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2003-03-09

*Russia and Europe  
Towards a New Level of Integration*

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Contribution to "Russia in Global Affairs"*

Three hundred years after Peter the Great founded his new capital in the marshlands of the Neva, Russia is finally starting to become a part of the true West. Interrupted by the tragic seven decades of communist

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dictatorship, the process of integration between Russia, the rest of Europe and the wider Western world is now starting to gathering pace.

It was a truly courageous move by Peter the Great when he decided to build a new capital city in this the easternmost bay of the Baltic Sea. In 1703, this land was still formally Swedish, and would remain so until a peace treaty was concluded in Nystad in 1721, but the over-extended power of Sweden was already on the retreat and the small town of Nyen was soon raced to the ground. Soon, magnificent new buildings in the most advanced styles of Europe started to arise along the banks of the Neva.

These areas had been the meeting places between Russia and the western parts of Europe for centuries.

Here, the early Viking traders entered the rivers that would take them to the Stari Novgorod that they called Holmgård, and further along the Dnjepr to Kiev and eventually to the Constantinople they called Miklagård. Some of them were called upon to rein over the early Slav settlements of the area, and the long ships of the Rurik family must have passed by the small sandy island on which the Peter and Paul Fortress was later built on their way to the new Kingdom of the Rus.

History often highlights the different conflicts of the area from the victory of Alexander Nevsky against the crusading Nordics to the historic heroism displayed during the 900 days of the siege of Leningrad. But if we take a more detached view of history, it is the long periods of mutually beneficial trade and creative interaction between Russia and the rest of Europe that dominates. It was at the island fortress that had the Swedish name Nöteborg, where the Ladoga enters the Neva, that a peace was concluded in 1323 that would define the borders in this part of Europe for centuries, thus

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facilitating the development of the important trade routes that united Europe through this very area.

In spite of the conflicts, the region never lost this role. A century ago, St Petersburg was emerging as the true metropolis of northern Europe. The impressive economic development of Russia as the old century gave way to the new attracted talent and capital from all over Europe. Seen from a Swedish perspective, the most successful entrepreneurs and artists of the time gravitated towards the metropolis on the Neva, often seeing Russia as the land of endless opportunities. And they were certainly not alone. St Petersburg was a city where the heart was beating according to the pulse of Europe.

But in August 1914 Europe entered that long tragic night that did not come to its true end until November 1989 when the wall that divided Berlin, Germany and Europe came down. Russia was dragged into the maelstrom that brought conflict, revolutions, dictatorships, repression and genocide over Europe. In 1945, the fascist threat was defeated as the sons of the peasants of Russia entered Berlin. But it was to last until 1989 until the evil empire that was the Soviet Union started to give up its stranglehold over half of Europe, eventually in late 1991 liberating even Russia itself from the yoke of communism.

History happens only once, and it is futile to speculate on what could have happened, had history not taken the turn it did. But it is without doubt that the communist decades lead to a self-isolation of Russia from the rest of Europe that was to the detriment of both Russia and the other European countries. From having been the natural metropolis of northern Europe, St Petersburg sank down to the level of a repressed, isolated and often intellectually devastated city. With the window to the West closed, there were only the chilly winds from the East sweeping through the empty buildings of the once so magnificent city. And the slogans of internationalism could not alter the greyness and emptiness even of Moscow.

The task given to us in 1989 was no less than the setting up of a new system of peace and security in all of Europe. It was a question of embedding a reunited and strong Germany in a new system, of giving stability and a sense of security to the re-emerging democracies in the countries of the Baltic region and Central Europe, and of trying to facilitate the transition of the volatile area of South-Eastern Europe to a new order of stability.

The alternatives were few. A Europe divided into spheres dominated by the military powers locked in confrontation with each other was neither feasible nor desirable. The Europe of the empires acting in concert after the Congress of Vienna was not an alternative either. And a Europe of a large number of nation states, manoeuvring against each other in ways we had often seen in the past, was clearly not going to give the stability we were seeking.

The road chosen was to build a stronger European Union, and to gradually start to develop it into a federation of nation states covering as large areas of Europe as possible. In the west of the continent, the 1990's were dominated by the gradually crowning of the emerging single market with the common currency, the Euro, at the same time as a decisive step was taken towards completing the integration of the western parts of Europe through the entry of Finland, Sweden and Austria into the union. In 1993, the Union decided to open up for new members from the former socialist parts of Europe provided they were willing and could meet the political criteria in the form of democratic government and the rule of the law.

Since then, we have seen the remarkable transition from a closed socialist economic and political system in half of Europe to a firmly established democratic political system and open market economies. While the political transition was relatively straightforward in most of these countries, the task of building capitalism and all its associated structures has been and remains a most demanding one. While there were endless numbers of books on the transition from capitalism to socialism available, there were none on the task

of building capitalism on the ruins of socialism. But the eight countries of Central Europe and the Baltic region that will soon sign their treaties of accession with the European Union have been able to set up all the institutions of an open capitalist economic system and the rule of law in a remarkably short time. With the template given by the *acquis communautaire* of the European Union this would scarcely have been possible.<sup>2</sup>

By May 1<sup>st</sup> 2004, we are likely to see all the countries of Central Europe and the Baltic region formally enter both the European Union and the Atlantic Alliance. We are then half the way towards setting up the new system of security and stability in Europe that was put on the agenda of history by the momentous events of 1989.

During the past years, we have also seen a speedy evolution of links between the European Union and the Russian Federation. On the same European summit in Corfu in Greece in June 1994 where Sweden, Finland and Austria signed their treaties of accession to the European Union, President Boris Yeltsin signed the landmark Partnership and Cooperation Agreement with the EU. As Prime Minister of Sweden at the time, I vividly remember the dinner with the Prime Ministers and Presidents of Europe in which we discussed with President Yeltsin the desire of all of us to open a truly new historic era of cooperation between Russia and our respective countries.

Since then we have seen the relationship improve year by year. The ongoing transformation of the economy of Russia has paved the way for new relationships, and after the recovery of the economy after 1998 we now see a surge of new interest in developing economic cooperation between Europe and Russia. A political dialogue has been developed with twice-yearly summits between the European Union and Russia, and an energy dialogue with great potential for the future has been initiated.

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<sup>2</sup> This has been described in Anders Åslunds ground-breaking "Building Capitalism – The Transformation of the Former Soviet Bloc". Cambridge University Press 2002.

As the process of enlargement of the European Union now has reached an important milestone, it is important to focus on how we can further develop the cooperative relationship with Russia. There can be no doubt that this is in our mutual interest. There is an increasing economic interdependence between Russia and the rest of Europe, notably but not only in the energy field, an obvious interest in tackling different security issues in common and an emerging broader agenda that includes everything from the development of human contacts to deeper cooperation in science and research.

The recent decision by British Petroleum to join with Alfa Group and invest 7,1 billion dollars in the new TNK oil giant represents a new step in the development of direct investments in Russia. Numerous consumer market companies – notably IKEA with its very successful shops in Moscow – have already established themselves in Russia, but so far investments in the important oil and gas sector have been relatively limited.

This is now likely to change. The transformation of the Russian oil industry has resulted in the emergence of a number of independent private companies that are increasingly interested in developing different sorts of relationships with the outside world. During past years, this was held back also by lingering suspicions in the EU countries and the United States concerning the state of corporate governance as well as commercial legislation in Russia, and a number of cases have also served to reinforce these suspicions. The move by BP can be seen as a critically important sign that at least part of the new oil industry of Russia meets the core international demands in these respects, and is thus likely to open up for further internationalisation of the Russian oil industry. This, it should be stressed, will in all probability take the form both of increased international operations of the Russian oil companies and increased investments by European and US oil companies in the exploration of the oil resources of Russia.

But this is only the beginning of the cooperation that is likely to develop between Russia and the rest of Europe in the energy sector. While having a high level of oil production, the share of Russia in global oil reserves is more limited, while Russia is the unchallenged number one when it comes to reserves of natural gas. And with other sources of energy facing different limitations, it is safe to assume that natural gas will gradually increase its share of the energy consumption of the EU countries, with Russia being the dominant supplier of this increasingly important source of energy for Europe. While the EU today relies on Russia for close to 50 percent of its imports of gas, this figure will increase further with the entry of the new member countries of Central Europe.

A new phase of integration and cooperation in this key area will open between Russia and the rest of Europe when Russia starts to reform and liberalize its gigantic gas and pipeline monopolies of Gazprom and Transneft. This will open up for European investments in this important sector of the Russian economy, and will pave the way for a much more extensive cooperation than we have seen so far. The decision to move on with the liberalisation of that part of the power sector covered by UES must be seen as a positive and encouraging sign in this context.

There is no underestimating the difficulties that this liberalisation will entail. The difficulties in the present discussion between the European Union and Russia on the level of energy prices shows how important and sensitive these issues are. And issues of liberalizing energy markets have not been easy inside the European Union either, with the process still far from completed. But it is safe to assume, that all of the issues of reform in this sector, and the moving towards a new level of cooperation between Russia and the European Union, will be high up on the agenda after the March 2004 presidential elections in Russia and the formation of a new European Commission following the June 2004 elections to the European Parliament.

Then, it will be crucially important to give these issues a new political impetus. So far, the energy dialogue between Russia and the European Union has been richer in rhetoric than it has been in results. Often, the dialogue has been bogged down in more technical questions, such as Gazprom's long-term supply contracts that sell gas to different EU countries at different prices, thus grating against the EU rules on competition policy, and the absence of a legal basis for the "production sharing agreements" that foreign investors often require. With a new emphasis on reforming the energy sector in Russia, and with a new political impetus from both the Russian and the EU side, it should be possible to solve and move beyond these issues and pave the way for a much broader and deeper relationship

The common vision expressed by Russia and the European Union is to move towards a common economic space, and one can foresee this process moving through different stages in the years ahead. Of paramount immediate importance is however the early accession of Russia to the World Trade Organisation (WTO), with the hope this can be achieved already this year.

This is a move very much in the interest of Russia. While oil and gas made up 90 % of Russian exports a decade ago, they now count for only approximately half, with metals and chemicals being increasingly important, and agriculture also assuming a prominent role. It is worth noting, that while the old Soviet Union was forced into massive imports of grain in order to feed its population at a minimum level, we are today seeing Russia, the Ukraine and Kazakhstan entering the global markets as major exporters of grain. Indeed, it is not hard to find entrepreneurs that talk in glowing terms about the future prospects of agricultural production and the food processing industry in Russia.<sup>3</sup>

Membership of the WTO would protect Russian exports in many of these sectors from the often arbitrary protectionist measures that we have seen applied in, among others, the steel sector. It would also provide the basis for

the further development of the trade relationship with the European Union, with trade in food and other agricultural products one day being a natural part of an increasingly close economic relationship. While WTO membership would further facilitate foreign direct investments in Russia, one should not neglect the importance this move would have in providing protection against protectionist measures for the growing non-energy parts of the Russian economy.

Based on accession to the WTO, it should be possible to move towards the establishment of a free trade area between Russia and the European Union, thus starting to create the common economic space that is the ultimate vision on both sides. Already today, the EU is Russia's largest trading partner, with more than half of Russia's exports going to the new and enlarged EU.

The further development of this relationship will to a large extent be dependent on the evolution of economic policy and the progress with administrative reform in Russia.

Newly announced government plans call for measures to facilitate the economy growing by 5 % a year until 2008 and by 7 – 8 % thereafter. Among the measures talked about to make this possible are cutting back government interference in the economy, reducing the tax burden, further reforming different remaining state-controlled enterprises and bringing legislation in different areas in line with international laws.<sup>4</sup>

There is hardly a businessman in Russia that cannot testify to the importance of measures along these lines. Increasingly, it is the burden of an often unreformed administration that holds back the potential of Russia for economic development, and thus also the development of more intense economic links with the West. With firms from other European countries

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<sup>3</sup> Anders Åslund. "WTO Entry: No Time to Lose". Moscow Times, February 3, 2003..

<sup>4</sup> Moscow Times Febr 21, 2003: "Cabinet Approves Plan for 8% GDP Growth".

often suffering from the erratic practices of Russian Customs or the overt extortion schemes of the Russian road authorities, one can only guess at the problems that this must create for the entrepreneurs of Russia itself.

The burden of an unreformed administration has been felt acutely at the border between the present EU and Russia, i. e. between Finland and Russia. Here, the media has even talked about a “war on transportation” that has served to underline the limitations of the development of economic links between Russia and the rest of Europe as long as administrative practices are not radically reformed. This is worth noting in view of the fact that this border is likely to function better than any other section of the border of Russia with the outside world.

But it is not only Russia that needs to reform in order to facilitate the further development of the relationship. Apart from opening up also agricultural and related sectors to trade, it is important to be sensitive to the new problems created for human movement across borders as new visa regimes are introduced and as the Schengen area of passport-free travel is gradually extended. Recent new Russian administrative practices seem also to have further complicated the already obvious difficulties in getting visas for visits to Russia. This should be in nobody's interest, and moves to remove unnecessary bureaucratic procedures must be given political priority if these difficulties should not start to affect the overall relationship.

There are numerous areas in which there is considerable scope for expanding cooperation between Russia and the EU in the fields of science and technology. I believe particularly in the potential in the space sector, where global dependence on Russian launcher technologies were on the increase already before the Columbia tragedy, and where European projects like the Galileo global navigation and positioning system should open up new possibilities for cooperation. The plans to use the European space facilities in Kourou in French Guyana for the Soyuz booster in the future are an important part of these efforts.

In the wider aerospace sector, there should be numerous other possibilities of cooperation in view of the impressive Russian achievements on certain technologies and systems. European aerospace industries have every reason to note how the Boeing of the US has moved both design and manufacturing of increasingly important subsystems for modern commercial airliners to Russia, thus demonstrating the potential that exists for further cooperation.

Although both Russia and the EU has a deep interest in improving the conditions for economic integration, the relationship between Russia and the European Union can never be only an economic one. We share a continent and a concern for its stability and security. Thus, the political issues ought to be of key importance in the evolving relationship between Moscow and Brussels.

In spite of this, one often hear Russian claiming that they consider the dialogue with the European Union empty, as well as EU officials struggling with how to give the dialogue a more concrete content in the view of what they consider Russian lack of interest.

The key problem remains to the slow evolution of the common foreign and security policy of the European Union. Often, there is more substance in the dialogue between Moscow and the individual capitals of the EU countries. Although there will always be room for bilateral dialogues, there is a slow but certain evolution of the common EU foreign and security policy both concerning its structure and its substance, and increasingly this will be reflected in the dialogue with Russia as well.

There are numerous structures for the political dialogue between Russia and the EU, and it is far from clear that further additions to the different for a already in existence will make much of a difference. Nevertheless it is worth noting that there is a discussing on the possibility of trying to augment the dialogue along the lines of the NATO-Russia Council that so far has worked

to the obvious satisfaction of both parties. While that model might be difficult to duplicate in every detail, it seems imperative to seek new ways of breathing life into a political dialogue that so far has been remarkably empty in view of all of the regional as well as global issues that are of mutual concern to both Russia and the EU.

Far more important than the institutions of the dialogue is the substance. And there should not be a lack of issues where there is a common interest in not only exchanging views, but also see to which extent it is possible to develop common positions.

The issues of the Greater Middle East are high up on the agenda of both the EU and Russia. While an area of obvious interest to the United States as well, the area is the “near abroad” of both Russia and the EU, and developments in the region will have a direct impact not only on our external security, but over time also on our internal stability. Within the Quartet as well as in other forums, there is an obvious interest in developing cooperation on these issues.

Afghanistan and its surrounding areas also represent a region where we have a direct interest. With more than three quarters of all heroin on the streets in the EU, and virtually all in Russia, coming from Afghanistan, we must work together not only on combating narco-trafficking but also in contributing to the stability of Afghanistan and the adjoining countries of Central Asia.

These issues are part of the wider problem of the future of the whole region of Central Asia and the Caucasus. The war in Chechnya has not only led to immense human suffering in the region itself, as well as yearly losses for the Russian armed forces that seems to be on the level with those of the war in Afghanistan after 1979, but has also contributed to a deepening of divisions between Slavs and many of the peoples of the Caucasus. It is not difficult to

see that this, if not properly managed, could create situations in the future that would be a serious concern to all the countries of Europe.

Closer to the present countries of the European Union, we are faced with the remaining issues of the Balkans, where Russia has played a significant diplomatic role and made contributions to the international peace-keeping forces in Bosnia as well as in Kosovo. In view also of its role in the United Nations, Russia is an indispensable partner for the European Union as it must soon start to tackle the remaining very difficult issues of the region. It is much too often forgotten that the 1999 war over Kosovo was ended without any peace agreement, thus leaving one of the most difficult issues of the region open. And in this region, one issue left open means that all other issues are also potentially open.

In the region between the new European Union and Russia, there are areas that should be the focus of increased attention. From a wider European both of view, it seems incomprehensible that Moscow seems to take such a relaxed attitude towards the internal and external policies of Belarus. Its Soviet-style authoritarianism and miserable economic record risks turning into both an embarrassment and a problem for Russia. While the EU has started to take certain measures to demonstrate that there are standards and values that must be upheld in our new Europe, Moscow so far has done far too little.

The breakaway region of Transdnjestra in Moldova is another issue that must be confronted. It has already established itself as a focus for illicit activities of the most diverse kinds, and could well develop into a major problem that will emerge as a major issue. Commitments to withdraw the arms and military equipment that belongs to Russia from the region must obviously be fulfilled, but our concern should go much further. Neither the EU, nor Russia, can in the long run afford to have a "black hole" in Europe.

As St Petersburg celebrates its 300 years, we are entering a new era. It has been argued, that the era of Eurasia is over for Russia, and its future lies in a gradual integration and cooperation with the rest of Europe, not the least in view of the common economic interests and the geopolitical challenges faced by both Russia and the countries of the European Union.<sup>5</sup>

At the same time, the European Union is undergoing the greatest transformation in its history. Having already broken out of its core of the old Frankish Empire of Charles the Great, and sought to integrate the more Atlantic perspectives of the Anglo-Saxons, give stability to the northern shores of the Mediterranean, and get inspiration from the different geopolitical outlooks of the Nordic countries, it will now accept new members from Tallinn to Nicosia that will profoundly change not only its structures, but over time also its geopolitical perspectives. Brussels will still be the administrative centre of this evolving federation of nation states, but its true political centre has already started to move well towards the East.

This creates a new urge to develop relations with Russia. The Baltic and Central European countries that suffered from the decades of Soviet occupation and communist repression will find it far easier to develop the new relations with Russia they need when they are firmly anchored in the European and Atlantic systems of integration. A million people of Russian nationality will gradually become citizens of the European Union, and mutual dependence is bound to increase across the board. But while the strategic direction towards a closer relationship is as clear as it is firm, it will take its time for this new European Union to find its form.

For this evolving federation of nation states, eventually including all of Europe to the West of Russia and the Ukraine, the forging of a relationship that assists the continued integration and transformation of Russia is a priority of the utmost importance. Most of us grew up in a Europe still living

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<sup>5</sup> Dmitri Trenin: The End of Eurasia – Russia on the Border Between Geopolitics and Globalization. Carnegie Endowment 2002.

in the shadow of the threat of the evil Soviet empire, and some of us took pride in being called anti-Soviet during these dark decades of division and dictatorships. We have a moral obligation, as well as a political duty, to make certain that those divisions never occur again, and that Russia will truly be part of our common Europe.