

# **U-turns and Ways Forward: Armenia, the EU and Russia Beyond Vilnius**

## *Policy Brief*

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### **Summary**

In the run-up to the Vilnius Summit on the EU's Eastern Partnership (EaP) on 28-29 November, one impression is that a huge opportunity might have been missed: attracting Armenia, an important South Caucasus partner, into closer trade and institutional cooperation with the European Union. The 3 September U-turn by Yerevan towards Moscow and its Customs Union happened for various reasons: Armenia's miscalculation and unsuccessful balancing act, Russia's reinvigorated *real politik* towards the shared neighbourhood with the EU, and an inactive EU policy towards Armenia, failing to read important signs. Nevertheless, now that the damage has been done, and regardless if it had been avoidable or not, the EU should not abandon the Armenian cause and push for even stronger cooperation in areas other than trade, not least because the EaP is generally a successful policy and its integrity should not be ruined. Another way to ensure more success for the EaP is to 'harden' the unproductive soft approach to Russia.

### **What went wrong**

On 3 September Armenia's President Serzh Sargsyan, a declared European integration supporter, in a drastic departure from his own hitherto policy line, announced during his meeting with his Russian counterpart Vladimir Putin in Moscow that Armenia had decided to

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join the Russian-led Customs Union (CU) including also Belarus and Kazakhstan. Over the past years, Armenia has pursued a fast-paced European integration track as one of the main lines of its multi-vectored foreign policy. Since 2010, Armenia has been negotiating an Association Agreement (AA) with the EU, including a Deep and Comprehensive Free Trade Agreement (DCFTA), as well as Visa Facilitation and Readmission Agreements. While officially Yerevan, in contrast with some other Eastern Partners, never announced an intention to join the bloc of 28, high-level commitment and accelerated talks towards association with the EU - that is, practice - had in fact rendered EU integration a top foreign policy vector for Armenia. Over the last few years Armenia has recorded considerable achievements in its European integration efforts, well catching up with generally more successful Ukraine in some pillars of integration with the EU.<sup>1</sup> All talks were successfully finalised by summer 2013, and Armenia was expected to initial its AA, as repeatedly stated by Armenian and European officials, together with Georgia and Moldova, at the Eastern Partnership's Vilnius Summit in November.

But after over three years of hard efforts and resources invested from both sides, the 3 September *volte-face* effectively pushed the possibility of signing the AA with the European Union to zero, because of the incompatibility with the tariff system envisaged in the CU. The turnabout created political shockwaves in Armenia and across the EU. In Armenia, the move stirred resentment among the country's civil society, media and politically conscious part of the public at large, among both those advocating Armenia's European integration and those who are simply against Armenia entering the CU. Especially shocking was the move for Armenia's so called *generation of independence* (the ones born and raised in already independent Armenia) who do not anyhow associate themselves with the political and economic non-values of the states that make part of the CU.

### **The dilemma of complementarity**

Since Armenia acquired its independence back in 1991, the country's policymakers have sought to conduct a balanced, multi-vectored foreign policy line, for which they coined the term *complementarity*. Defined in view of the complex geopolitical context the country has found itself in, this policy line was meant to maximally ensure Armenia's strategic interests. However, for various reasons, sustaining the declared equilibrium has proved to be more difficult than originally envisaged, as over the years Yerevan saw its foreign policy vector being more indexed towards Moscow than in any other direction.

While Russia has been dubbed as Armenia's closest economic and military ally and a strategic partner of the last two decades, relations between the two have not been as cloudless as has been jointly declared. Over time, by virtue of Yerevan's faulty and misguided policy line vis-à-vis Moscow, the Armenian-Russian *strategic partnership* has turned into an unequal alliance, with Yerevan sacrificing much more to this alliance than receiving from it. As Moscow got hold of Armenia's critical strategic economic and energy assets in rounds of 'property for debt' swaps, it has grown increasingly cynical and ignorant towards its ally's interests by offering arms deals to Armenia's archenemy Azerbaijan and choking Yerevan's attempts to break through the Turkish-Azerbaijani economic blockade with initiatives of economic and political diversification.<sup>2</sup> It is partly with an aim to add balance to Armenian foreign policy that Yerevan has sought closer ties with Brussels.

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<sup>1</sup> See the Eastern Partnership Index 2013. Available at: <http://www.eap-index.eu/>.

<sup>2</sup> Earlier examples of this include obstruction of plans to build the Iran-Armenia gas pipeline with a bigger capacity, thereby hitting on Armenia's energy security, diversification and transit potential, as well as playing into the Azerbaijani energy blackmail of Turkey which eventually thwarted the 2008-2010 Armenian-Turkish normalisation process.



Apart from this geostrategic calculation, economic integration with the EU has been considered an optimal way to push Armenia's stagnant economy to a development track. For Armenia's civil society and part of the wider public, European integration has also been a welcome civilisational course which they saw as a way to improve Armenia's lame democratisation and liberalisation credentials. Armenian critical political opposition forces have in principle been supportive of this track, too. Thus, the European integration vector has been backed by a general consensus in Armenia in view of geostrategic, economic and democratisation implications.

Still, Yerevan has been cautious not to put its European integration in juxtaposition with its relations with Moscow. In light of this, Armenia has tried to pursue a delicate balancing act between its strategic partner and the EU while diversifying the country's political, economic and military ties. Moscow has been closely watching the process all along, not without displeasure. While it was widely expected that diplomatic tight-roping would not be easy, the government's upbeat rhetoric and overconfidence in maintaining its military partnership with Russia while also advancing economic partnership with the EU<sup>3</sup> left the impression that Yerevan would be able to pull this *complementarity* through.

To Moscow's suggestions that Yerevan joins the Russian-led Customs Union, Armenia's Prime Minister Tigran Sargsyan, a staunch European integration supporter back then, had to repeatedly bring out arguments that it is economically not relevant for Armenia. In particular, he pointed to the fact that Armenia has no common border with any of the Union's three member states. At the same time, he argued that the structure of the Armenian economy is very different from that of the CU members' economies: Armenia has a more liberal trade regime and lacks vast natural resources.<sup>4</sup>

But obvious economic obstacles couldn't stand on the way of what was a purely political decision. On 3 September Armenia's President declared that "When you are part of one system of military security it is impossible and ineffective to isolate yourself from a corresponding economic space."<sup>5</sup> The security reference in Sargsyan's announcement has caused a widespread conviction that Moscow has conditioned its security obligations to Armenia on the latter's entrance into the CU. Albeit security is the pillar that would almost unmistakably, given the geopolitical context, strike a sensitive chord among the Armenian public at large, for many in Armenia the cited reason has provoked more questions than answers: in particular as to how reliable and sincere a partner Russia is and if its security guarantees can be trusted at all if the price is as high as undermining Armenia's sovereign choice. In addition, there were other instruments, or rather a combination of them, that Russia could use as leverage to divert Armenia's European integration course, including the energy card and interventions into Armenia's domestic political affairs.

## Russia's blackmail

Over the last years, Russia has hardened its strategy towards the ex-Soviet countries. Putin's idea of the Customs Union and then the 'Eurasian Union' may be seen as a logical upgrade, or sophistication, of Russia's 'near abroad' policy.<sup>6</sup> Putin has hinted at this strategic course back in 2005 in a speech to the Duma: he said then that the collapse of the Soviet Union was "the

<sup>3</sup> "Russia is our military-security choice; DCFTA is our economic choice", Armenian Deputy Foreign Minister Shavarsh Kocharyan, *Commonspace.eu*, 11 August 2013. Available at: <http://commonspace.eu/eng/news/6/id2754>.

<sup>4</sup> Emil Danielyan, "PM Cites Another Hurdle To Armenian Entry Into Russian Bloc", *Azatutyun.am [RFE/RL Armenia]*, 4 February 2013. Available at: <http://www.azatutyun.am/content/article/24892837.html>.

<sup>5</sup> "Armenia To Join Russian-Led Customs Union", *RFE/RL*, 3 September 2013. Available at: <http://www.rferl.org/content/armenia-customs-union/25094560.html>.

<sup>6</sup> See Anton Barbashin & Hannah Thoburn. "The Kremlin's Collapsing Eurasian Sandcastle", *The National Interest*, 11 September 2013. Available at: <http://nationalinterest.org/commentary/the-kremlins-collapsing-urasian-sandcastle-9042>.



greatest geopolitical catastrophe” of the 20<sup>th</sup> century.<sup>7</sup> It was not until October 2011, however, that Putin made the official announcement of what has been from then on referred to as his ‘brainchild’ or ‘pet project’ – the Eurasian Union, in an authored piece in *Izvestia*.<sup>8</sup>

Russia’s renewed suspicion of the West and the corresponding more assertive policies towards the ex-Soviet world did not come about in an abrupt manner. They have grown gradually but steadily. Initially, the EU did not represent a serious Western ‘threat’ in the perceptions of Putin’s regime, especially in comparison with the then more assertive US policies. The EU was seen as a soft bloc of wealthy pacifists whose money-pouring in Eastern Europe was bearable if not helpful. But in the mid-2000s things started to change, and what was the turning point in Russian attitude vis-à-vis the EU was the launch of the bloc’s Eastern Partnership initiative. Suddenly, Western cooperation with the six ex-Soviet EaP states acquired a concrete and prospective form: the money-pouring transformed into a promising tool for democratisation and adoption of western values such as the rule of law and the fight against corruption. What is more, after the Vilnius Summit in November it threatens to turn into an effective free trade mechanism between the Eastern Partners and the Union. This would make Russia’s Eurasian Union grand project seriously stumble. From Russia’s point of view, it had to take action in order to prevent these unfavourable developments.

Ahead of the Vilnius Summit, the Kremlin started exerting consistent pressure on other EaP countries, regardless of the level of cooperation with the EU each of them had reached. In July Russia’s president Vladimir Putin warned Ukraine that it should rethink its drift towards the EU for ‘historical reasons’;<sup>9</sup> in August, his administration took a more concrete step and banned chocolate imports from Ukraine.<sup>10</sup> Russia cut oil exports to Belarus (a member of the current Customs Union and an EaP state which is farthest away from any closer ties with the EU, but still a very important ‘near abroad’ for Moscow) and restricted dairy and pork imports from there – just to demonstrate that Minsk is on a tight leash.<sup>11</sup> Russian deputy prime minister Dmitri Rogozin explicitly warned Moldova that signing an EU agreement would complicate its chances for resolving the conflict with Transnistria (heavily Russian-influenced).<sup>12</sup> It then started another trade war as a concrete punishing step and banned Moldovan wine imports.<sup>13</sup> In these trade rows the Russian consumer rights watchdog Rospotrebnadzor has effectively become an institutional tool for foreign policy pressure – just like Gazprom is in the sphere of energy. Moscow’s approach to Georgia, however, was different. Instead of going for trade pressure, Russia chose to start the so-called process of ‘borderisation’ (building fences) between South Ossetia and Abkhazia and Georgia proper.<sup>14</sup> The Kremlin’s actions were not limited to the non-EU EaP countries; they spread out to include EU member states such as the current EU president Lithuania (the host of the Vilnius Summit in November). In October, Russia halted

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<sup>7</sup> "Putin Deplores Collapse of USSR", *BBC News*, 25 April 2005. Available at: <http://news.bbc.co.uk/2/hi/4480745.stm>.

<sup>8</sup> Gleb Bryanski, "Russia's Putin says wants to build 'Eurasian Union'", *Reuters*, 3 October 2011. Available at: <http://www.reuters.com/article/2011/10/03/us-russia-putin-eurasian-idUSTRE7926ZD20111003>.

<sup>9</sup> "Putin tells Ukraine to rethink its drift towards the EU", *EurActiv*, 29 July 2013. Available at: <http://www.euractiv.com/europes-east/putin-tells-ukraine-rethink-clos-news-529618>.

<sup>10</sup> "Russia hits at Ukraine with Chocolate war", *EurActiv*, 14 August 2013. Available at: <http://www.euractiv.com/europes-east/russia-hits-ukraine-chocolate-wa-news-529804>.

<sup>11</sup> Neal Buckley, "Russia's relations with its neighbours become increasingly chilly", *Financial Times*, 3 September 2013. Available at: <http://www.ft.com/intl/cms/s/0/55d642e0-1485-11e3-b378-00144feabdco.html?siteedition=intl#axzz2h771AxeG>.

<sup>12</sup> "Russia threatens Moldova over its EU relations", *EurActiv*, 3 September 2013. Available at: <http://www.euractiv.com/europes-east/russia-keeps-threatening-neighbo-news-530198>.

<sup>13</sup> "Russia punishes Moldova by banning its wines", *EurActiv*, 11 September 2013. Available at: <http://www.euractiv.com/europes-east/russia-punishes-moldova-banning-news-530394>.

<sup>14</sup> "U.S. Concerned over 'Borderisation'", *Civil.ge*, 3 October 2013. Available at: <http://www.civil.ge/eng/article.php?id=26514>.



dairy imports from Lithuania after Rospotrebnadzor cited quality concerns regarding those products.<sup>15</sup>

Where does Armenia stand in the Russian strategy? Armenia is a key element in making a Russian statement towards the wider stripe of ex-Soviet neighbours. Officially a 'strategic ally' of Russia, it hosts a military base with Russian soldiers in the northern town of Gyumri. It is also reliant on Russian energy sources (Russia owns the energy infrastructure, too), and Russian state firms control huge bits of the economy, including telecommunications and railroads. Armenia is thus the most vulnerable link in the entire EaP belt of countries. After Armenia began to steadily move towards signing an Association Agreement with the EU in Vilnius, Russian pressure started to increase: gas prices for Armenia were hiked,<sup>16</sup> and a huge \$1 billion arms deal was signed with Armenia's regional arch-rival Azerbaijan.<sup>17</sup> In August 2013, Russia's President Vladimir Putin, accompanied by an impressive delegation, paid an outwardly demonstrative visit to Baku, while ignoring Armenian President's earlier invitation to visit Yerevan.

At public level, Russia's Kremlin-friendly media and analysts worked hard to 'enlighten' the Armenian society about the negative consequences that the 'wrong' choice would bring to Armenia: these ranged from ominous predictions of loss of Nagorno-Karabakh to revealing underlying threats to Armenian traditional family values. As their main argument of why Armenia should choose the Customs Union over an association with the EU, they cited Armenia's security bonds with Russia. Some former Russian government officials went as far as to threaten that Russia's security guarantees for Armenia would be jeopardised.<sup>18</sup> Russia's former ambassador to Armenia Vyacheslav Kovalenko openly warned Armenia about its westward drive quoting the famous proverb that 'the way to hell is paved with good intentions.'<sup>19</sup> These conjunctures have pushed the Armenian-Russian relations to their lowest point ever, albeit with no official indication of that, and triggered unprecedented level of anti-Kremlin sentiments among the country's politically conscious community and media.

There are three distinct aspects to Armenia's Moscow turnabout from the Russian strategic perspective. First, even though Armenia would not be an important link for the realisation of Putin's Eurasian Union, it would be humiliating for Moscow that even its closest ally does not want to be part of that vague integration project. Second, Armenia's example was meant to warn other potentially 'naughty' EaP countries as to what would be the costs of affording too much independence in foreign policy and closeness with the EU. And third, dragging Armenia into the Eurasian Union project has much larger geostrategic dimensions in Russia's perception. As a Yerevan-based analyst pointed out, the geopolitical context has its own role in Russia's change of mood towards Armenia's association with the EU, namely the context of Syria (U.S. strikes were imminent in early September), the G20 summit and Ukrainian obstinacy.<sup>20</sup> And whilst Moscow

<sup>15</sup> "Russia halts dairy imports from EU president Lithuania", *Reuters*, 7 October 2013. Available at: <http://www.reuters.com/article/2013/10/07/us-russia-lithuania-dairy-idUSBRE99604Y20131007>.

<sup>16</sup> See "Gas Price Reduced as Armenia Joins Customs Union". *Asbarez.com*, 8 October 2013. Available at: <http://asbarez.com/114797/gas-price-reduced-as-armenia-joins-customs-union/>.

<sup>17</sup> This was the latest in a series of Russian arm deliveries to Baku since 2010, amounting to around \$4 billion in total. For more, see "Russia starts delivering \$1 billion arms package to Azerbaijan", *Reuters*, 18 June 2013. Available at: <http://www.reuters.com/article/2013/06/18/us-russia-azerbaijan-arms-idUSBRE95H0KM20130618>.

<sup>18</sup> "Константин Затулин: Выбор Еревана в пользу европейской PR-кампании чреват серьезными последствиями [Konstantin Zatulín: Yerevan's choice in favour of the European PR campaign is fraught with serious consequences]". *IA REGNUM*, 11.07.2013. Available at: <http://www.regnum.ru/news/fd-abroad/armenia/1682200.html>.

<sup>19</sup> "Коваленко: Собирая европейские ценности, Армения может встать на скользкий путь [Kovalenko: By embracing European values, Armenia might step on a slippery slope]". 8 July 2013. Available at: <http://evrazesnews.ru/index.php/news/article/view/15/7778/>.

<sup>20</sup> Alexander Iskandaryan, Public discussion, "Armenia's New Choice: Scenarios for the Economic and Political Future", organised by Regional Studies Center (RSC) and Konrad-Adenauer-Stiftung (KAS), 12 September 2013, Yerevan.

might have gained short-term geopolitical dividends by taking such a resolute and loud action to 'punish' both Yerevan and Brussels, it has in fact shown that it can project power over, and in the process undermine, only its closest ally in the region.

### **Armenia's miscalculation**

While the Armenian leadership's European integration course has been generally benign, there was a strategic miscalculation on its part in terms of addressing possible hindrances to the chosen route. Authorities in Yerevan misread their strategic partner's intentions regarding the process, or else, how wider geopolitical context could eventually alter these intentions.

On a larger scale, Armenia's foreign policy disbalance has gone too deep over the years to be corrected at no price. Over the last two decades, Armenian policymakers have failed to make use of Yerevan's potential levers in dealing with Moscow (hosting the military base, as well as the presence of a considerable Armenian community in Russia) and advance its interests. On the contrary - the Kremlin has managed to reverse these levers to its own advantage. Eventually, Armenia had to make a 'choice' based on not what would be the most beneficial to its interests, but rather based on the possible consequences and costs of this or the other choice.

Amidst mounting Russian pressure, policymakers also failed to drum up Parliamentary and public support for their top foreign policy cause. Such support would undoubtedly make Armenia's European integration track more immune to outside interventions. Similarly, the abrupt policy change came without the Armenian Parliament and the Armenian public being warned of the move, while also raising domestic accountability concerns. The fact that the European partners were not sufficiently and timely informed either and were caught by surprise by Yerevan's turn-about too is another foreign policy blunder with far-reaching implications.

After 3 September, Yerevan has found itself between a rock and a hard place: while on the one hand, it cannot really accept that the move was a result of Moscow's conditioning and pressure, on the other hand, claims that this was Armenia's conscious and independent decision undermine the latter's sincerity and credibility in the 4-year AA negotiations. The Armenian government does not seem to have a strategy for a dignified damage control out of the situation either, but in fact continues to erode its own credibility both at home and abroad by pretending that no policy change has happened on its part. Most recently, there is even a parallel tendency to blame the European officials for not acknowledging the possibility that Armenia be part of both the CU and DCFTA. Yerevan's about-face and the way it was carried out has not only turned it into an unreliable partner for its European friends, but has also weakened its clout vis-à-vis Russia and the CU if it is ever to get it.

### **The EU's miscalculation**

By the summer of 2013, European officials had become overconfident regarding Vilnius, too. Russian pressure on Eastern partners, including Armenia, had begun months before the 3 September turn-about, and policymakers in the European capitals apparently underestimated both Russia's pressure and the situation on the ground.

In Armenia, there is a feeling across the board that Yerevan was left to deal alone with Moscow's mounting pressure. Official Yerevan never made a case about the Russian pressure, unlike some other Eastern Partners, and there are weighty reasons why it would not do so. Given Armenia's tricky geopolitical situation and the over-reliance on Moscow, Yerevan would rather cut itself deeper in the flesh than hint that it is facing a pressure. Armenia has no other choice but to



handle its relations with Russia on its own. Even more so, it has the example of its neighbour Georgia's earlier strategic blunder, as Tbilisi hoped to rely on Western partners in openly confronting Moscow and is now forced to come into terms with its northern neighbour on its own, having paid a heavy price. There is a level of resentment among the Armenian public at large that Brussels is not really trying to understand Armenia's foreign policy dilemmas, underestimates its security challenges and does nothing at least at the level of rhetoric to address Armenia's security concerns.

The European reading of Armenia still falls victim to prevailing stereotypical perceptions. In a sense, important signs of Armenian foreign policy reorientation to the West and possible costs connected to it were largely overlooked due to these perceptions. A high level of scepticism in some circles of European policy-making and analytic community has been there throughout the process over what Armenia, given its special partnership with Russia, can pull through, and this never allowed the adoption of a more informed and integral approach towards Armenia to help it through. Armenia's dilemmas have been and still are largely absent from the European spotlight, especially when juxtaposed to Eastern Partnership's more successful members, and indeed everyone's favourites - Ukraine, Georgia and Moldova.

On the other hand, the tendency to play off the European project against the 'Eurasian' one on the part of not just Moscow but also some European capitals has been unhelpful and in a sense played against Armenia's diplomatic manoeuvring. The purely technical incompatibility between the DCFTA and the CU would often be interpreted in wider geopolitical terms and framed as a strategic choice of 'either/or' between the EU and Russia. Yet pitting the two projects against each other by no means was in Yerevan's interest: it tried to appease and offer face-saving solutions to its strategic ally Moscow by not explicitly refusing to have some level of cooperation with the CU.<sup>21</sup>

In addition, many among Armenia's political, analytical and civil society communities express the concern that the EU's turning of a blind eye on the country's democratic deficit over the last few years because of geopolitical considerations<sup>22</sup> has played a bad trick and is yet another reason of the hindered EU integration. In a truly democratic Armenia, the association process would have been more transparent, reforms more genuine, while a higher degree of legitimacy would empower any Armenian government against foreign pressure, they argue.

Finally, an important missing link on the part of those with stakes in Armenia's EU integration process has been the generally absent debate about the real advantages that this integration could bring to Armenia. While the Association talks were carried behind closed doors and the Armenian public was provided with limited information only, domestic and foreign actors against Armenia's EU integration were given a chance to interpret and define the process only in negative light. An open and transparent debate over the costs and benefits of the EU association on the part of the Armenian authorities, the EU and Armenian civil society actors, including the Armenian National Platform of the EaP's Civil Society Forum, could help win hearts and minds and drum up a degree of public sympathies and support for the cause, thereby making Armenia's European integration course less prone to such departures.

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<sup>21</sup> "Armenia Signs MoU for Russian Customs Union". *Asbarez.com*, 11 April 2013. Available at: <http://asbarez.com/109346/armenia-signs-mou-for-russian-customs-union/>.

<sup>22</sup> For more on this, see: Anahit Shirinyan, "Armenia: From One Election to Another", *Clingendael / The Netherlands Institute of International Relations*, May 2013. Available at: <http://www.clingendael.nl/publication/armenia-one-election-another>.



## Implications

### *For Armenia*

As the EU-Armenia AA in the negotiated form is for now off the table, in both Yerevan and Brussels, there is an interest to continue cooperation in spheres that do not fall in conflict with Armenia's decision to join the CU. A new, modified legal framework is likely to be developed as a base of EU-Armenia cooperation. Still there is a risk that the new EU-Armenia partnership will lack the integrity it used to have before. Since the DCFTA is the real incentive for democratic and market reforms, without the conditionality clause it contained, there is a risk of ending with an empty box-agreement and an EU-Armenia partnership resembling nothing more but a declaration of good intentions.

There are also concerns in Armenia that, in view of Armenia's diversion from the EU integration path and its possible membership of the Customs Union, Armenia will find itself in a bad company of states, notorious for their authoritarian tendencies and might be tempted to slip down the same path.

While there aren't many assessments of costs and benefits of Armenia's CU integration, some economic costs are obvious already at this point. The absence of a common border and the different economic profile of the CU states from that of Armenia are just a couple of the problems which make it economically ungrateful for Armenia to be part of that bloc. As the EU remains Armenia's top trade partner,<sup>23</sup> introduction of higher customs tariffs will negatively affect the EU-Armenia trade exchange. In general, Armenia's trade with third countries will suffer, which will in turn lead to a rise in commodity prices. The move is also likely to alienate potential European investments. Membership of the CU means delegating the decision-making right of foreign economic policy to a supranational structure which is a serious misinterpretation of Armenia's sovereignty.

Whilst the 3 September move is widely and naturally seen as a political rather than economic affair, in the long run, the U-turn is not in Armenia's political interest either. The move is likely to hit hard on Armenia's strategic interests in the region and beyond. By diverting from a path of deeper European integration, Armenia limits its own options and loses more friends, which is tantamount to self-isolation. Another drawback will be Armenia's reduced role within the Eastern Partnership framework after it fails to initial its AA: this will inevitably throw Armenia into the unenviable group of EaP's laggards. Armenia also loses Georgia, Moldova and Ukraine as partners with whom it used to share a common vision for its future. Finally, Armenia's rivals are likely to further on use Yerevan's sticking to its strategic ally Moscow in their lobbying efforts to stir anti-Armenian sentiments by exploiting the general anti-Russia sentiments in the West.

### *For the Eastern Partners and the EaP project*

The Armenian turnabout delivers a blow not only to this country's European ambitions and prospects for democracy and prosperity; it also has regional implications. Pro-democracy and EU-oriented leaders in other EaP countries may not be forgetful of the Armenian case when dealing with both the EU and Russia in the future. With the fast pace of developments in the run-up to Vilnius, anything can be expected. The Ukrainian government unanimously endorsed

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<sup>23</sup> The EU is Armenia's top trade partner with 27% of the external trade share (as of 2012), while Russia comes second with 21% of the share. 35% of Armenia's exports go to the EU, while only 18% to Russia. See European Commission, "EU Bilateral Trade and Trade with the World. Armenia", available at: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113345.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113345.pdf).



the signing of the AA with the EU, but there is Parliament which has to ratify it, as the Russian ambassador to the EU importantly reminded.<sup>24</sup> And there are elections coming in the country. Moldova faces a loss of more than a fifth of its wine exports (those going to Russia) and always has the Transnistria worry on its mind. It is unclear if the planned EU measures to increase the quotas for Moldovan wine will remedy the loss. And Georgian Prime Minister Bidzina Ivanishvili hinted in an interview in September he does not 'rule out' the Eurasian Union.<sup>25</sup> So one potential significance of the Armenian turnabout is that there is a risk that other EaP countries, having Armenia's example, may start hesitating too whether they are ready to pay the costs of EU association.

### *For the EU*

Armenia's decision to quit a trade deal with the EU is a blow to the bloc itself. First, the credibility of EaP as an instrument for promoting development and democracy in the Neighbourhood is diminished. It is certainly not lost – despite signals Ukraine will not sign the AA in Vilnius, it has initialled it already; Georgia and Moldova are expected to initial the deal at the summit too. But Armenia was basically the key and strategically most important potential signatory – exactly because of its reputation for being over-reliant on Russia, economically and politically. An Armenian AA with the EU would be a significant victory for the normative power of the EU and a huge boost in the Eastern Partnership effort. All this now is about to be lost, and the damage and humiliation was already done in Moscow – to the EU as well as Armenia.

Second, it is evident that the lack of membership perspective in any process promoting European integration or closer ties makes that process less effective. Even in the Western Balkans, where accession is a promised outcome to all aspiring countries, the process is difficult; it works mainly because of the membership lure. This means that the EU should think of ways to enhance the 'carrot' moment in the whole exercise: in the example of EaP, this is clearly *visa liberalisation*. If Armenia knew that signing a trade deal with the EU would also automatically mean lift of visa requirements for its citizens to travel to the EU, the stakes would be much higher for Sargsyan to quit. At least he would have fought harder in Moscow, and would certainly have been met with huge public discontent at home.

Third, the EU's soft hand with Russia and insufficient engagement with Armenia is a wrong approach. Tougher stances, and indeed actions, are needed vis-à-vis Russia, and more positive engagement with Armenia. The address to the European Parliament of Enlargement Commissioner Stefan Füle, denouncing Russian pressure on the Eastern Partners, is a good case in point: it was timely, extraordinarily straightforward (for the standards of EU diplomatic talk) and even sharp.<sup>26</sup> What has to follow is actions by the EU's decision-makers and executive agencies. Also, instead of provoking deeper and more careful engagement on the part of the EU, Armenia's turnabout caused emotional and, frankly, incomprehensible reactions by some of the staunchest promoters of the EU's eastern policy and EaP (originally a Swedish-Polish initiative). Swedish Foreign Minister Carl Bildt said right after the U-turn Armenia's AA is 'now off the table',<sup>27</sup> and his Polish colleague Radek Sikorski said Poland rejected any alternative agreement

<sup>24</sup> "Chizhov: Russia doubts that majority of Ukrainians want EU integration", *EurActiv*, 7 October 2013. Available at: <http://www.euractiv.com/europes-east/chizhov-russia-doubts-majority-u-interview-530887>.

<sup>25</sup> "Interview: Georgian PM Still Aiming For EU, But Doesn't Rule Out Eurasian Union", *RFE/RL*, 9 September 2013. Available at: <http://www.rferl.org/content/georgia-ivanishvili-interview/25100642.html>.

<sup>26</sup> See European Commission, "Statement on the pressure exercised by Russia on countries of the Eastern Partnership", SPEECH/13/687 11/09/2013. Available at: [http://europa.eu/rapid/press-release\\_SPEECH-13-687\\_en.htm?locale=en](http://europa.eu/rapid/press-release_SPEECH-13-687_en.htm?locale=en).

<sup>27</sup> "Association Agreement with Armenia off the table - Carl Bildt", *News.am*, 10 September 2013. Available at: <http://news.am/eng/news/170554.html>.

with Armenia.<sup>28</sup> Such reactions can be truly disheartening for the pro-reform and pro-democracy segments of the Armenian society.

## **From fiasco to mending fences: Recommendations**

### *For Armenia*

Yerevan should engage in a more open and transparent diplomatic activity and restore the trust of its European partners by being straightforward and frank about its intentions. The ball is now in Armenia's court to come up with a format of EU-Armenia partnership that is both feasible and transparent, can build on the positive achievements so far and will eventually mean more than just gestures and good intentions. In the long run, the AA and the DCFTA should not, and most likely will not, be excluded. For Moscow, diverting Armenia's EU integration was more important than indeed bringing it into the CU. Armenia should seek ways of getting over the geopolitical context and putting the European integration back on track. With the AA now 'off the table' for at least Vilnius, Armenia can use time in a less pressing environment and stick to the parts of the AA that in fact contribute to Armenia's development.

In the longer run, breaking through its over-reliance on Russia is an imperative for Armenia. Rather than sweeping problems under the rug, Yerevan should start addressing the hurdles in bilateral relations. A new strategy is needed to bring the real *strategic partnership* back on track. It is also necessary that the Armenian public is not fed with myths about Armenian-Russian relations. With Russia abusing its levers over Armenia, diversifying Armenia's not only political and economic but also security ties is necessary. But security is more than just tanks and *smerches*; it is a system of pillars including democratic institutions, market economy and mutually reliable political partnership with a variety of actors.

While the U-turn has triggered heated debates about Armenia's sovereign choices and relations with Russia among the country's civil society and the public at large, both ruling and opposition forces have been, by and large, surprisingly absent from these debates. The Armenian government must not overlook its responsibility in explaining the why's and how's of the move to the Armenian citizens. Similarly, rather than keeping a low profile over the issue, political opposition groups should take more responsibility on openly debating the issue.

The democratisation and reform path that the Armenian government has declared it wants to continue to work on with the help of the EU is likely to draw more attention and focus for the time ahead on the part of both Armenian society and the EU. Translating this rhetoric into something tangible has been difficult, but with the mounting economic, demographic and security challenges to Armenia, nudging the country in a democratic direction has no alternative.

### *For the European Union*

The EU should:

- 1) Not rule out cooperation with Armenia in general because of the setbacks in trade association. In fact, the EU should try to intensify relations and assistance in areas such as democracy, institutional reform, rule of law, fight against corruption, civil society, human rights and

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<sup>28</sup> "Poland Also Rejects Alternative EU-Armenia Accord", *Azattyun.am [RFE/RL Armenia]*, 18 September 2013. Available at: <http://www.azattyun.am/content/article/25109400.html>.



environment. Too much has been achieved and not everything is lost even in the area of trade. Public expressions of disappointment with Armenia and strong statements by renowned proponents of Eastern Neighbourhood policies such as Bildt and Sikorski will not contribute to the growing pro-European and reformist sentiments in the Armenian society; the disappointment with Russia may easily be projected on the EU, too.

2) Compensate Armenia (and other Eastern Partners) for the material losses incurred as a result of the Russian blackmail ahead of Vilnius. Solidarity has always been a fundamental element of the European idea, and it is exactly in such situations that it has to be demonstrated to the EU's friends in the East. The plan to increase wine quotas for Moldova after the Russian ban is a good example of a prompt and concrete response. Armenia will receive some concessions from Russia, now that it had to join the Eurasian Union project. But matching assistance from the EU (for example, more funds for projects on energy efficiency as a response to growing gas prices) will be a well seen gesture of solidarity and understanding.

3) Move more decisively towards liberalising its visa regime with Armenia and the other Eastern Partners and eventually dropping visa requirements for citizens of the EaP countries. This will be a clear and powerful sign to both leaderships and publics that the EU, though obviously unable to grant membership perspective at this point, regards these countries as part of the European family of nations.

4) 'Harden' its policies towards Russia, clearly an actor who savours an understanding of international relations as a zero-sum game, has a self-perception of an unjustly deposed super-power, is suspicious of EU values such as democracy and the rule of law and sees cooperation of the Union with its Eastern Neighbours as hostile. The EU can:

- pressure Russia (in Brussels but mostly in the capitals) not to interfere in relations between the EU and Armenia;
- pressure Russia on trade policies within the World Trade Organisation;
- use effective institutional instruments to curb the obviously illegal and erroneous conduct of Russian companies on EU territory; the case in point is the planned action by Directorate General Competition of the European Commission against Gazprom;
- block any work on planned Russian projects on EU territory if they do not correspond to EU legislation and rules (for example the planned construction of the South Stream gas pipeline should not be granted permission unless it complies with the Third Energy Package, energy efficiency and environmental rules);
- speak out loud and publicly defend human rights and democracy in Russia on every occasion at international forums or in international organisations; sanctions should be enforced where applicable for human rights violations.

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