

EU-RUSSIAN ECONOMIC RELATIONS: FROM COOPERATION TO CONFRONTATION

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Abstract

The starting point for relations between the Russian Federation and the European Union is considered to be the Agreement on Trade and Commercial and Economic Cooperation between the USSR and the European communities, signed in December 1989, in Brussels. However, the following years were marked by periods of partnership and periods of confrontation. There were times when the economic cooperation developed, followed by a decreased interaction between the two great powers, when the relations became more tense and the level of mutual distrust escalated. The year of 2014 saw the deepest crisis in EU-Russia relations since the end of the Cold War. Tensions between the European Union and the Russian Federation intensified because of the Ukrainian crisis. This analysis aims at highlighting the events that led to tightening or loosening the (economic and political) ties between the two, thus making relevant scenarios regarding this partnership.

Keywords: European Union, Russian Federation, economic relations, cooperation, economic sanctions

Introduction

The starting point in the construction of official relations between the European Union and the Russian Federation is considered to be the Agreement on Trade and Economic Cooperation between the Soviet Union (USSR) and the European Communities, signed on December 18, 1989 in Brussels.

Over the last 30 years, cooperation between the EU and Russia has taken shape following the collapse of the Soviet Union, the enlargement of the community bloc, by redefining the interests of EU member states and changing foreign relations priorities. Following the waves of enlargement of the European Union, in 2004, 2007 and 2013 the Russian Federation came closer and closer to the EU, becoming its largest neighbour. Through their internal development and foreign policies, the European Union and Russia have a direct and indirect

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influence on each other, on the EU Member States, and on the countries in the common neighbourhood.

Over the three decades, cooperation between the European Union and the Russian Federation has evolved in the context of changes in the international environment, responding to the incentives offered by it. During all this time, two directions of development of the EU-Russia relations were highlighted, observing an oscillation between partnership and confrontation. On the one hand, the two powers continued to cooperate in the economic field, but on the other hand, relations became more tensed, disagreements and mutual distrust increased.

1. Research objectives and methodology

The topicality of the debate on economic relations between the European Union and Russia is reflected in the field of scientific investigation through a significant literature. The importance of analysing the bilateral relations between the European Union and the Russian Federation is influenced by the role that the two powers play in the international context, but also by their attempts to strengthen their position worldwide. The researched topic is the area of interest of both European and Russian analysts and experts.

Qualitative analysis of information was used as research methodology. Therefore, in order to achieve the proposed objectives, the information collected from official documents (reports of the European Commission and the European Parliament), academic articles and studies conducted by various prestigious think-tanks in both the European Union and the Russian Federation (Carnegie Moscow Center, European Parliamentary Research Service, Centre for Euro-Atlantic Integration and Democracy, Russian International Affairs Council, Valdai Discussion Club, etc.) were analysed. The in-depth study of the scientific literature in the field of interest from both EU and Russian member countries has allowed for the highlighting of distinct perspectives and the presentation of diverse opinions. The EU - Russian Federation relationship is viewed and analysed both from the perspective of the achievement of Russia's economic interests in the West and from the perspective of the European Union's interests in the East.

The objectives of this research are the analysis of the directions of development of the economic relations between the EU and the Russian Federation in the period 1990-2021 and the building of scenarios for the future of this partnership. The future of EU-Russia cooperation is affected by the challenges that exist globally, which is why a thorough analysis cannot be done without taking into consideration the international context. The reason for the documentary interest is to identify the main events that influenced bilateral relations and analyse the way in which the dialogue between the EU and Russia was configured, after the collapse of the USSR and until now. This research aims to highlight the events that, over the past 30 years, have contributed to the consolidation of relations between the European Union and the Russian Federation, as well as of those that have caused

their distancing. At the same time, an attempt was made to highlight the perspectives and challenges faced by bilateral relations.

Following the study of the research literature in the field of interest, it was possible to analyse the opinions of authors from the West and Russia on the future of bilateral relations. Thus, three majority opinions emerged, which allowed the building of scenarios for the development of EU-Russia economic relations on the short and medium term.

2. Bilateral cooperation

Shortly after the signing of the Agreement on Trade and Economic Cooperation between the USSR and the European Communities, both sides underwent considerable changes: the Soviet Union collapsed, the Russian Federation became the successor state of the USSR, and the European Communities became the European Union, through The Maastricht Treaty. As a result of these changes and decrease of tensions following the end of the Cold War, it was necessary to reset relations between the EU and Russia. The Agreement on Trade and Economic Cooperation did not correspond to the new reality, so in June 1994 the Partnership and Cooperation Agreement (PCA) was signed on the island of Corfu (Greece) and entered into force in January 1997. It was concluded on an initial period of 10 years, after which it was automatically renewed every year.

In addition to the Partnership and Cooperation Agreement, in 1999, the Common Strategy of the European Union of 4 June 1999 on Russia was drafted. Its content outlines the priority areas for action on which EU-Russia cooperation should focus; the objectives and vision of the European Council on the Russian Federation: *“strengthening democracy, the rule of law and public institutions in Russia; Russia’s integration into a European economic and social space; cooperation to strengthen security in Europe; common challenges on the European continent”*. Taking into account the interests of each party, the European strategy aimed to help Russia integrate into the European family, in a spirit of friendship and cooperation.

In turn, Russia drew up a similar document in the same year, entitled „Strategy for the development of the Russian Federation’s relations with the European Union in the medium term (2000-2010)”, which expressed a completely different vision from the EU. While the EU’s Common Strategy gave priority to supporting the construction of a civil society in Russia, the document issued by the Russian side focused on two main objectives: joining forces to create a multipolar world and protect national economic interests; clear definition of the interests, objectives, scope and limits of cooperation with the EU.

The foreign policy concept of the Russian Federation, adopted by presidential decree at the end of 2000, places the European Union as the second regional priority, after the Commonwealth of Independent States. Thus, Russia emphasizes that the EU is one of its main political and economic partners.



In order to make concrete progress, which will contribute to the achievement of the common objectives, reflections on the creation of a Common Economic Space (CES) between the EU and Russia have emerged. The idea of establishing a Common Economic Space was first discussed at the summit between the European Union and the Russian Federation, which took place in Moscow in May 2001. The aim of creating this space was to ensure four „fundamental freedoms” (free movement of goods, services, capital and labour). The formation of the CES was to contribute to coordinating the development of complementary economies. The proximity of economic institutes, the introduction of common laws and standards had to represent a major impetus to achieve the proposed goal. The fulfillment of this concept was not intended to make Russia a full member of the United Europe, but aimed to create a large number of points of cooperation, as it involved the coordination of key sectors, the development of common rules and the strengthening of economic relations. However, a concrete plan to build a regional coalition has never been drawn up. Thus, the idea of creating a common economic space from Lisbon to Vladivostok, or as formulated by the Russians - from the Atlantic to the Pacific failed to materialize.

The Partnership and Cooperation Agreement has created a unique form of cooperation in the field of international economic relations, in which for the development of economic cooperation, instruments such as dialogue and bilateral summits were used. Over time, 32 bilateral summits have taken place since 1995, two of which were of great importance: the St. Petersburg Summit in May 2003 and the Moscow Summit in 2005. At the St. Petersburg Summit the two sides agreed on building a strategic partnership and agreed to develop cooperation through a new institutional structure - the creation of four „common spaces” in the following areas: economy; freedom, security, justice; external security; science and education. The common economic space aimed to achieve better compatibility between the EU and Russian economies in order to stimulate investment and bilateral trade. Over the next two years, specific agendas were drawn up for each space, called „roadmaps”. These short- and medium-term instruments were approved and signed at the 2005 Moscow Summit.

Another event that has given hope for a change in the development of bilateral cooperation and the revival of the „strategic partnership” between the European Union and Russia is the Partnership for Modernization launched at the 2010 EU-Russia summit in Rostov-on-Don. Priority areas for partnership between the EU and the Russian Federation include the development and expansion of investment, consolidation of bilateral trade ties, developing energy infrastructure, development of innovation and research cooperation, development of friendship and cooperation relations of the civil society.

Reflecting the spirit of the 1990s and the specific geopolitical context after the dissolution of the Soviet Union and not being adapted to the new challenges of the 21st century, with the passage of time the PCA proved to be quite limited, a revision of this document being required. In 2008 the EU and Russia began



negotiating a new agreement aiming at providing a comprehensive framework for bilateral trade and investment relations. 12 rounds of negotiations were held.

3. *Periods of tensions*

In recent years, Eastern Europe and the former Soviet space have become a veritable arena for confrontation as the subject of common neighbourhood became an important reason for friction.

The idea of a strategic partnership between Russia and the EU began to deteriorate around the mid-2000s, as there were more and more disagreements from both sides. EU enlargement, NATO enlargement, the gas disputes and the 2008 Russia-Georgia conflict have all contributed to the cooling of the relations between the European Union and the Russian Federation.

The balance of relations between Moscow and Brussels was compromised in 2004 due to the presidential elections in Ukraine. After the publication of the results, a series of protests and general strikes began nationwide in Ukraine, called the *Orange Revolution*. These events boosted the organization of the third ballot, after which Viktor Yushchenko became the president of Ukraine. Brussels has criticized Russia's active support for presidential candidate Viktor Yanukovich and its attempt to impose a pro-Russian course on Ukraine. In turn, Russian authorities criticized the West for provoking confrontations, protests and chaos, supporting candidate Viktor Yushchenko.

Also, in 2004, new members were welcomed into the European family. The enlargement of the European Union has brought with it some problems in the development of the Russian-European dialogue. For Russia, EU enlargement meant the loss of territories which were under its sphere of influence. After barely joining the EU, the Baltic countries and Poland have opted for a tougher Brussels policy towards Moscow.

As the North Atlantic Alliance continued to expand eastward, the Russian Federation became increasingly dissatisfied. Also, the launch of the Eastern Partnership integration project, which included Belarus, Armenia, Georgia, the Republic of Moldova, Azerbaijan and Ukraine, was not welcomed by Kremlin. In 2009, Foreign Minister Sergey Lavrov criticized the launch of the EU's Eastern Partnership as an attempt by Brussels to expand its sphere of influence.

The year 2014 brought the deepest crisis in EU-Russia relations since the end of the Cold War. Tensions between the European Union and the Russian Federation have intensified as a result of the crisis in Ukraine. The beginning of the conflict took place in November 2013, when the then Ukrainian President Viktor Yanukovich did not sign the Association and Partnership Agreement between Ukraine and the European Union. The events that followed: the coup in Ukraine, the referendum in Crimea and its annexation by the Russian Federation, the military conflict in the self-proclaimed Donetsk and Luhansk People's Republics only intensified the already difficult situation. Thus, since March 2014, the EU has progressively imposed restrictive measures against Russia in response to the crisis

in Ukraine, and the Russian Federation has adopted counter-sanctions. UE imposed diplomatic measures, individual restrictive measures (freezing of assets and travel restrictions), restrictions on economic relations with Crimea and Sevastopol, economic sanctions and restrictions on economic cooperation. These sanctions are periodically extended and updated.

4. Sanctions and *counter-sanctions*

Restrictive measures taken by the European Union against Russia have affected existing intergovernmental relations, suspending biannual presidential summits, as well as discussions and steps on a new agreement to replace the PCA (Garcés de los Fayos, 2020). Russia has been excluded from the G8 Group. EU member states also supported the suspension of negotiations on Russia's accession to the Organization for Economic Co-operation and Development and the International Energy Agency.

Individual restrictive measures concern the freezing of assets and imposing travel restrictions on individuals and entities whose actions, in the opinion of the European Union, have undermined Ukraine's territorial integrity, sovereignty and independence.

Restrictions on economic relations with Crimea and Sevastopol apply to EU individuals and companies and assume: prohibitions of import concerning the goods originating in Crimea and Sevastopol, prohibitions of export targeting certain goods and technologies, trade and investment restrictions related to certain economic sectors and infrastructure projects and prohibitions of providing tourist services in Crimea and Sevastopol.

The economic sanctions imposed by the European Union target trade between the EU and Russia in certain sectors. They restrict the access of certain Russian banks and companies to the primary and secondary capital markets of the EU and prohibit forms of financial assistance and brokerage in favour of Russian financial institutions. Restrictive measures also prohibit the import, export and direct or indirect transfer of all defense-related materials, as well as of dual-use items that may be used for military purposes or that may be used by military end-users in Russia. The sanctions further restrict Russia's access to certain sensitive technologies that can be used in the Russian energy sector, for example in oil production and exploration (European Council, *Restrictive measures adopted by the EU in response to the crisis in Ukraine*).

Under the political veil, trade flows between the two major powers have been disrupted by various factors such as oil price volatility, the Russian Federation's import substitution policy, EU economic sanctions against the Russian Federation and counter-sanctions adopted by Russia. The price of oil registered a sharp decline in 2012-2016, influencing the depreciation of the Russian ruble in 2014-2015. For its part, the Russian Federation has responded to EU sanctions by imposing an embargo on agricultural and food products in the European Union and



banning the import from the EU of certain products, including raw materials, belonging to the car industry. Russia also applies a „blacklist” to EU nationals who have criticized its actions, denying them the right to enter its territory. This list includes several Members of the European Parliament and officials from EU Member States.

The Russian Federation’s policy of import substitution coincided with Russia’s accession to the World Trade Organization (WTO). In the summer of 2012, the Russian Federation became the 156th member state of the WTO. Simultaneously with the accession to the WTO, Russia began to implement the „State Programme for Agricultural Development in 2013-2020”, one of the objectives of which was to replace imports, favouring domestic products and services over foreign ones. Thus, so far, before the trade organization, the European Union has filed four complaints against Russia: on the recycling tax imposed on vehicles imported by Russia (2013), on excessive import duties from Russia (2014), on Russia’s embargo on pork from EU based on sanitary and phytosanitary requirements (2014), on anti-dumping duties for light commercial vehicles imposed by Russia (2014). The same number of complaints were lodged by the Russian Federation at the WTO against the European Union: on the EU’s third energy package (2014), on adjusting gas costs in EU anti-dumping investigations (2013 and 2015), on anti-dumping measures imposed by the EU on imports of certain steel products from Russia (2017) (WTO, *Map of disputes between WTO Members*).

5. Era of confrontation

The European Union and Russia are not equal partners in most relations. The relationship between the two can be defined as „the coexistence of the European elephant and the Russian bear” (Emerson, 2001). The exchange of goods between Russia and the EU is asymmetric. Both quantitative and qualitative differences have been observed over time in the structure of imports and exports and in the comparative dynamics of certain groups of goods. In structure, the most important goods exported from the EU to Russia have been and continue to be finished products such as machinery and equipment, chemicals and medicines, while imports have focused on raw materials, especially energy resources: oil, fuels, coal and natural gas (European Commission, *Countries and regions: Russia*).

Even after the cooling of bilateral relations, the community bloc remains the main trading partner of the Russian Federation. In turn, Russia is the fifth largest trading partner for the EU, surpassed only by the USA, China, the United Kingdom and Switzerland. At the same time, the Russian Federation continues to be the main supplier of gas and oil to the European Union. Russia has the role of distributor of energy resources of systemic importance in Europe. The states of the European Union rely on Russian natural resources. 40% of the total amount of natural gas and 27% of the total amount of oil imported by the EU comes from Russia (European Commission, *Countries and regions: Russia*). Much of Russia’s natural

resources reach the EU through pipelines across Ukraine. Thus, the EU's supply of natural gas is significantly affected by existing geopolitical tensions. The gas supply crises of 2006 and 2009 demonstrated this dependence. Thus, Europe is looking for solutions to reduce its dependence on Russian gas. The crisis in Ukraine has resulted in a closer cooperation between EU member states on identifying ways to reduce energy dependence on Russia as much as possible. The EU seeks to reduce its energy dependence on the Russian Federation by diversifying sources and suppliers, reducing energy consumption, stimulating energy production and cooperation between states, and investing in renewable energy resources.

To a large extent, the events of 2014 are the result of a long period of stagnation and mutual misunderstanding (Bordachev, 2016). Disagreements continued to accumulate for years (Pavlova and Romanova). However, in the past, both the European Union and Russia have occasionally tried to take certain steps to maintain bilateral relations. It is absolutely obvious that currently the most unnatural factor influencing the cooling of the realities between the two great powers is represented by economic sanctions. In the current situation, finding a common solution to the crisis has become extremely difficult.

In March 2016, the EU Foreign Affairs Council established five guiding principles underlying the EU's relations with Russia: (1) the implementation of the Minsk Agreement, as an essential condition for any substantial change in the EU's position towards Russia; (2) strengthening of relations with the EU's eastern and Central Asian partners; (3) increasing the EU's resilience in relation to energy security, hybrid threats or strategic communication; (4) a selective engagement with Russia on topics of interest to the EU, such as the situation in Syria, North Korea, tackling the migration problem in the Middle East, combating terrorism and climate change; (5) the need to make interpersonal contacts and support Russian civil society.

6. Scenarios

The practical purpose of the analysis of the research literature consists in making possible short- and medium-term scenarios on EU-Russia economic relations. These scenarios are not intended to be a forecast, but have been made in order to provide different possible and plausible visions for future developments. In the context of the scenarios, issues related to internal and external factors that influence the economic relations between the European Union and the Russian Federation are addressed, emphasizing both the perspectives and the challenges faced by the relations between the two great powers.

6.1. Improving bilateral relations

Geographical location, as well as economic complementarity, have made the EU and Russia irreplaceable trading partners, at least in the short term (Movchan, 2016). Despite the fact that the EU and Russia are geopolitical rivals, there is an interdependence between the two international actors from an economic point of view (Bogoviz *et al.*, 2018).

Empirical evidence shows that both European and Russian companies have only partially succeeded in redirecting trade flows to other international markets in response to the cooling of bilateral economic relations (Christen *et al.*, 2017). Restricting access to EU primary and secondary capital markets and certain technologies that can be used for oil production and exploration has forced Russia to seek alternative creditors and suppliers. Thus, the Russian Federation has intensified its cooperation with Chinese companies and investors (Russell, 2018). The Russian Federation has tried to reorient itself towards China. Fundamental changes in the economic context were caused by the fact that the global balance has moved towards Asia, China becoming one of the pillars of the new world. Consequently, the Russian Federation has begun to focus on its neighbour more than before.

Although the first pipeline through which Russian gas reaches China directly - Power of Siberia has been built, Russia continues to have major projects to facilitate the supply of natural gas to European Union countries, one example being the Nord Stream pipeline.

However, despite the tensions, there are many areas where the European Union and the Russian Federation have common interests and concerns. Russia and the European Union are complementary economic structures. Russia has enormous amounts of natural resources; and in EU countries they are either limited or completely absent. At the same time, Russia is a huge market for goods and services produced in the EU. Russia also needs a lot of investment and there are a large number of potential investors in the EU.

The EU will continue to be vital to the Russian economy. Geographical proximity, existing infrastructure and Russia's ability to export large quantities are the most important reasons why the Russian Federation will continue to be the European Union's main supplier of natural gas (Deak, 2017). Therefore, the EU and Russia have every interest in working together. Restoring relationships based on mutual trust and peaceful cooperation requires the availability of both parties to fully exploit the existing collaboration potential. The objective advantages of mutual trade, investment cooperation and good neighbourly relations, will drive both sides to reach a compromise (Sumarokov and Marganiya, 2017). Such a course of events is possible, only if the conflict in Ukraine is partially resolved and an energy agreement is reached, which will keep the transit of Ukrainian gas through the territory of Ukraine. The consolidation of bilateral relations will take place using a „selective engagement” approach, when, despite the challenges they

face, Russia and the EU will identify possible areas of cooperation and use this path to renew bilateral cooperation (Fischer and Timofeev, 2018).

6.2. Economic stagnation

In the relations between the European Union and Russia, in the short and medium term, the most likely scenario is stagnation, because there are no obvious signs of the willingness of the two geopolitical actors to fundamentally change their behaviour. Neither side expects a significant shift in the state of affairs in the short to medium term, further reducing the incentive for a change in the status quo (Fischer and Timofeev, 2018). The situation in Ukraine remains the main obstacle to better EU-Russia relations. The economic sanctions imposed on Russia by the European Union have failed to change vision of the Russian government in relation to the Ukrainian crisis (Afontsev, 2017). To date, no progress has been made on the implementation of the Minsk agreements by the Russian Federation.

Russia and Europe are devolving into coolly polite neighbors that have no real interest in each other, but who are forced to interact simply because they are neighbours (Lukyanov, 2020).

This scenario involves the continuation of political and diplomatic conflicts between Russia and the EU. The lack of significant progress in the Kremlin's implementation of the Minsk Agreements will continue to influence the maintenance of existing tensions between Moscow and Brussels (Russell, 2020). The period when there will be no well-defined strategy on bilateral relations (era of "non-strategy") will continue (Deak, 2017). Currently, many cooperation mechanisms, without which no progress can be made, remain inactive (Chizhov, 2019). Restrictive measures taken by the European Union against Russia have primarily affected existing intergovernmental relations, suspending biannual presidential summits, as well as negotiations on a new Partnership and Cooperation Agreement between the European Union and the Russian Federation (EEAS, *The European Union and the Russian Federation*). There were also other bilateral cooperation mechanisms that existed, such as the Russian government's annual meetings with European Commissioners and the President of the European Commission, projects on the formation of four common spaces, more than 15 sectoral dialogues (dialogue on transport, dialogue on industrial policy, dialogue on information of society, dialogue on agriculture, dialogue on the environment, etc.), the annual meetings of the Partnership and Cooperation Council with the participation of the Russian Foreign Minister and the High Representative of the European Union have been suspended. Therefore, there is currently no legal framework governing bilateral economic relations.

Russia's embargo on EU agricultural and food products has strengthened the Russian Federation's policy of substituting imports in the agricultural sector (Garcés de los Fayos, 2020). At the same time, Greek and Spanish food products have been partially replaced by those from China, Turkey, Chile and Argentina



(Moret and Shagina, 2017), products from the Faroe Islands have replaced those from Denmark, and imports from Belarus replaced those from Poland. Also, some goods for which there is an import ban will continue to reach Russia through other third countries (Christen *et al.*, 2017), such as Belarus and Kazakhstan, which re-exports to Russia products imported from the EU (Larrabee *et al.*, 2017).

In the economic and trade field, both the EU and Russia benefit from the improvement of bilateral relations. However, until the Russian Federation implements the Minsk agreements, the EU will not demand, nor will it accept, the thawing of the bilateral dialogue, the intensification of cooperation and the withdrawal of the sanctions adopted.

6.2. „A new Cold War” or the deterioration of relations

The conflict in Ukraine has caused the deepest crisis in EU-Russia relations since the end of the Cold War (Hett *et al.*, 2014). In the last seven years, relations have become more strained, various political misunderstandings have arisen, and the degree of mutual mistrust has increased. New challenges could arise in the economic field.

The European Parliament adopted resolutions on the state of EU-Russia relations in June 2015 and March 2019, supporting the restrictive measures taken by the European Union. In March 2019, the Parliament assessed bilateral relations and proposed that Russia should no longer be considered an EU „strategic partner”. MEPs stressed that the EU must be prepared to consider new sanctions against Russia, and global challenges must be addressed through selective cooperation between the EU and Russia.

On June 17, 2021, the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy presented a joint communication on the EU’s relations with Russia. This Joint Communication made recommendations prior to the Council of Europe meeting on June 24-25, 2021 on how to strengthen the implementation of EU policy on Russia. The document defines Moscow as „a strategic challenge” and stresses that „a renewed partnership between the European Union and Russia, allowing for closer cooperation, seems a distant prospect.” In order to meet the challenges posed by the Russian leadership, the Commission and the High Representative propose that the EU simultaneously show push back, constrain and engage to Russia.

Since the beginning of the COVID-19 pandemic, there has been no improvement or lifting of EU sanctions against Russia. During this period, Russia’s policy towards the EU remains set on the autopilot system, without any major changes (Weiss, 2020). The European Union has also not deviated from its line of conduct towards Russia and has not taken into account the lifting of restrictive measures. There were new opportunities for Russian-European interaction at the beginning of the epidemic, but these did not materialize. The EU continued to extend measures against the Russian Federation, without changing its conduct. Russia could have used the cooperation model with Italy to provide assistance to



other EU countries, but this did not happen. During his speech at the G20 summit in March 2020, Vladimir Putin proposed a „moratorium” on economic sanctions imposed on several countries, including Russia, saying „trade wars and sanctions exacerbate the crisis” caused by COVID-19, and proposed the establishment of a „green corridors sheltered from trade wars and sanctions” for the supply of medicines, food, equipment and technology, but the European Union government was sceptical about its efforts on humanitarian aid and support during the pandemic. According to Josep Borrell, the EU’s High Representative for Foreign Affairs and Security Policy, Moscow is using the coronavirus pandemic to expand its influence.

The restrictive measures imposed by the EU are periodically extended. The last update took place on July 12, 2021, when the European Council renewed for another six months, until January 31, 2022, the sanctions targeting certain economic sectors of the Russian Federation (EU Council, 2020). In addition, the possibility of introducing new European sanctions against Russia cannot be ruled out. New challenges could also arise in the economic field. Both the economy of the Russian Federation and that of the European Union will continue to be affected by the global crisis triggered by the COVID-19 pandemic.

Conclusions

Since they are the main economic actors of contemporary international relations in Europe, Russia and the EU are interdependent in an important number of areas. The energy supplies from the Russian Federation to the EU have been the foundation of bilateral economic and political relations for the past three decades. The energy field has played an important role in building and improving the EU-Russia relations. However, recent tensions in Ukraine showed that though important, the economic and energy cooperation between Russia and the EU is not enough to ensure peace, security and tight cooperation. Despite the negative effects caused by sanctions, the mutual economic relations remain strong, but they are strictly utilitarian, without having any claim to common goals.

At the moment, the legal basis of the relations between the European Union and the Russian Federation is found in the two primary EU treaties, i.e. in Title V of the Treaty on European Union (TEU), which contains general provisions on external action; in articles 206-207, with regard to trade, and in articles 216-219, regulating international agreements, of the Treaty on the Functioning of the European Union (TFEU) and in the Partnership and Cooperation Agreement.

Over time, the Partnership and Cooperation Agreement has remained unchanged, but the reality of the EU-Russia relationship has increasingly differed from its original configuration. The objectives of both sides have become more and more diverged. The PCA reflects the spirit of the 1990s and the specific geopolitical context after the dissolution of the Soviet Union and has not been adapted to the new challenges of the 21st century. Although this legislative

framework still exists officially, most of the collaboration mechanisms are currently inactive. The old model of relations between Russia and the European Union has ceased to function.

The crisis in Ukraine has clearly showed the need to develop an algorithm for the resumption of economic relations between the EU and Russia, defined as „the coexistence of the European elephant and the Russian bear”. This algorithm must ensure that the interests of the parties and of the countries in their immediate vicinity are respected and not be a source of problems, but a tool for strengthening and developing EU-Russia relations. In order to identify measures to reduce existing misunderstandings, it is important to find ways to defuse current tensions and initiate a constructive bilateral dialogue.

The architecture of bilateral relations until 2014 was based on ambitious plans, such as the creation of a common economic space from Lisbon to Vladivostok or the integration of the Russian Federation into the European Union. These complex, far-reaching ideas which, although pompously presented, have not yet been materialized. The old cooperation mechanism clearly did not create any concrete legal framework to allow a regular and transparent bilateral dialogue.

We consider that bilateral relations are quite important for both parties and in the near future the new iron curtain between Russia and the EU will not fall (situation presented above in the third scenario). At the same time, the overly optimistic opinions of some authors, presented in the context of the first scenario, in the short and medium term can not be considered a viable solution.

In order to improve bilateral relations, the European Union and the Russian Federation need to establish a new framework in which the interests of both parties are taken into account. However, given the current circumstances, any decision acceptable to both parties would be highly difficult to implement.

Given that EU member states have a distinct degree of openness to interact with the Russian Federation, in the absence of any improvement in the Russia-EU relations in the short and medium term, each EU state could individually focus on bilaterally improving their ties with Russia. As the EU is a community, a supranational organization of 27 European states will not be easy to achieve, even with completely separate bilateral cooperation.

A major change in the direction of the EU-Russia relationship in the short and medium term is not possible. However, before a longer-term strategy can be devised, efforts must be made to rebuild mutual trust. Both actors need to find a way to understand and respect each other’s political values and paradigms. The key issues of bilateral concerns and the strengthening of dialogue in those areas need to be identified. Bilateral intergovernmental dialogue, especially ministerial dialogue, could help to understand and predict each other’s actions, and to avoid potential conflicts.

The contributions in this article can lead to new lines of inquiry in the area of economic relations between European Union and Russian Federation. EU member states with a different degree of openness to interaction with Russia can be grouped according to this criterion. This research can be the starting point for a new

analysis that will include the construction of scenarios for the future of relations between the Russian Federation and each group of countries thus formed.

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