Mainly because of EU sanctions and related Russian retaliation measures, bilateral trade dropped by 8% in 2014.<sup>70</sup> Overall, the EU has been united in condemning the violation of the territorial integrity of Ukraine

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<sup>65</sup> A thorough analysis of the Minsk Agreements would fall outside the scope of this work.

<sup>66</sup> European Council, *Conclusions*, Brussels, 20-21 March 2014, p. 13.

<sup>67</sup> Council of the EU, *Progress Report on the implementation of the EU Central Asia Strategy*, SWD(2015) 2 final, 13 January 2015.

<sup>68</sup> European Council, *Conclusions*, Brussels, 19-20 March 2015, p. 4.

<sup>69</sup> "Economic War with Russia: A High Price for German Business", *Der Spiegel*, 17 March 2014.

<sup>70</sup> "Russia-EU trade down by 8% as result of cooperation rollback — Russian ForMin", *TASS News Agency*, 22 April 2015.

and Russia's attempts to destabilize the country. However, the 'sanctions war' has been detrimental for the European economies and for some countries in particular.<sup>71</sup>

There is no doubt that the recent assertiveness of Russia in the 'shared neighbourhood', and notably in Ukraine, required a firm response by the European Union. In March 2014, a set of targeted restrictive measures on Russian elites were agreed, and since then both the sector coverage and intensity have been increased.<sup>72</sup> However, while being an appropriate response in the short term, these restrictive measures do not seem to be accompanied by a comprehensive long-term strategy. The EU's objectives are still unclear, since Russia has not shown any willingness to change its policies, despite suffering from a deep economic crisis. It was argued that 'too effective sanctions' could even be counterproductive for the EU. Restrictive measures imposed by the West have been used in the domestic arena as an argument to cover the failure of President Putin's economic policies. In fact, Leonard and Krastev noted that even without Western sanctions the Russian economy would be stagnating.<sup>73</sup> Moreover, if the objective of sanctions was Russia's isolation, the effect could instead be a reorientation of its trade towards other partners such as China.<sup>74</sup> As Leonard and Krastev put it,

Russia's isolation or self-isolation is not in the EU's interest. It could sharpen some of the differences between the member states. It would reduce the EU's competitiveness in the global market. And it would also doom Ukraine to permanent instability.<sup>75</sup>

At the time of writing, Russia has not shown any signs of surrender. Apart from the economic and financial arguments, the reasons could be identified in Russia's vision of itself and the European order. Putting pressure on neighbouring countries constitutes an intrinsic element of the 'Eurasianist' approach adopted by Putin to affirm his country as a regional power on equal footing with the EU.<sup>76</sup> Among European leaders, this awareness has gradually gained ground.

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<sup>71</sup> A. Gurkov, "EU and Russia on the brink of 'sanctions war'", *Deutsche Welle*, 14 March 2014.

<sup>72</sup> For a comprehensive analysis, see T. Dolidze, "EU Sanctions Policy towards Russia: The Sanctioner-Sanctionee's Game of Thrones", *CEPS Working Document*, no. 402, Brussels, January 2015.

<sup>73</sup> M. Leonard and I. Krastev, "The New European Disorder", *ECFR Analysis*, November 2014.

<sup>74</sup> S. Merler, "Russian roulette, reloaded", *Bruegel*, 30 September 2014.

<sup>75</sup> Leonard and Krastev, *op. cit.*, p. 7.

<sup>76</sup> K. Liik, "The real problem with Mogherini's Russia paper", *ECFR Commentary*, 20 January 2015.

For the first time in 2010, while the ECU was taking shape, Putin spoke about a possible FTA “from Lisbon to Vladivostok” with the EU.<sup>77</sup> According to him,

[a] partnership between the Eurasian Union and EU that is economically consistent and balanced will prompt changes in the geo-political and geo-economic setup of the continent as a whole with a guaranteed global effect.<sup>78</sup>

The Russian President reiterated this message during the January 2014 EU-Russia Summit, receiving full support by Nazarbayev.<sup>79</sup> On the ‘Eurasian side’, studies have already started on the potential of deeper EU-EEU economic integration, with a view to concluding an ambitious and comprehensive agreement by the 2020s.<sup>80</sup>

Despite a ‘wait and see’ approach adopted by the EU, a debate on possible engagement with the EEU gradually gained momentum and in January 2015 High Representative Mogherini suggested launching an internal feasibility study. The perspective of recognition and FTA negotiations was considered as a possible ‘carrot’ to be used as leverage in more complex consultations involving the situation in Ukraine.<sup>81</sup> Following the same reasoning, Commissioner for Enlargement and Neighbourhood Policy Hahn stressed that the DCFTA with Ukraine does not prevent Kiev from deepening its trade relations with Moscow, and welcomed the establishment of trilateral talks to lower current tensions.<sup>82</sup>

The EU’s openness to dialogue did not neglect the traditional, fundamental pre-condition: the full implementation of the Minsk Agreements by Russia. Notwithstanding this, it is undeniable that a change of approach has occurred and the perspective of recognizing the EEU is now considered in Brussels. This has also become the subject of debate among scholars, arguing both in favour of and against EU region-to-region interaction. If sanctions are proving to be costly for Europe and inefficient towards Russia, to what extent would engagement with the EEU be an appropriate answer?

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<sup>77</sup> “Putin Calls on EU to Create Common Economic Space with Russia,”, *op. cit.*

<sup>78</sup> Putin, “A new integration project”, *op. cit.*

<sup>79</sup> R. Weitz, “President Nazarbayev Discusses Kazakhstan’s Foreign Policy Priorities”, *Eurasia Daily Monitor*, vol. 11, no. 30, 14 February 2014.

<sup>80</sup> E. Vinokurov and I. Tochickaya, *Quantifying EU-EEU Economic Integration: Methodological Approaches*, Eurasian Development Bank & IPM Institute, Vienna, 6-7 March 2014.

<sup>81</sup> EEAS, *Issues Paper on Relations with Russia*, presented at the Foreign Affairs Council of 19 January 2015.

<sup>82</sup> “EU pushing Ukraine towards trilateral free trade, with Russia”, *EurActiv*, 15 April 2015.

## *Engaging with the EEU: opportunities and challenges*

Besides the recent declarations of certain European leaders, the main advocate of EU-EEU trade talks remains the Russian Federation. First of all, from an institutional perspective, it is seen as a natural consequence of the transfer of competences from the national to the Eurasian level:

In the end, it will have to be explained to our European friends that, since economic regulations are already now largely dealt with at the union level with the Eurasian Economic Commission in charge, individual EEU member states have nothing to talk about with Europe.<sup>83</sup>

The emergence of the EEU, some argued, would put an end to the Brussels-made 'unipolar' vision of Europe, acknowledging instead the coexistence of two regional models.

For the experts of the Eurasian Development Bank (EDB) an EU-EEU "mega-deal" would make sense also from an economic point of view.<sup>84</sup> To back this argument, reference was made not only to the territorial proximity, but also to energy interdependency.<sup>85</sup> The 'mega-deal' would also be justified by the considerable trade flows between the EU and (especially) Russia and Kazakhstan, the EU being their largest trade partner. Adding to that, the EU would largely benefit from the opening of the EEU's market, as the production of commodities is low and could be compensated by EU exports.<sup>86</sup> Moreover, there is awareness on the Eurasian side that the EU could offer a precious help for the modernization of the economy, thus explaining the interest towards the flow of capital and the transfer of technology. On the EU's side, one may argue, there should be an interest to provide technical assistance and to foster capacity building, especially in the newly-created EEU institutions.

All of these arguments, however, fail to consider the significant divergence between the theory and the practice of the EEU.<sup>87</sup> While it apparently displays a multilateral structure, in reality it "conceals a network of bilateral relations centered

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<sup>83</sup> T. Bordachev, "Russia and the Eurasian Economic Union: the view from Moscow", *ECFR Commentary*, 21 January 2015.

<sup>84</sup> E. Vinokurov, "Mega Deal Between the European Union and the Eurasian Economic Union", *Russia in Global Politics*, November-December 2014.

<sup>85</sup> E. Vinokurov, "EU-Russia Economic Relations: Looking Ten Years Ahead", *World Finance Review*, May 2014, p. 12.

<sup>86</sup> Interview with an official, European Commission, DG Trade, Brussels, 27 April 2015.

<sup>87</sup> *Ibid.*

on Russia".<sup>88</sup> The EEU's institutional structure is widely perceived as an empty shell in Brussels as well.<sup>89</sup> More specifically, given the high degree of asymmetry in the internal EEU balance of powers, some experts argued that engaging with the EEU would allow Russia to strengthen its negotiating position and force the other EEU members to align to it.<sup>90</sup> Hence, those who hope that, acting within the EEU framework, Russia would show more flexibility and openness would miss the point. The current 'sanctions war' with the EU clearly shows that the EEU institutions are not able to limit Russia's power to act unilaterally on particularly sensitive political issues.<sup>91</sup> Moscow's tendency to break the rules agreed at the Eurasian level makes it difficult for the EU to commit officially.

From the economic point of view, there is little trust that this 'mega-deal' would bring significant liberalization as the very establishment of the ECU suggested that Russia has no intention to further open its economy. The rather negative record of Russia in the WTO dispute settlement system constitutes a major source of worry for the EU: for example, Russia's ban on imports of live pigs, pork and other pig products from the EU reduced total EU exports by almost 25%, allegedly because of phytosanitary issues related to individual cases of African Swine Fever (ASF).<sup>92</sup> For this and other reasons, currently EU officials are investigating possible ways of continuing trade talks with individual EEU members like Armenia and Kazakhstan, taking advantage of the numerous exceptions and grey areas left by the EEU framework.<sup>93</sup> Finally, the deep economic crisis affecting the Russian economy, together with the lack of reforms and modernization, casts doubt on the endurance of the Eurasian project itself.<sup>94</sup>

As regards the impact that a bloc-to-bloc approach could have on the Ukraine crisis, experts' views diverge: while for some it would be part of the solution, for others it would divert the focus from the real, political problem: the violation of Ukraine's territorial integrity. According to Vinokurov, "[t]he issue of Ukrainian

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<sup>88</sup> A. Eberhard, "Dialogue with the Eurasian Union on Ukraine - an opportunity or a trap?", Warsaw, *OSW Commentary*, no. 154, December 2014, p. 1.

<sup>89</sup> Interview with an adviser of the President of the European Parliament, Bruges, 22 January 2015.

<sup>90</sup> Eberhard, *op. cit.*, p. 3.

<sup>91</sup> According to Russian diplomats, the Supreme Eurasian Economic Council issued a 'decree' allowing individual Member States to act unilaterally in specific circumstances.

<sup>92</sup> European Commission, DG SANCO's website, *Ongoing WTO dispute settlement cases against Russia*.

<sup>93</sup> Interview with an official, European Commission, DG Trade, Brussels, 27 April 2015.

<sup>94</sup> Interview with an adviser of the President of the European Parliament, *op. cit.*

sustainable development can ultimately be resolved only in the triangle EU-Ukraine-Russia", notably for the financial burden it would imply.<sup>95</sup> Leonard and Krastev even write that "[t]he failure to recognize the opportunity born out of Putin's project for the EEU is at the core of the current crisis". In their view, engaging with the EEU would be a way for the EU to move the competition from the military to the economic field.<sup>96</sup> However, considering EU-EEU engagement as part of the solution to the Ukraine crisis would be misleading for several reasons. The bilateral (then trilateral) trade consultations on the effects of the EU-Ukraine DCFTA on the Russian economy demonstrated that Moscow follows a geopolitical more than an economic logic. That same logic was at the basis of the creation of the EEU: therefore, a change of setting is not likely to translate into a different behaviour by Russia. Building on that, Eberhard argues that the main problem is of a political and security nature, while trade would represent nothing more than a tool to achieve broader foreign policy goals.<sup>97</sup> It would therefore be naïve to imagine that EU-EEU trade talks could serve the EU's interests and particularly the implementation of the Minsk Agreements. Such a concession by the EU would probably not contribute to the stabilization of Ukraine, as it is in Russia's interest to transform the latter into a "permanently unstable and inefficient state".<sup>98</sup>

Another aspect, apparently overlooked, is the position of Ukraine within this framework. As stressed by the Council of the EU, participation in the EEU shall "respect the sovereign and autonomous decisions of States".<sup>99</sup> EU engagement with the EEU on the future economic relations with Ukraine would turn Kiev into a "mere subject of discussion".<sup>100</sup> Not only would this deny its 'European choice'; it would also represent an appraisal of Russia's policies with respect to, among others, Crimea, Eastern Ukraine and Armenia. From a more geopolitical perspective, the EU would formally value Russia's vision of a 'bipolar Europe', divided in spheres of influence as it used to be during the Cold War.

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<sup>95</sup> Vinokurov, "EU-Russia Economic Relations", *op. cit.*, p. 12.

<sup>96</sup> Leonard and Krastev, *op. cit.*, p. 6.

<sup>97</sup> Eberhard, *op. cit.*, p. 3.

<sup>98</sup> *Ibid.*

<sup>99</sup> Council of the EU, *Progress Report on the implementation of the EU Central Asia Strategy*, *op. cit.*

<sup>100</sup> Eberhard, *op. cit.*, p. 3.



## Conclusions: Still a long way to go

This paper investigated the challenges and opportunities for the EU in case of engagement with the newly-established Eurasian Economic Union. It argues that a strong engagement would be premature at this stage, but it should be kept as a long-term goal.

To explain the reasons behind this assessment, the latest wave of Eurasian integration was analysed from an economic, geopolitical and institutional perspective. Even though it is not yet possible to assess the economic effects of integration, the initial trends showed the absence of a significant economic rationale, with benefits unequally distributed among members. The geopolitical logic seems predominant instead. All in all, the EEU is still more of a paper tiger than a game-changer, representing mainly an attempt by Russia to increase international recognition and legitimacy as a regional power.<sup>101</sup>

These arguments play an important role in assessing the Russian proposal to establish bloc-to-bloc relations aiming at a free trade area “from Lisbon to Vladivostok”. The paper argued that EU-EEU engagement would not help settle the Ukraine crisis. On the contrary, the EU would give credit to Russia’s vision of a ‘bipolar Europe’, legitimizing its claims over Ukraine. The sovereign choice of Kiev would be neglected, turning it into a “mere subject of discussion”.<sup>102</sup> Furthermore, the EU could be criticized for allowing Russia to interfere in its bilateral relations with Ukraine which could represent a dangerous precedent and result in increasing demands by Moscow rather than appeasement.<sup>103</sup> In conclusion, the current EU restrictive measures seem appropriate in the short term, as they aim to increase the cost for the continuation of Russia’s policies. In Torreblanca’s words,

[b]efore validating Moscow’s Eurasian project, the EU must respect and protect the European choice of the Ukrainians. Once Putin also understands and protects this choice, the EU can be opened to the Eurasian Union. As in the past, strategic patience will pay off.<sup>104</sup>

For the medium to long term, the EU still lacks a comprehensive strategy on how to deal with its main Eastern neighbour. The recent tensions with Russia over the

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<sup>101</sup> A. Kazharki, “Is Putin Winning the Recognition Game? Is the Eurasian Union Back on the Table?”, *PONARS Eurasia Commentary*, 12 February 2015.

<sup>102</sup> Eberhard, *op. cit.*, p. 3.

<sup>103</sup> Dreyer and Popescu, “Trading with Moscow”, *op. cit.*, p. 1.

<sup>104</sup> J.I. Torreblanca, “Strategic patience with Russia will pay off”, *ECFR Commentary*, 10 December 2014.

'shared neighbourhood' were a wake-up call for the EU and a signal that something should change in its European Neighbourhood Policy. The current revision should take into account the emergence of the EEU and its eventual inclusion in the shaping of the new European order – developments that the 'unipolar' Eastern Partnership initiative did not take into account. The development of the EEU as a 'rule-based system' should not be taken for granted, and even if it does materialize, will probably take several years. In the meantime, however, European leaders should start a serious debate on their strategic interests with regard to the EEU, as it is already impacting the EU in different ways.<sup>105</sup> In doing so, once the technical and political conditions allow it, the EU will have a clear and constructive mandate to bring to the negotiating table.

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<sup>105</sup> Dreyer and Popescu, "Trading with Moscow", *op. cit.*, p. 4.

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