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## EU-Russia : signal to cooperation instead of sanctions

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RIA Novosti - 2/9/2008

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On September 1, the European Union (EU) held an emergency summit on relations with Russia after the war in South Ossetia.

Russia's biggest trade partner, the EU refrained from imposing any economic sanctions on it. Europe depends too much on Russian energy sources, and the leading Western companies are highly interested in expanding their business in Russia.

Nevertheless, economic sanctions against Russia had been seriously discussed shortly before. Poland, for instance, suggested rather tough financial and economic measures against Russia. Its draft resolution said that the EU should consider the Russian market unstable and full of risks and recommend major businessmen to reduce investment into Russia. Another proposal was to limit some Russia-exported goods, such as metals and fertilizer. Finally, the EU could advise European banks not to re-credit Russian banks and companies.

But the biggest consumers of Russian hydrocarbons - Italy, Germany, and France - expressed themselves against any economic sanctions. This is not surprising; the EU accounts for 50% of Russia's foreign trade, most of which consists of energy supplies. Today, Russia provides the EU with a third of its oil and 40% of its gas.

The EU summit watered down its resolution, which does not say a word about economic sanctions against Russia because of its armed conflict with Georgia.

This may be considered a diplomatic victory for Russia. Instead the document says that Russia-EU relations should be substantially revised, and that they "have reached a crossroads." The EU leaders instructed their bureaucrats to search for alternative energy sources in order to reduce dependence on Russia.

This is not the first time they have been faced with this task, but it has not yet been resolved.

Britain and Poland, the main advocates of a tough line towards Russia, had to settle for the document's statement that "meetings on the negotiation of the Partnership and Cooperation Agreement will be postponed." But these meetings had already been delayed for the last year and a half because of the stubborn position taken by such EU members as Poland and Lithuania, and resumed only this summer. In any event, the agreement on partnership and cooperation with Europe plays a symbolic role, and is not all-important for Russia.

At the same time, Italy, France, and Germany declared unanimously that isolating Russia was not an option, and that it is necessary to continue dialogue with it. German Chancellor Angela Merkel said that the last EU resolution on Russia signaled the need for an alliance.

Economic contacts between Europe and Russia cannot be broken, primarily because business in the West and the rest of the world is vitally interested in the rapidly developing Russian market.

Major European and world carmakers who conduct business in Russia through their European subsidiaries are looking to expand their Russian operations further.

All forecasts predict that this year Russia will leave Germany behind and become the world's biggest car market. TNK-BP, the daughter of the British oil giant, is going through a difficult period, but BP still intends to develop its business in Russia.

The optimism of European investors and exporters is shared by their American colleagues. Last week, the U.S. National Council on International Trade Development, which unites more than 300 companies, urged President George W. Bush not to impose any economic sanctions against Russia. Also last week, PepsiCo purchased Lebedyansky, Russia's biggest juice producer. Incidentally, agreement on this deal was reached in spring, so the U.S. company had plenty of time to ponder the wisdom its investment.

Needless to say, the conflict in South Ossetia has dealt certain damage to foreign investment in Russia. Finances were the hardest hit, since they are more susceptible to speculations. Between eight and twenty billion dollars left Russia during the conflict, first of all from its stock market. Some three to four billion dollars followed suit a week later.

Experts maintain that no fundamental changes have taken place in the Russian economy. The leading Russian companies continue to be highly profitable, and now there is an opportunity to buy into them (relatively) cheaply. Most likely, foreign investors will return to the Russian stock market by the end of the year.

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