

CEPS COMMENTARY



Thinking ahead for Europe

Triangular Geopolitics in Europe's Eastern Neighbourhood

Gela Merabishvili

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The EU-Ukraine-Russia triangle

In the run-up to the Eastern Partnership's Vilnius Summit in 2013, Russia's leadership argued vociferously that the EU-Ukraine Deep and Comprehensive Free Trade Agreement (DCFTA) would damage both Russia's economy and trade between Russia and Ukraine. The governments of Vladimir Putin and Viktor Yanukovich insisted on setting up a trilateral mechanism, which would include the European Union, to address these concerns and to re-negotiate the EU-Ukraine agreement.

The European Commission did not agree to re-negotiate an already negotiated bilateral EU-Ukraine agreement in a trilateral format, especially given the objections of the third party. Instead, the Commission preferred to discuss the Russia's concerns directly with Russia.

Despite its initial reluctance, the European Commission did agree to start trilateral talks regarding the EU-Ukraine DCFTA in July this year, in parallel with the gas negotiations that began earlier. A plausible explanation for this change of mind can be found in the mounting security crisis in Ukraine, which escalated into war in April. According to Jose Manuel Barroso, "the Commission is doing its utmost to help solve the conflict. We are doing it in areas of our competence."¹

As a result of the gas 'trialogue', former Energy Commissioner Gunther Oettinger settled a deal between Ukraine and Russia at the end of October 2014: Ukraine agreed to pay its debt to Russia and in exchange Russia would restore its gas supply throughout the winter. Within the framework of trade talks, on September 12th the EU and Ukraine postponed the start of implementation phase of the DCFTA until 1st January 2016. During this period, the sides will discuss technical trade issues, such as regulations, standards and sanitary measures, in order to reduce the possible negative effect of the agreement on Russia's exports to Ukraine.

¹ European Commission, 30 August 2014 (http://europa.eu/rapid/press-release_STATEMENT-14-265_en.htm).

Gela Merabishvili is a Research Assistant at CEPS.

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Vladimir Putin's response to this gesture of goodwill was a demand for a "systemic adjustment of the association agreement"² and a threat to revoke the CIS Free Trade Agreement with Ukraine if the latter started to implement the DCFTA. This response shows that Russia does not actually care about eliminating trade-related risks; it is more interested in putting a stop to Ukraine's closer association with the EU altogether.

In view of the increasing pressure that Moldova and Georgia are feeling from Russia, it is pertinent to ask whether Brussels, along with Chisinau and Tbilisi, will set up a similar format of multilateral negotiations on trade and other urgent matters.

Moldova

Over the last few months, Russia has banned imports and cancelled zero-duty tariffs on a number of Moldovan food and meat products and threatened to revoke the Russia-Moldova CIS Free Trade Agreement. These import bans, while they do bite, do not represent a sufficiently painful means of coercion against Moldova. Despite the reduced volume of Moldovan trade with Russia, the country's GDP still grew by 3.9% in the first half of this year, largely thanks to increased exports to EU countries. These exports are a result of the EU's Autonomous Trade Preferences regime with Moldova, through which the EU unilaterally relaxed access for a list of Moldovan products, wine among them, to the single market to offset the impact of Russia's trade sanctions against Moldova.

Moldova is more vulnerable in the energy sector, however. Up until August of this year Russia was the sole provider of gas and the newly constructed Iasi-Ungheni gas pipeline, which connects Moldova with Romania, does not yet have the capacity to substantially reduce Moldova's dependence on Russian gas. In its initial stage the pipeline can only satisfy 5% of Moldova's gas import needs.

Russia has also threatened to deport hundreds of thousands of Moldovan workers, which would be a huge blow to Moldova's economy. Remittances from these migrant workers constitute up to one-fifth of the annual GDP of Moldova.

Yet regardless of which party is in power, the government of Moldova has to consider that the EU's share in the country's exports and imports represents about 50%, as opposed to less than 20% in the case of Russia. Interestingly, Transnistria is even more dependent on exports to the EU. But it is precisely Transnistria and Gagauzia, two autonomous regions in Moldova, which pose the greatest security risks to Moldova.

Russia will be forced to play the Transnistria/Gagauzia card if none of the above-mentioned coercive measures sways Moldova's European integration policy. According to Dmitry Rogozin, Deputy Prime Minister of Russia, "Moldova's train might lose a couple of its wagons en route to Europe".³ In this worst-case scenario, Russia could use the unrecognised referenda of Transnistria and Gagauzia as a quasi-legal pretext for a Crimea-style annexation and could rely on 1,500 Russian 'peacekeepers' on the left bank of the Nistru river to execute the strategy.

Georgia

Russia threatened to cancel the Free Trade Agreement with Georgia immediately after the latter ratified the DCFTA in July. Georgian Prime Minister Irakli Gharibashvili commented

² *Financial Times*, 25 September 2014 (www.ft.com/cms/s/0/a4de51ae-44ca-11e4-9a5a-00144feabdc0.html#axzz3HMSyzSPA).

³ *Moldavskie Vedomosti*, 2 September 2013 (Russian) (www.vedomosti.md/news/Rogozin_Na_Krutyh_Povorotah_Ne_Poteryat_By_Moldove_Svoi_Vagony).

that this would not be “a great tragedy”.⁴ This comment reflects Georgia’s limited reliance on trade with Russia: more than one-fifth of Georgia’s exports in 2014 went to the EU, while Russia was the destination for only 10%. The share of remittances in Georgia’s GDP is about 8%; half of which comes from Russia. Georgia already experienced trade bans and the mass deportation of its migrant workers from Russia in 2006, and managed to overcome this shock, which makes the country less vulnerable to such threats. Eighty-two percent of Georgia’s gas imports come from Azerbaijan, which deprives Russia of the leverage it enjoys over Ukraine and Moldova.

It is no less important that all three political parties represented in the Parliament favour the integration of Georgia with the EU. The tripartisan consensus is backed by the public with 78% being in support of EU membership. The recent political crisis in which the defence minister was sacked and the ministers for foreign affairs and European integration resigned does not change Georgia’s strategic interests, its foreign policy orientation or the public’s support for it. The posts have been filled with equally strong advocates for the country’s EU integration.

In spite of its unfavourable economic and political situation, the country’s breakaway regions, Abkhazia and South Ossetia, represent a handy leverage for Moscow to influence Tbilisi. So far the ‘borderisation’ process – erecting barbed-wire fences around occupied South Ossetia – has not unduly raised tensions, but it does represent a potential powder keg for the frozen conflict in the region.

Russia and Abkhazia signed an alliance and strategic partnership treaty on 24th November 2014. Due to strong negative reactions from the majority of the Abkhazia’s de facto parliament members, the treaty does not give as much influence to Russia as initially intended, but it still allows substantial leverage over Abkhazia’s defence, border management and economic sectors. Russia is currently preparing a similar treaty with South Ossetia, where full integration into the Russian Federation is a much more popular prospect than in Abkhazia. In Tbilisi’s view these pacts represent Russia’s attempt to fully annex Georgia’s breakaway regions. The Georgian PM’s promise to these regions of autonomous republic status within Georgia does not appear to constitute a strong enough alternative to prevent Abkhazia and South Ossetia from deepening ties with Russia. Meanwhile, a recent multi-thousand protest rally in Tbilisi organised by the opposition UNM party, which accuses the government of inaction and indifference towards the Russia-Abkhazia treaty, is a further reflection of polarisation within Georgia’s domestic politics.

More triangles?

This rapid overview of vulnerabilities within Moldova and Georgia shows that Russia has a better chance of forcing its neighbours into negotiations over their Association Agreements if it threatens their security and territorial integrity rather than their economy and trade. Yet mere escalation of the security environment is not a sufficient condition for trilateral negotiations on the DCFTA.

The example of Ukraine shows that the trilateral trade talks, specifically the concession to postpone the DCFTA implementation, did not result in the de-escalation of conflict in Donbas. Furthermore, there is no guarantee that Russia will not delay and derail such ‘trialogues’, just as it has been doing in the current negotiating formats (i.e. the 5+2 Negotiations on Transnistria and the Geneva Talks over Abkhazia and South Ossetia).

⁴ *Civil Georgia*, 31 July 2014 (<http://civil.ge/eng/article.php?id=27542>).

Without a clear and legitimate objective, neither the European Commission nor the governments of Moldova and Georgia can see any incentive to replicate the Ukrainian trade ‘trialogue’. In the case of Ukraine, the country’s share in Russia’s exports, excluding energy resources, is 2%, and this serves as the rationale underpinning the trilateral talks to reduce the possible costs of Russian exports once Ukraine adopts EU standards. By comparison, the shares of Moldova and Georgia in Russia’s exports amount to 0.2% and 0.1% respectively. Moreover, 75% of Russian exports to Moldova are composed of energy resources, which are beyond the reach of the DCFTA standards, further diminishing the legitimacy and urgency of this issue. Neither the existing economic and political structure within Moldova and Georgia, nor Russia’s leverage over them, is thus any indication of the probability of replicating the DCFTA ‘trialogue’ for these two countries.

By contrast, the conditions surrounding Moldova’s energy dependence on Russia are somewhat similar to those of Ukraine. Despite the recently signed contract extension between *Gazprom* and *Moldovagaz*, Moldova is still expected to pay \$400 million gas debt to the Russian energy company. Moreover, some 20 billion cubic metres of gas are transited from Russia to the EU through Moldova annually, thus making both the EU and Moldova vulnerable to potential gas supply disruption by Russia. These conditions could serve as a legitimate reason for tripartite negotiations on energy between the EU, Moldova and Russia.