

# Russia and the European Union: The Northern Dimension

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April 2000

PONARS Policy Memo 138

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## Background

Relations between Russia and the European Union (EU) are based on three main pillars: the Partnership and Cooperation Act (PCA) of 1994, the Common Strategy of the European Union on Russia (first adopted in 1995 and revised at the Cologne summit in the summer of 1999), and the Northern Dimension initiative. The PCA and the Common Strategy presented an extensive menu of cooperation possibilities that could link the EU and Russia. In particular, more dialogue on economic and foreign policy and an action plan to fight organized crime were expected. It should be noted, however, that both documents treated Russia as an undifferentiated space and were aimed mainly at cooperation at the government-to-government level (although some EU programs have paid attention to cooperation with Russian regions).

The Northern Dimension is the first attempt to acknowledge that the EU and Russia may need to apply special cooperation at the regional or sub-regional level, particularly in northwest Russian areas that border the EU. Although it is now an initiative adopted by the EU, Northern Dimension was initially a Finnish initiative launched at the Luxembourg meeting of the European Council in 1997. As the Finnish Ministry for Foreign Affairs explained, "The essence of the Northern Dimension is, on the one hand, to emphasize the positive interdependence of the EU, Russia and the Baltic Sea regions. On the other hand, it aims at integrating Russia into European and global structures through increased cooperation. The ultimate goal of the Northern Dimension is to reduce all dividing lines."

In 1998, an EU Commission document "A Northern Dimension for the Policies of the Union" was developed. The paper recommends "further programs of technical assistance and investment within TACIS and PHARE...for projects spanning the Russia-Baltic and Russia-Poland borders." (TACIS provides technical assistance to the Commonwealth of Independent States; PHARE provides EU technical assistance and investment to the region). Also, there was the suggestion that programs of technical assistance devoted to promoting customs cooperation, future administration training and cooperation in the fight against organized crime should be considered through cross-border cooperation programs, for border areas, e.g., for the Kaliningrad region of the Russian Federation.

During the Finnish presidency in the EU, Helsinki launched a dynamic campaign to persuade both the Brussels and Moscow bureaucracies to move from declarations to real business and substantiate a cooperative program. Russia reacted in a positive way. Foreign Minister Primakov supported the initiative while visiting Finland in summer 1998. In July 1999, Russia, together with Lithuania, launched an initiative pertaining to Kaliningrad in the context of the Northern Dimension. They suggested a "Kaliningrad sub-program" within the Northern Dimension action plan. The EU ambassadors stationed in Moscow came together in Kaliningrad to study the local situation. In early October 1999 Russia circulated a rather detailed and constructive position paper on the Northern Dimension.

In November 1999 the EU and the Baltic Sea region/Nordic countries (including Russia) held a special foreign ministers' conference on the Northern Dimension in Helsinki. Diplomats not only discussed the contours of future cooperation but also decided to develop an action plan. Kaliningrad was a subject of special concern. It was resolved that the matter should be studied further at a conference the Danish government is sponsoring in May 2000. However, the EU summit in Helsinki (December 1999) did not produce such an action plan. Rather, the EU put on hold a number of promising programs of cooperation with Russia, including TACIS, because of the new Chechen war. Moreover, in March 2000 the EU reduced import quotas for Russian steel products by 12%.

Although such an atmosphere is counterproductive in terms of further progress on regional cooperation, neither Russia nor other Baltic/Nordic countries intend to stop planning future cooperative efforts. The Helsinki summit confirmed the EU's intention to chart out an Action Plan. Sweden pledged to organize a similar high level meeting to review the results during its presidency in 2001.

Russia is especially interested in the Northern Dimension. Given Moscow's growing isolation from Europe because of NATO enlargement and the Kosovo and Chechen wars, this is perhaps the only window of opportunity for Russian cooperation with European countries. Moreover, Russia is concerned about Kaliningrad--detached from the mainland and sandwiched between Poland and Lithuania. With Poland integrated into NATO and both Poland and Lithuania expected to join the EU, Kaliningrad could finally become an exclave rather than an enclave. At the same time, Russia sees the Northern Dimension as a "part of the whole:" regional cooperation should facilitate the pan-European process, including pan-European security. Moscow also emphasizes that other regional and subregional projects, such as the Council of the Baltic Sea States (CBSS), the Barents/Euro-Arctic Council (BEAC) and the Arctic Council (AC) should not be neglected.

### **Areas of Future Cooperation**

Diplomatic documents and statements made by politicians, businessmen, academics and NGOs suggest five areas of priorities of the Northern Dimension: economic, infrastructure, human needs, environment, and "soft security."

### *1) Economic Issues*

- Modernization of industry and agriculture in northwest Russia. Moscow sees the EU countries as a potential source of investment and know-how to complete structural reforms in Russia.
- Conversion of Russian defense industry and military facilities. Government hopes focus on highly militarized zones such as the Kaliningrad region and Kola Peninsula.
- Technical assistance and investment. Moscow has proposed a variety of initiatives, including extension of EU technical assistance and investment (PHARE) to the region, financing of cooperative projects from EU Structural Funds, and access for Russian enterprises to EU government contracts for projects financed by PHARE and EU Structural Funds.
- Support for private entrepreneurship. The European Bank for Reconstruction & Development (EBRD) is the main venue for cooperation in this field. As many participant banks became insolvent in Russia, the EBRD established its own specialized Micro Finance Bank in order to help carry out the lending to micro and small businesses in Russia. The Bank plans to enhance its programs in the context of the Northern Dimension over the coming years.
- Trans- and cross-border cooperation. Such cooperation is seen by regional players as an important instrument both for creating an interdependency mechanism and for Baltic/Nordic region-building. Some EU programs aimed at promoting trans- and cross-border cooperation already exist. In 1992-96, close to 90 million European currency units (ECU) have been made available to the northwestern part of Russia. One EU program (called Interreg) involves Finnish, Swedish, Norwegian and Russian regions. Another program begun in 1998 (Euroregion) includes Kaliningrad in the Baltic Euroregion as an international lobbying group of local governments from Poland, Sweden, Denmark, Lithuania, Latvia and Russia. Goals include subregional economic planning and construction of transport routes. Kaliningrad also can participate in the Neman Euroregion, which is designed to link Kaliningrad, Lithuania and Belarus. TACIS (Technical Assistance--Commonwealth of Independent States) is another important venue for intensifying cross-border contacts: since 1992, TACIS has contributed over 65 million ECU to different projects in northwestern Russia.

Many experts feel that the Northern Dimension should integrate all these programs and expand them further. Should these activities develop and succeed, they will serve as a counterweight to the likelihood that Russia will be cut off from this part of Europe as countries such as the Baltic states join the EU.

## 2) *Infrastructure*

- Power and energy efficiency. The Northern Dimension may focus on projects involving interconnections among the countries of the region with a view to optimizing the sharing of base-load, peak and spin-off reserve power, and increasing trade in electricity, the reliability of power supply and the quality of the service through frequency stabilization. A number of small capacity interconnections (without synchronization) enabling the trading of power between Russia and western countries will be pursued.
- Pipelines and refineries. Europe's future energy management will be greatly dependent on gas that comes from Russia, and one important route will go through northern Europe. Europe will also be the most natural export market for Russia's gas, so there is a clear meeting of interests here. The EBRD is interested in the project to construct an additional gas pipeline to Kaliningrad, and the construction of new gas pipelines is the highest priority for Latvia. According to Riga, Latvia's geological formations allow for the creation of additional underground storage facilities for natural gas. Latvia could act as a seasonal regulator of natural gas if a common Russian-European gas transportation system is constructed.

Oil projects are under consideration as well. Latvia argues that the building of a new oil pipeline from Russia to the port of Ventspils would be economically more feasible and ecologically safer than other similar projects in the region. The EBRD intends to provide financial support as part of a strategy relying on multiple outlets for Russian crude oil, which promotes the development of the regional oil market and provides a welcome flexibility of options for both buyers and suppliers.

- Transport infrastructure. One of the key prerequisites for promotion of economic ties in the Baltic/Nordic region is efficient transport. Poland, the Baltic States, Russia and Finland emphasize the importance of extending further resources to the development of the constituent parts of the Crete/Helsinki multi-modal transport corridor, namely the Via Baltica, Rail Baltica and Via Hanseatica projects. The EBRD and some other European financial institutions focus not only on developing but also commercializing the transport infrastructure to make it more efficient. For instance, the EBRD has offered its assistance in privatizing airport facilities in St. Petersburg.
- Municipal infrastructure. Restructuring and modernization of the municipal infrastructure, which is currently in a dire plight in northwestern Russia, could be one of the priorities of the Northern Dimension. There are some projects already underway. The EBRD funded wastewater projects in Kaliningrad, Novgorod, and St. Petersburg, and a public transportation project in Novgorod.

## 3) *Human needs*

- Institution-building and civil society. This should be one of the strategic objectives of the Northern Dimension. Already today a great number of

- subnational actors in East and Central Europe are involved in the framework of the PHARE twinning program. Some experts suggest the establishment of a TACIS twinning program for institution-building in northwestern Russia.
- Social welfare programs. These programs should focus on issues such as 1) unemployment and retraining schemes; 2) the care of children at risk; and 3) elderly people.
  - Health care. The health situation in areas of northwestern Russia is deteriorating. Unemployment is high and people are leaving the region for a better future elsewhere in Russia. Whole communities, such as Nikel and Pechenga on the Kola Peninsula, are facing an uncertain future. Regional cooperation aimed at combating the spread of communicable diseases is of extreme importance. Some health care programs have already started. Sweden has launched an initiative to intensify them and to involve more players. To this end, a seminar for experts from the Barents and Baltic Sea regions was held in Uppsala in January 2000 in order to identify the weaknesses and the requirements of this cooperation.
  - Education and training programs. According to many experts, the Northern Dimension should pool and coordinate numerous educational programs both under the EU aegis and sponsored by subregional institutions (such as the Nordic Council of Ministers). Priority should be given to developing university and research centers focusing on regional problems. Further implementation of public administration projects, including those with possible EU support, would significantly contribute to the training of local government officials and the development of direct relations between local authorities.
  - Indigenous populations of the Arctic. Specialists suggest focusing on problems such as preservation of the natural environment where these peoples live, their family economy and their traditional cultures.
- 4) *Environment***
- Pollution. The Baltic Sea is one of the world's most polluted seas. Wastewater and sewage go untreated straight into the sea. Agricultural chemicals are destroying marine ecosystems. Over-fishing is threatening bio-diversity. Illegal oil spills from shipping are also detrimental to the region's environment. Many experts rank environmental problems among the highest priorities of the Northern Dimension. International agreements on the marine environment of the Baltic Sea should be fully implemented. Forceful action must be taken on sustainable production techniques and investment in clean technology. Not only the EU but some other international financial institutions (such as the Nordic Investment Bank) should play a greater role in the new environmental strategy. In addition, similar measures for the Arctic Ocean should be a regional concern. Some programs are already there, such as an EBRD program providing the Komi Republic with an ECU 19.7 million loan for an oil spill recovery program.

- Nuclear safety. European multilateral institutions pay particular attention to the protection of environment and nuclear safety in northwest Russia. The Nuclear Safety Account (NSA), as a special grant facility within the EBRD, has been established to serve as a mechanism to finance operational and near-term technical safety improvements for Soviet-designed reactors in formerly socialist countries. The NSA is capitalized at ECU 257.2 million, has provided by fourteen donor states (including Nordic countries, such as Finland, Norway, and Sweden) and the EU. The NSA provided grants for safety upgrades in the Kola and Leningrad nuclear plants (ECU 45 and 30 million, respectively).

##### 5) *"Soft" Security*

- Fighting organized crime. Cross-border crime is also an important area and a common concern--particularly the trafficking of drugs, money, goods, and even people. The Task Force on Organized Crime in the Baltic Sea Region has taken a leading role in building cooperation between regional law enforcement agencies. This should be encouraged and developed. Continued training for tax officials, border guards and police will increase their ability to counter-act illegal activities.
- Border controls/visa regime. It is impossible to form a homogeneous economic space in North Europe without liberalizing visa and customs regimes. There is a growing feeling among the nations of the region that the countries participating in the Northern Dimension should implement measures on developing their common borders; for the same purposes it would be expedient to introduce more favorable visa regulations for Russia. In this respect, the quick response of the European Commission to allocate significant resources for improving border crossing capacity, infrastructure and operating conditions at the border crossing point at Panemune-Sovietsk is quite inspiring.
- Illegal migration. Along with liberalization of border controls, an increased effort should be made to prevent illegal migration. Under the Finnish presidency in the EU several meetings and seminars on illegal migration were organized in 1999. Russia is also participating occasionally in meetings on exchange of information on asylum and illegal immigration. These activities, however, should be augmented by more regular and extensive programs under the auspices of the Northern Dimension.

### **Barriers to Cooperation**

Along with the prospects for future cooperation there are some serious obstacles to the Northern Dimension project:

- Economic and political crisis in Russia may prove an impediment to cooperation. Some of the key arguments about Russia's economic importance to Europe, presented initially in favor of the initiative, have been undermined by Russia's economic and political crisis. Russia's ability to shoulder the responsibility of

- becoming a major partner of the Union in northernmost Europe is weak. This might undermine the interest that was there during 1997-98.
- The second Chechen war provoked EU concerns about Russia's excessive and indiscriminate use of military power as well as about the human rights situation in the area, worsening the Russia-EU relationship.
  - Moscow is very suspicious of any attempt to put the Northern Dimension in the context of a Baltic/Nordic region-in-the-making and tries to secure its control over the Russian regional authorities involved. This may kill the very spirit of the project.
  - The Brussels bureaucracy is unhappy about decentralizing the project as well. The EU Commission wants, in particular, to tone down the region-building aspect of the Northern Dimension: "The Dimension should not be seen as a new regional initiative, which in the Commission's view is not necessary." This may undermine region-to-region and cross-border cooperation.
  - EU regional priorities have shifted. The war in Kosovo and the need to deal with the Balkans in the aftermath of the war might gain such a high priority, be so demanding, and turn out to be so costly that there is little energy left for any northern issues (although the establishment of the Stability Pact for South Eastern Europe tends to strengthen the regionalist principle within the Union).
  - The Union is also overloaded with both external and internal challenges such as EU enlargement and structural reforms.
  - There is no unity among the EU member states. While Finland, Sweden and to some extent Denmark are enthusiastic about the Northern Dimension, other (and more powerful) players are in favor of priorities such as enlargement, the Balkans, European Monetary Union, a common European defense, and so on.

### **Solutions and Recommendations**

It is very important to design the Northern Dimension project in a way that fits the regional dynamics and at the same time opens up new horizons for regional cooperation. A number of concrete recommendations can be made:

- The EU should emphasize technical assistance and investments rather than credits and loans.
- Priority should be given to the projects oriented toward long-term positive effects on the local economy and society.
- The interoperability of PHARE, TACIS, Interreg and other EU cooperative programs has to be improved in order to support inter-regional activities in the area, despite the size of projects.

- Perhaps a special financial facility to promote regional cooperation within the Nordic Dimension framework should be established.
- Financial conditions surrounding projects and administrative procedures should be transparent; public accountability and auditing should be provided for.
- The geographic scope of the initiative should be clearly defined. Currently, it remains uncertain which Russian regions will be covered by the Northern Dimension.
- Attention should be paid not only to "reformist" Russian regions (such as St. Petersburg, Novgorod, Karelia and Kaliningrad) but also to regions with a relatively poor democratic record (e.g., Pskov, Murmansk, Archangel, Yamalo-Nenets Autonomous District, and the Komi Republic).
- The Northern Dimension should not be interpreted as an artificial top-down project, but rather as a bottom-up process with very lively grassroots. To use the potential of existing international networks of subnational and non-governmental actors is probably the best possible contribution to the agenda of the Northern Dimension. National governments should give their local and regional entities the necessary freedom and means to facilitate these kind of interregional and cross-border activities, which do not disturb, but rather enrich national foreign policies. Moscow, however, should be assured that the Northern Dimension will not entail Russia's further disintegration.
- Projects within the Northern Dimension initiative should be coordinated with the activities of other regional and subregional institutions.
- The Northern Dimension should not become a note of discord between the Nordic countries (as was the case with the BEAC). There should be a sort of division of labor between the EU member-states with regard to Russia.
- It may be expedient to use experience from the Stability Pact for Southeast Europe model for the Northern Dimension.