



KAUNO TECHNOLOGIJOS UNIVERSITETAS
SOCIALINIŲ, HUMANITARINIŲ MOKSLŲ IR MENŲ FAKULTETAS

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**DYNAMICS OF EUROPEAN UNIONS, RUSSIA AND USA POLITICAL
RELATIONS
(1990-2016)**

Baigiamasis magistro projektas

Vadovas

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EUROPOS SĄJUNGOS, RUSIJOS IR JUNGTINIŲ AMERIKOS
VALSTIJŲ POLITINIAI IR EKONOMINIAI SANTYKIAI
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LIST OF ABBREVIATIONS

EC	European Community
ECSC	European Coal and Steel Community
EEC	European Economic Community
EP	European Parliament
ESF	European Service Forum
EU	European Union
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GMO	Genetically Modified Organism
MEP	Member of the European Parliament
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
NGO	non-governmental organisation
TD	Transatlantic Declaration
TTIP	Transatlantic Trade and Investment Partnership
US	United States
NTA	New Transatlantic Agenda
IR	International Relations
IPE	International Political Economy
US	United States
CSCE	Conference on Security and Cooperation in Europe
NTM	New Transatlantic Marketplace
MRA	Mutual Recognition Agreements

WTO	World Trade Organisation
TEP	Transatlantic Economic Partnership
EFSA	European Food Safety Authority
PCA	Partnership and Cooperation Agreement
CFSP	Common Foreign and Security Policy

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SANTRAUKA

Magistro darbe tyrinėjami Europos Sąjungos, Rusijos ir Jungtinių Amerikos Valstijų politinių santykių dinamika nuo 1990 iki 2016 metų. Tyrimo metu iškeliami prielaidai, kad politiniai santykiai turi matomą poveikį šalių ekonominei padėčiai, kai tuo tarpu ekonominiai veiksniai yra pasitelkiami tik kaip priemonė politiniams tikslams ir nedaro ryškios įtakos politinių sprendimų priėmimui. Pirmojoje darbo dalyje aprašoma teorinė dalis, kurioje išsiaiškinama pagrindinių darbe vartojamų savokų terminologija. Apibrėžiamos esminės Tarptautinių Santykių teorinės pakraipos, kuriomis remiamasi viso tyrimo metu. Sumodeliuojama Tarptautinių Santykių schema, kuri padeda geriau suprasti sudedamąsias dalis. Iš išskirtų teorijų pasirenkama esminė pakraipa, kuria remiantis paruošiamos likusios darbo dalys. Taip pat, kiekvienai iš tyrimo pasirinktų šalių pritaikoma viena iš Tarptautinių Politikos Ekonomikai būdingų teorijų. Antrojoje darbo dalyje nuodugniai nagrinėjami Europos Sąjungos politiniai santykiai su Jungtinėmis Amerikos Valstijomis ir Rusija. Pradžioje aptariama metodinė dalis ir paaiškinamas pasirinktų idikatorių pasirinkimas naudojamų tolimesnėje baigiamojo projekto tyrimo dalyje. Plačiau analizuojama priimtų susitarimų paskirtis ir reikšmė Transatlantiniam bendradarbiavimui. Pabrėžiamas politinių santykių stabilumas, abiejų pusių noras bendradarbiauti ir plėtoti tiek politinius, tiek ekonominius santykius. Išskiriamos svarbiausios sutartys, kurios leidžia toliau vystyti bendradarbiavimą. Atsižvelgiant į šiandieninius įvykius pasaulyje, šioje dalyje nemažas dėmesys skiriamas ganėtinai daug diskusijų keliančiai Transatlantinei prekybos ir investicijų partnerystės sutarčiai. Išskiriama politinio bendradarbiavimo teigiamas efektas ekoominiam stabilumui. Toliau šioje darbo dalyje išsamiai išanalizuoti ganėtinai problematiškus Europos Sąjungos ir Rusijos santykius. Skiriamas didelis dėmesys ryškiausioms problemoms, kurios labiausiai apsunkina politinį bei ekonominį bendradarbiavimą. Išskiriamas Rusijos Prezidento valdymo laikotarpis dėl ryškių pokyčių Rusijos požiūryje į Europos Sąjungą. Apibrėžiami pagrindiniai Putino politikai būdingi bruožai į kuriuos negalima nekreipti dėmesio. Sumodeliuojami esminiai nesutarimus skatinantys veiksniai. Ypatingas dėmesys skiriamas Europos Sąjungos ir Jungtinių Amerikos valstijų sankcijoms prieš Rusija. Išsamiai analizuojamos sankcijų pritaikymo priežastys, jų poveikis Rusijos ekonomikai. Taip pat šiame skyriuje identifikuojama ir analizuojama kaip veikia Europos Sąjunga kaip vienetą susidedantis iš

skirtingų 28 šalių. Įvertinamos Rusijai palankios Europos Sąjungos silpnybės, kurios silpnina sankcijų poveikį. Trečiojoje darbo dalyje palyginami tyrimo rezultatai remiantis Tarptautinių Santykių teorijomis ir aptariami gauti rezultatai. Tyrimas padėjo išryškinti, kad nors ekonomika ir politika yra dvi labai glaudžiai susijusios sritys, tačiau politiniai sprendimai daro didelę įtaką ekonomikai. Ekonominės priemonės dažniausiai lieka tik kaip priemonės, kurios gali būti panaudojamos siekiant pasiekti tam tikrus politinius pokyčius šalyje ar jos politikų elgesyje.

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SUMMARY

The master's work describes dynamics of European Union political relations with the USA and Russia in 1990-2016. The presumption is made that political and economic relations are inseparable in today's world. It is also considered that political decisions made in states has a visible influence for state economy. The first section quite consistently describes the theoretical part of work. This section is used to define the concept of terminology. International Political Economy theories were identified and applied for each selected research object. The model of International Relations was created in this section for understanding this complex academic approach. Classified theories helped to identify main approach of IR which was the base for further analysis. Each major theory of International Political Economy was integrated with selected states political models. The second part thoroughly describes the EU political relations with USA and Russia. Methodology is discussed in this chapter. Initially, it discusses a methodology and selected explanatory indicators used in the selection of the final project in the longer part of the study. The analyzes of adopted resolutions and importance for transatlantic cooperations is deeply analyzed in this section. This chapter underlines the stability of political relations, both sides willingness to cooperate and to develop both political and economic relations. This section is also used for a distinction of important agreements that allow the further development of cooperation. In the light of today's events in the world, this chapter focus on Transatlantic Trade and Investment Partnership agreement. The positive effect on economic stability and political cooperation were identified. The rest part of this chapter is used to analyze in detail quite problematic relations between the EU and Russia. Much attention is paid to the problems which have caused difficult political and economic cooperation. The huge attention is paid for the presidency of Vladimir Putin because of the notable changes in Russia's approach to the EU. Putin's policy defines the main characteristic features which can not be ignored. The model of essential difference promoters was created. Particular attention is given to the European Union and the United States sanctions against Russia. This chapter analyze in details the reasons for sanctions adaptation and their impact on the Russian economy. Also in this section is identified and analyzed how the European Union works as a unit consisting of 28 different countries. The biggest attention is paid for reasons weakening the impact of sanctions.

INTRODUCTION

The European Union (EU) came into existence in 1992, as the result of the adoption of the Treaty on European Union. But the seeds of the EU were sown many years earlier. The "birth" of the EU as the world knows it today occurred with the creation of the European Coal and Steel Community (ECSC) in 1951. The modern history of European integration commences with the end of the Second World War in Europe, in May 1945. Modern European integration, leading to the EU, is generally agreed to have been born with the dramatic declaration of French Foreign Minister Robert Schuman of May 9, 1950. The EU is set up with the aim of ending the frequent wars between neighbors, which culminated in the Second World War. Yet in 1951, six European nations, all historic enemies, entered into the ECSC. Under the ECSC, France, Germany, Italy and the Benelux countries (Belgium, the Netherlands and Luxembourg) agreed to relinquish a measure of their national sovereignty to international institutions. The idea is for people, goods and services to move freely across borders. The economic, political and social integration of Europe did not end with the ECSC. In less than a decade, after some dramatic disappointments, these same six countries entered into the European Economic Community (EEC). Through a series of Treaty amendments over the next 50 years, the EEC has become the modern EU. The EU, now with 27 Member States, represents one of the deepest forms of political, social and economic integration among sovereign nations in history.

The EU has a close relations with the US since the creation of the EC in 1952. The United States was largely absent from efforts to rebuild Europe after the end of the First World War. The situation differed after the Second World War. The United States, unlike after First World War, didn't opt for isolation and assumed its responsibility as the first world power by adopting a policy based on resolved intervention in European matters. The American government was convinced that obstacles to free trade, spread after the 1929 slump and risen to its maximum expression in the Nazi and Fascist autarchy, had been largely responsible of the international tensions that led to the Second World War. The implementation of a free trade policy became a basic condition for any country to receive the so desired American economic aid.

Moreover, in that time the world witnessed the beginning of Cold War. The United States, applying the denominated Truman Doctrine to curb the expansion of communism and of the Soviet Union, launched the Marshall Plan to alleviate the difficulties of European countries. It was to foster economic development in a destroyed Europe with the political objective of impeding the extension of the communism. Part of the reason for US involvement in post-WWII reconstruction efforts was the developing "cold war" and the desire to stem Soviet power and influence in Western Europe. The US sought "an economically buoyant" Europe as a bulwark against communism. It had a vision of "an international economic system conducive to free trade and unfettered investment. Since that time the EU has a close relations with the US since the creation of the EC. Both sides decided to cooperate and to reach benefits in politics and economic fields.

These close relations developed in a very diplomatic way over decades. The EU has growth over the years expanding this territory by welcoming new Member States (MS). The US, despite changes in the governments over the years, has always kept a favourable position toward the EU. Both sides feel for each other as an equal partners in the World. Since the beginning of the cooperation, both sides signed three agreements for shaping a better relations with a broader perspective for the future. The EU and the US created a common trade market, find a way to cooperate in the security sector and a way to build the bridges for open political dialogue. Watching the few past year's situation, the EU and the US became even closer because of the similar position towards Russia behaviours in Crimeria.

In December of 1991, the Soviet Union disintegrated into fifteen separate countries. Fifteen new neighbours' countries were established for the EC members. Most of them became a MS of the EU over the years. Unfortunately, Russia stayed out of the horizon. The EU tried to use an opportunities to attract Russia to its MS list but Russia do not felt the same about the EU. The relations was not such diplomatic as the EU expected. Russia caused many problems which caused that the EU started to face a new prospect of IR.

The past 26 years allows to properly analyse the two different types of the EU relations with the US and Russia. In one hand we have the example of democratic and cooperative IR which have growth over the years keeping the ties between the EU and the US more relevant. In the other hand we have a very different type of the relations with Russia. The states which has an exclusive state order and understanding comparing with the EU and the US. These differences had caused a lot of worries not only for the EU political dialogue with Russia but also it has a major effect for the World order because of many interventions to other countries and the political leader position that the only way to rule is firstly divide what is created.

Many authors analysed a political dialogue of the EU and its dialogue with such countries as the US and Russia. Firstly, Nugent (2010) stressed out the origins of the EU political dialogue and the evolution of need to create an international relations with neighbours. Pollack and Shaffer (2001) and Steffenson (2005) stressed out the importance of transatlantic relations. They analysed a deep cooperation history between the EU and explained such processes as creation of New Transatlantic Agenda (NTA), policy shaping and economic liberalization process. Moreover, Ilgen (2016) emphasized that trade relations between two Atlantic sides has visible influence on trade relations. This author also described the possible future perspectives of transatlantic relations. Secondly, Haukkala (2010) theorized EU-Russia interactions with one another and analyzed negotiations issues. Finally, Leonard and Popescu (2007) represented the issues of decision making process in the EU when they concerns Russia. They indicated five different states groups in the EU which apply different political approaches towards Russia. Unfortunately, none of the above mentioned authors did not take attention for political dialogue affect to states economy.

Scientific originality of the final project. The political relations effect on state economy is relevant to study, not only because both these fields are not available to distinguish but also because it is one of the main problems why Russia experience the second crisis in the 21th century. Much attention is paid to the political decisions taken by politics and each of these decisions have the specific cost and effect on one or another states in many different ways.

The problem of the final project: political relations dynamics effect on economic stability

The aim of the final project: to identify political decisions dynamics influence on economic stability of the states

The object of the final project: international political relations

The subject of the final project: the EU political relations dynamics with Russia and the US in a context of economic changes in 1990-2016

Tasks of the final project:

1. To clarify the main theories of the International Relations in order to understand the selected states position regarding political relations
2. To determine the EU political relations with the US and Russia in 1990-2016
3. To extract political relations measures which have the most noticeable affect regarding EU relations with USA and Russia

The methods of the final project:

1. Descriptive method allowed to organize theoretical data concerning the International Relations theories used to identify the type of the political dialogue between the selected countries documents;
2. Content analysis and comparative analysis was used to compare different types of political dialogue;
3. Statistical data interpretation allowed to describe tendencies of states economic changes regarding the political relations dynamics

Practical significance of the final project. Final project may help for everyone who is interested about the political decision and economic ties. While the analysis of political decisions for economic is also discussed in the final project, it might be helpful for those who are interested in the political means and their visible effect on countries health. The identification of political decisions level for economic affect will certainly be useful for the future scientific works regarding changes in a Global world and for those how are interested in a certain states economic situations over the selected period.

Structure of the final project. As regards, the final project contains four parts. The first part overviews main International Relation theories related to the political approaches of selected countries and identify what are dominating signs for each approach. . The second part of the project, analyzes the EU-US political relations by using various agreements information and statistical data. The third part of the final project, overviews the EU-Russia political dialogue dynamics during the years and analyzes what kind of affect these changes of political dialogues have had for Russia. Finally, discussion question and conclusions are provided with the main findings of the final project.

1. CLASSIFICATION OF MAIN THEORIES OF INTERNATIONAL RELATIONS

International relations are a complex set which consists of several different spheres such as the economic, diplomacy, statecraft and even media. It is a key for ensuring a safe world. Without effective communication, any small misunderstandings can have critical consequences. As nations grow and change over time, IR are key for producing beneficial relationships. The study of international relations takes a wide range of theoretical approaches. Some emerge from within the discipline itself. Others have been imported from disciplines such as economics or sociology. Many theories of international relations are debated in many different terms, and few scholars believe only in one or another despite of fact which fits the most for them. In spite of this diversification, still exist several major schools of thought which are differentiated principally by the variables they emphasize—e.g. military power, material interests, or ideological beliefs. (Saner & Yiu, Hinkin & Holton & Klag 2005, Slaughter 2011) This chapter will represent in short the main evaluation of IR in academic approach and will mark the main differences between diverse theories. The last part of this chapter will focus mainly in the one IR theory which is the most common in today situation.

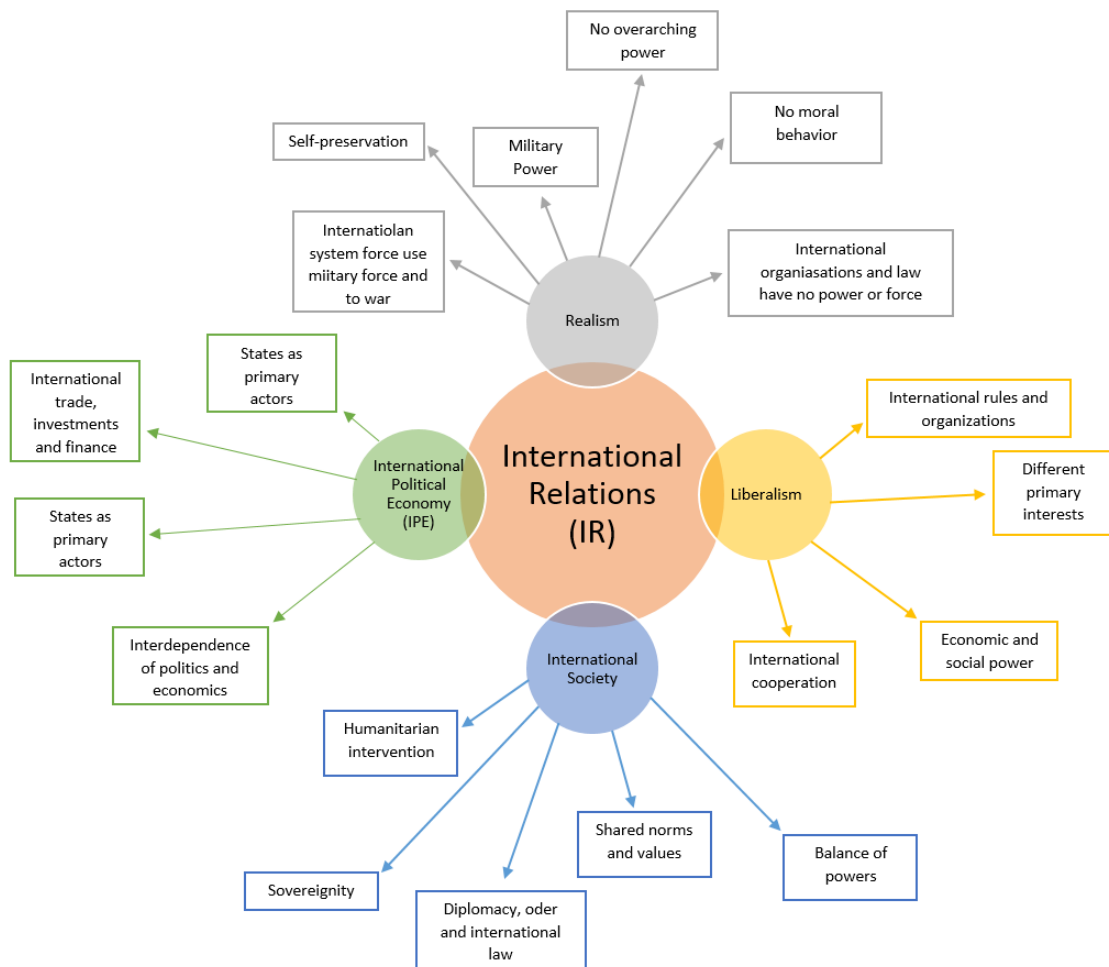
1.1 Reflections of International Relations theories in political relations

International Relations as theory can be drawn to E.H. Carr's *The Twenty Years' Crisis* (1939) and Hans Morgenthau *Politics Among Nations* (1948) published books. In an academic approach, International Relations can be traced in the second half of the nineteenth century, when 'economics' emerged out of political economy as an allegedly scientific field of study. (Brown 2013; Ainley 2013) The International Relation can be interpreted in many different perspectives because of its interdisciplinarity. But this paper work will focus in IR as the study or relationships and interactions between countries, including the activities and policies of national governments, international organizations, non-governmental organizations and multinational corporations. It can be both a theoretical subject and a practical or even policy subject, and academic approaches to it can be either empirical or normative or both. A **theory of international relations** is a set of ideas that explains how the international system works. Unlike an ideology, a theory of international relations is backed up with concrete evidence.¹ Often the IR is considered as a branch of political science, but it also a subject studied by historians and economists. Furthermore, it is also field of legal studies and an area of philosophy. There is many different science approach which can analyses the aspect of IR. From that broader perspective, IR clearly is an interdisciplinary inquiry and can be traced in any situation when two states interacted whit each other. (Burchil 2001, Cooper)

¹ Yadav Y. (2013). *Political Thought on International Relations: An Analysis*.

IR became an academic subject around the time of the First World War. Theoretical IR approaches are result of their time most important events. The scholars address those problems of international relations that are seen as the most important ones in their day. Also IR thinking is influenced by other academic subjects, such as philosophy, history, law, sociology and economics because of its interdisciplinary inquiry. It is important to notice, that IR approaches are time changing equivalents which are absolutely considerable with that time problems besides they are continuitly changing and forming new approaches because of differences in world order. Acording Jackson and Sorensen (2013) “*the two world wars, the Cold War between East and West, the emergence of close economic cooperation between Western states and the persistent development gap between North and South are examples of real-world events and problems that shaped IR scholarship in the twentieth century.*” And we can be certain that future events and episodes will provoke new IR thinking in the year to come. But first of all we shall focus on four major classical theoretical IR traditions. They are **realism**, **liberalism**, **International Society** and **International Political Economy (IPE)**.

Figure 1. Concept of International Relations (IR)



Author works.

Source: Jackson R. & Sorensen G. *Introduction to International Relations: Theories and Approaches*. Oxford University Press.

Most theories of IR are based on the man idea that states always act in accordance with them national interest. State interests often include such indicators as self-preservation, military security, economic prosperity, and influence over other states. (Kenneth 2001). Sometimes two or more states can have the similar or in ideal variation - same national interest. For example, two states might both want to foster peace and economic trade. The best example could be the relations between the EU and US when both sides seeks to foster the agreements for better cooperation in trade market or military power usage. And states with opposing national interests might try to resolve their differences through tense negotiation or even war. Regarding second scenario Russia's relations with the EU and other states of the World is the best visible example. Hard power is often used as a mean to create a tense and in this way they try to resolve the situation in its own favour. Every of the above mentioned IR traditions describe different ideas of IR.

The **realist** approach is based on the principle of the absolutisation of nation-state sovereignty and the foreground importance of national interests. According to realism, states work only to increase their own power relative to that of other states. As Jackson and Sorensen (2016) represents in their last work "Introduction to International Relations", *realism has several different variations from the classical realism of Hans Morgenthau, E. Carr, and R. Aron, the mature realism of Henry Kissinger, and to the neo-realism of K. Waltz, S. Walt, or R. Gilpin.* (Jackson & Sorensen 2016) Politicians have practiced realism as long as states have existed. Historically, realism is considered as the first theory according which states leaders ruled their countries. Most scholars and politicians during the Cold War viewed international relations through a realist lens.² Realism was the dominant theoretical tradition throughout the Cold War.³ It characterizes international affairs as a struggle for power among self-interested states and is generally pessimistic about the prospects for eliminating conflict and war. Realism dominated in the Cold War years because it provided "simple but powerful explanations for war, alliances, imperialism, obstacles to cooperation, and other international phenomena, and because its emphasis on competition was consistent with the central features of the American-Soviet rivalry"⁴. Realism is not a single theory dominating in IR. There always exist opposition. (Donnelly 2000, Jackson & Sørensen 2013)

The main opponents of realists in IR are the **liberalists**. Liberalism developed in the 1970s as some scholars began arguing that realism was outdated and there must be some changes. Like the realists, liberals treat modern Western states as a universal exemplary model which guides their theoretical thought. (Donnelly 2000) At the same time, liberals differ from the realists by a variety of principle positions. Liberals believe that "*human nature, and thereafter, the nature of human society and its political expression*

² <http://www.sparknotes.com/us-government-and-politics/political-science/international-politics/section2.rhtml>

³ Walt M.S. (1998). *International relations: One world, many theories.* http://www.columbia.edu/itc/sipa/S6800/courseworks/foreign_pol_walt.pdf

⁴ Pfaltzgraff R. & McClelland C. (2013). International Relations: Political and Social Science. *Encyclopedia Britannica.* <https://www.britannica.com/topic/study-of-international-relations>

in the form of the state, is subject to a qualitative change (assuming it to be for the better) ”⁵. States could no longer rely on simple power politics to decide matters because of increasing globalization, the rise in communications technology, and the increase in international trade. Stephen M. Walt (1998) has indicated three strands in Liberalism. One strand argued that economic interdependence would discourage states from using force against each other because warfare would threaten each side's prosperity. A second strand, represents the spread of democracy as the key to world peace. This peace is based on the claim that democratic states were inherently more peaceful than authoritarian states. A third, more recent theory for today's world, argued that international institutions could help dealing with selfish state behavior, mainly by encouraging states for the greater benefits by cooperation. This cooperation, for example, can be such organizations as the International Energy Agency and the International Monetary Fund. (Stephen 1998)

Transformations in the world have made economics and politics more relevant to one another than in the past and have forced the recognition that our theoretical understanding of their interactions has always been inadequate, oversimplified, and arbitral limited by disciplinary boundaries. Many economic factors have played an important role in international relations through history. Economic objectives, resources, and instruments of foreign policy have always been significant elements among political groups. We can find many examples of the role of economic factors in the affairs of nations in the history. In this sense, the political economy of international relations has always existed. Still economic and political factors have had a reciprocal influence on one another throughout history. Furthermore this interaction has been transformed in fundamental ways in the modern world. The spread of reciprocal influence has led to the nearly universal realization that the state can be used to effect economic outcomes and in particular to redistribute wealth un one's favor (Bonn, 1939, p. 33). That is the reason why IR theory of International Political Economy requires the additional attention. Besides, this direction of IR will be the main pole in which context will be formed the all further research in this project. (Marsh & Mackenstein 2005)

1.2 Theories of International Political Economy field

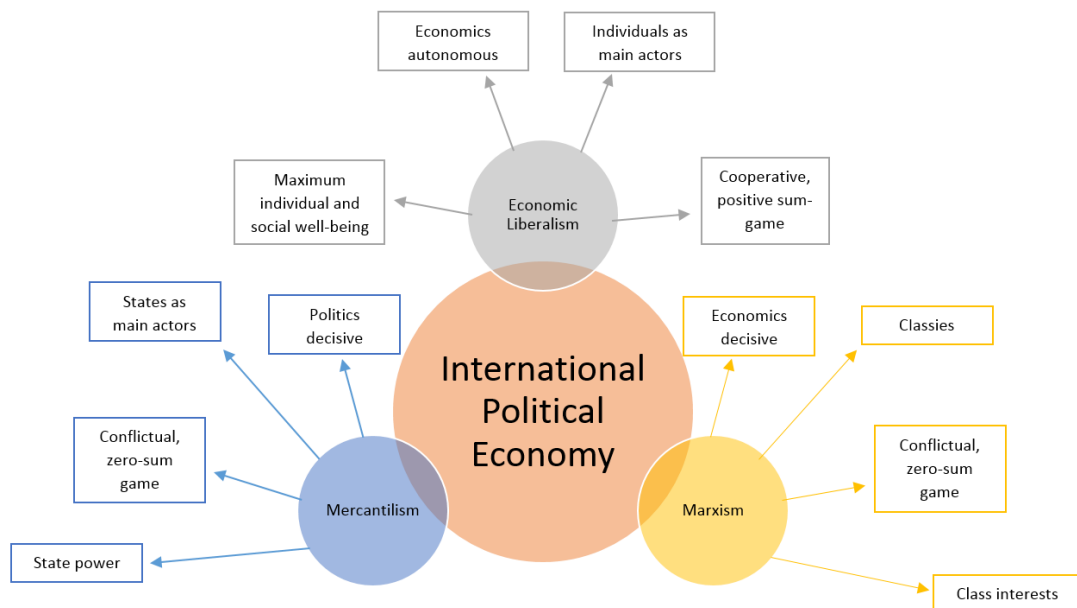
The importance of IPE showed up because of the inevitable emerging of economic affairs. This happened because the economic well-being of peoples and the fate of nations have become intimately joined to the functioning and consequences of the market. Whereas powerful market forces in the form of trade, money, and foreign investment tend to jump national boundaries, to escape political control, and to integrate societies, the tendency of governments is to restrict, to channel, and to make economic activities serve the perceived interests of the state and of powerful groups within it. The logic of the market is to locate

⁵ Dugin A. (2016). *A Review of the Basic Theories of International Relations*. <http://katehon.com/1295-a-review-of-the-basic-theories-of-international-relations.html>

economic activities where they are most productive and profitable. Thought the state seek to capture and control the process of economic growth and capital accumulation (Heilbroner 1985, Burchill 2001).

In case to understand more deeply the mean of IPE we need to discuss three fundamental ideologies: Marxism, mercantilism and economic liberalism. Through an evaluation of the strengths and weaknesses of these three ideologies it is possible to illuminate the study of the field of international political economy.

Figure 2. Main theories of International Political Economy (IPE)



Author works.

Source: Jackson R. & Sorensen G. *Introduction to International Relations: Theories and Approaches*. Oxford University Press.

Many scholars have produced a number of theories in tries to explain the relationship of economics and politics, but only these three ideologies stand out and have had a profound influence on scholarship and political affairs. In briefly discussed mercantilism, which developed from the practice of statesmen in the early modern period, assumes and advocates the primacy of politics over economics. It is essentially a doctrine of state-building and asserts that market should be subordinate to the pursuit of state interests. It argues that political factors should, determine economic relations. Liberalism was a reaction to mercantilism and has a little bit different opinion about the roles of politics. It assumes that politics and economics exist, at least ideally, in separate spheres. Liberalism theory argues that markets – in the interest of efficiency, growth, and consumer choice – should be free from political interference. The last one of the theories is marxism, which appeared in the mid-nineteenth century as a reaction against liberalism and classical economics, holds the position that economics drives politics. Political conflicts arise from struggle among cease with the elimination of the market and of the society of classes. (Little & Smith 2006)

The economic ideologies rise three propositions. The first is that the global or territorial distribution of economic activities, especially of industry and technology, is a central concern of modern politics and economists. That's mean, according the ideas of Gilpin, that *behind the technical discussions of trade, foreign investments, and monetary affairs are always conflicting national ambitions and the fundamental questions of „who is to produce what and where.* “⁶ Although states can and do ignore the market as they seek to influence the location of economic activities, this entails economic costs. And third, due to these changes and the uneven growth of national economies, the inherent stability of the international market or capitalist system is highly problematic. It is the nature of the dynamics of this system that erodes the political foundations upon which it must ultimately rest and thereby raises the crucial question of finding a new political leadership to ensure the survival of a liberal international economic order. (Gilpin 1987)

It is hard to imagine a world without International Political Economy. Main reason is because the mutual interaction of International Politics and International Economics is today widely appreciated and the subject of much theoretical research and applied policy analysis. The political decisions and actions of states clearly affect international trade situation and monetary flows, which in turn has a huge affect for the environment in which states make political choices and entrepreneurs make economic choices. These ties became even more coherent when some misunderstanding arises between the states. It seems impossible to consider important questions of International Politics or International Economics without taking them both into account. Unfortunately, many scholars and policy-makers often do not understand the collaboration between these two fields and still try to take only one of them into account. Economists often assume away state interests while political scientists sometimes look fail to look beyond the nation-state. In such case the dynamic interaction of state and market that characterizes political economy is missing. (Veseth 2007) Michael Veseth explained in its article:

*“Two noteworthy Cold War era exceptions to this rule stand out: economist Charles P. Kindleberger's work on hegemony and political scientist Kenneth N. Waltz's attempt to integrate economics into politics in his path-breaking book *Man, the State, and War*. The mutual astigmatism that hid International Politics and International Economics from each other cleared in the 1970s as a number of dramatic international events made plain how tightly the two fields were intertwined. The oil embargoes of the 1970s and the breakdown of the Bretton Woods monetary system are frequently cited as key events in IPE's development as a field of study.” (Veseth M. (2008). An excerpt form an article: *What is International Political Economy?*. p.1-2)*

⁶ Gilpin R. (1987). *The Political Economy of International Relations*. Princeton: Princeton University Press, p.64

These events posed practical and theoretical problems that necessarily forced scholars and policy makers to consider economics and politics ties together and in many situations put it together as a one entity.

The events of free trade areas such as the North American Free Trade Area (NAFTA) and customs unions like the EU provides a good example of the political economy of international trade. Regional trade agreements like NAFTA and the EU frequently use economic tools to achieve political goals. One of the political goals of European economic integration, for example, was to strengthen the western Cold War alliance. One of the political goals of NAFTA was to stabilize and strengthen Mexico's democratic system. The economic benefits of regional free trade are intended to compensate states and their citizens for the loss of sovereignty and other political costs they may bear in forming a regional bloc. Thus, in theory, regional blocs create both political and economic benefits. At the same time, however, there are political and economic costs. Politically there is the problem of the democracy deficit. As more and more policy decisions are made at a level above that of the nation-state, the link between citizens and policy is necessarily weakened, which may weaken the legitimacy of government generally. Economically there is the problem that regional free trade is not always consistent with global free trade. International trade has always been at the center of IPE analysis and is likely to remain so in the future. This is not so much because of the economic and political importance of international trade itself as due to the fact that trade is a mirror that reflects each era's most important state market tensions. In the Cold War, for example, international trade was simultaneously a structure of US hegemony and a tool of East-West strategy. In the 1980s and 1990s trade, through regional economic integration, was a tool to consolidate regional interests. With the advent of globalization and the creative economy powered by advanced information technologies, trade in intellectual property rights has become a controversial IPE issue. International trade will remain a central focus of IPE even as the specific trade problems continue to evolve.

As a resume, there must be concluded that IPE is an entity which requires a good collaboration between two very different fields which at the same time are related in more space than it was thought before. IPE is tend to adapt with the changes over the year and its concept changes regarding the most important questions at that time politic and economic requirements.

2. DETERMINATION OF EU POLITICAL RELATIONS WITH THE US AND RUSSIA SINCE 1990

The dramatic changes of the World situation after Cold War forced new type of the IR and political dialogue. The EU gained more respect and stronger position in the view of the US which allowed to become a considerable partner in international affairs and trade market. This type of relation started its evaluation and got fast acceleration. But these changes in the World not only strengthen the EU position but it also created new independent states such as Russia Federation which can be considered more troublemaker than partner for better cooperation. The continually growing EU had a hope to attract Russia to its union unfortunately the reality became contraverted different than it was expected. This chapter will determine the EU political relations with both selected states – the US and Russia.

2.1 Methodology of chosen analysis

The purpose of this study was to analyse theoretical information, main historical events and political/economical agreements illustrating them with data sources of selected measures and analysing data source information. These methods were selected because the understanding of political and economic relations requires not only the deep knowledge in theoretical information but only rise a need to be able evaluate political agreements effect for states. In this part of work, attention was concentrated to the EU political relations dynamic with the selected two states – the US and Russia.

The determination of political relations started from analysis of historical events which were analysed by chronological order starting from 1990's. Data sources – charts with the annually result, were selected regarding the measurements of economic growth. First of all, the main economic indicators were identified for statistical analysis. For this purpose there was selected four different indicators which are the best measurements of economic growth: Gross Domestic Product, Import, Export and Monetary inflation indicators. The Gross Domestic Product measures the value of economic activity within a country. Strictly defined, GDP is the sum of the market values, or prices, of all final goods and services produced in an economy during a period of time. An export is a function of international trade whereby goods produced in one country are shipped to another country for future sale or trade. Exports are a crucial component of a country's economy. Not only do exports facilitate international trade, they also stimulate domestic economic activity by creating employment, production and revenues. Monetary stability and economic stability can be seen as two sides of the same coin. Periods of protracted economic instability tend also to be periods of monetary instability, and vice-versa. Although the main objective of society is economic stability, in particular in the form of sustainable growth, policy-makers attach great importance to monetary stability, insofar as it is instrumental to achieving economic stability.

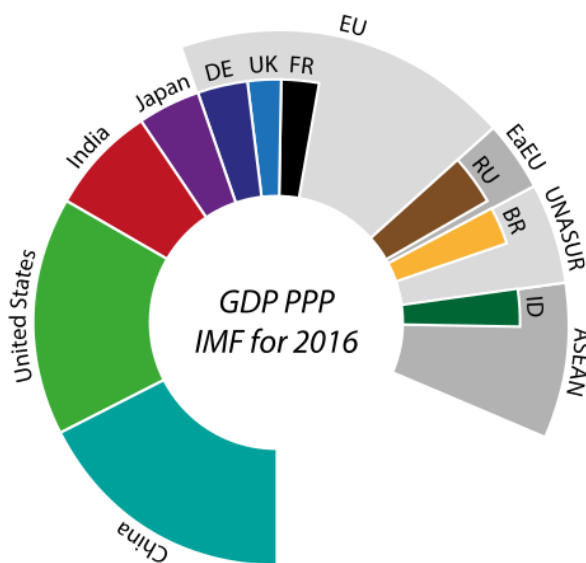
Finally, the observations of determination process were made by comparing the EU-US and the EU-Russia political relations dynamics.

2.2 Determination of EU political relations with the US and Russia Federation

For a long time, the relationship between the US and the EU was concentrated with trade and economics. Unfortunately, it became clear that transatlantic security issues were necessary to involve. The EU member states were taking the first steps toward developing a more coordinated foreign policy. It appears that transatlantic consultations should be not only on economic issues but also on foreign policy matters. This led to the development of ad hoc meetings at various levels: from the US assistant secretary of state with European political directors to the US president with the president of the European Commission or the head of state of the country holding the rotating Council presidency. Mostly, these meetings were arranged simply at information sharing or to gain ore status and recognition in Washington.

Official diplomatic relations between the US and the EU were established in 1953 when the US appointed its first observers to the EU. But the requirement to cooperate was visibly necessary only with the end of the Cold War. The US-EU political relationship required mutual adjustment on both side of the Atlantic Ocean. Especially, when the US has noticed the growing EU political power in a world and started consider it as an equal player and partner for many spheres, e.g. trading, policy and etc. Transformation within Europe after collapse of the Berlin Wall led to a first steps for greater transatlantic cooperation. Transatlantic relations between the US and the countries of the EU have long been based on common values and interests which is the main idea of Librelasim theory of IR. It is important that both sides seek the common interests in terms of both security and economic interdependence.

Figure 3. World biggest economies ranking by GDP (2016)



Source: International Monetary Fund

The EU and the United States are the largest economies and the largest trade investment partners on earth. The interdependence of these two economies has grown rapidly. This ever closer transatlantic economic relationship is the result of conscious policy decisions by the governments and business communities on both sides.

Trade negotiations have become increasingly focused on „non-tariff barriers“ to trade since the late 1970s. These negotiations includes differences in product and service regulation, lack of investor and intellectual property rights protection, closed government procurement markets and etc. These reasons have led to a new agreements and new negotiations rounds such as Doha Round which was meant to deepen further the reach of the global trading system. But these tries were meant to fail. The EU and US turned into different directions and started to create economically motivated bilateral FTA’s with a number of Latin American and Asian countries. The growing bilateral agreements scale has pushed the EU and US to try deepen trade relation once more. Besides, there are two more possible factors which are often given as justification for the start of TTIP negotiations. One of them is the global financial and economic crisis that started in 2008. Second factor is continuitly growing of the China and other emerging economies vis-a-vis the EU and US. This fastened the trade negotiations not only because of competitors in global economic flows but also as contenders in global economic governance with polycemakers across the Atlantic expressing concerns that the EU and US are losing geopolitical and global economic relevance. The stagnation of the Doha Round of multilateral trade talks owes much to the ... of these emerging powers, which have broken the EU and US „duopoly“ of global trade governance (Grant 2007; Narlikar 2010; Defraigne 2005; Erixon 2013)

The most important steps were made by the end of the Cold War in 1989. The fall of the Soviet Union shared the fear between some European leaders if the US would longer believe it was necessary to stay in relations with the Europe. They feared that Washington leaders would now pay greater attention to Latin America or Asia. Luckily, the situation was siurprisingly and everything happened in a contrary, some US leaders have feared that Europe would be tempted to develop a truly independent foreign policy. As we can see, the world order changes had caused the fears about the current relationship situation between the EU and US. In this perspective, both sides were encouraging to take some actions for ensuring a testimony of relations. The US do not take too long to act. Almost immediately after the fall of the Berlin Wall, Secretary of State James Baker called for the US and the EU to strengthen their relationship through enhanced consultations. The continuing European economic integration process, as well as the regular enlargement of the number of participating countries, has no doubt exceeded the initial expectations of many, especially such strong country as in the US. The two blocs from both sides of Atlantic were soon trading with each other as partners. Since 1990’s the character of relationship has changed substantially. Both Presidents George H.W. Bush and Bill Clinton were keen to provide some institutional structure to US relations with

Brussels. In December 1989, Secretary of State James Baker proposed '*that the United States and the European Community work together to achieve, whether in treaty or some other form, a significantly strengthened set of consultative and institutional links. Working from shared ideals and common values, we face a set of mutual challenges –in economics, foreign policy, the environment, science, and a host of other fields–. So it makes sense for us to seek to fashion our responses together as a matter of common cause.*'⁷

The 1990 **Transatlantic Declaration (TD)** on EU-US Relations provided for a formal political dialogue between the two sides that was to be held on different levels and was to cover politics, economy, science and technology, and culture (European Commission 2006). After that two more transatlantic agreements signed to underpin this new transatlantic partnership and the increasingly liberalized the EU and the US economic relationship. In the first decade, since 1990 till 2000, three agreements in total were signed: The Transatlantic Declaration (1990), The New Transatlantic Agenda (NTA, 1995) and the TEP (1998). Each of them have played an important role in creating and shaping a transatlantic framework for economic co-operation. Even more important that these agreements have introduced the formal transatlantic institutions to manage the relationship. Each of the agreements mark different aspects of cooperation.

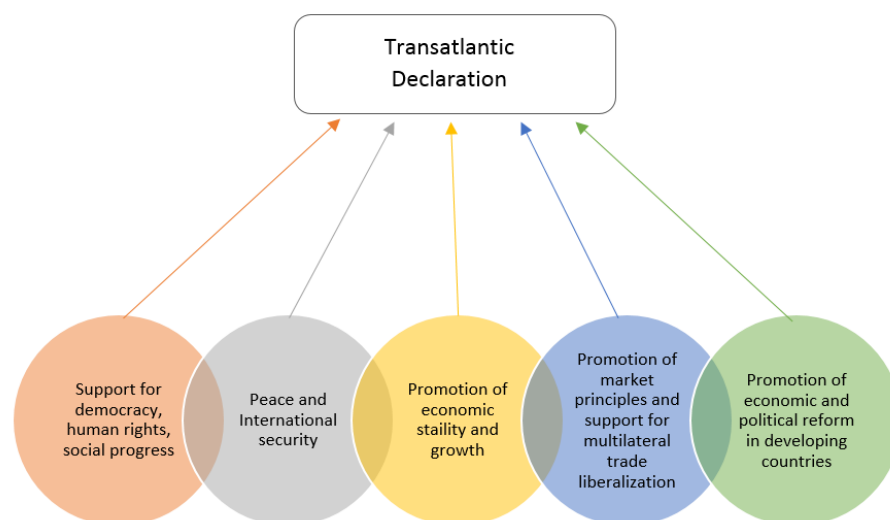
By the end of Cold War, the presidential administration of George H.W. Bush viewed the EU as great player in political and economic stabilization in the changing world order, and promoting the idea of new policy framework. The administration proposed "*the Transatlantic Declaration to reaffirm the US and the EU solidarity following the fall of the Iron Curtain⁸ and the collapse of Soviet Union*"⁹. This agreement focused largely on security issues than economic cooperation. But economic liberalization was one of the major goals named in description of agreement. This declaration was signed during the first regular meeting between high-level EU and US officials. The TD adopted in November 1990 during the Paris Summit meeting of the Conference on Security and Cooperation in Europe (CSCE). The declaration laid the groundwork for a transformation of the transatlantic relationship to meet the changing demands of the post-Cold War global economy. The Declaration not even formally established a process of political level meetings design to build the enhanced partnership. It is also stressed the importance of common goals which are the main power source in keeping the EU-US relations in the best condition:

⁷ Cox M. & Stokes D. (2012). *US Foreign Policy*. New Yourk: Oxford University press, p. 230

⁸ The term *Iron Curtain* refers to the boundary that divided Europe in the west and the Soviet Union and its Communist one-party states in the east. The division began at the end of World War Two (WW2) in 1945 and lasted until the fall of the USSR (Union of Soviet Socialist Republics) in 1989, a division that lasted nearly 45 years. Geographically, the borderline ran from arctic Russia in the north, through eastern Europe down to Bulgaria ending at Black Sea.

⁹ Pollack M.A. (2003). *The Political Economy of the Transatlantic Partnership*. San Domenico di Fiesole: European University Institute Robert Schuman Centre for Advanced Studies. p.5

Figure 4. Goals of the Transatlantic Declaration



Author work.

Source: https://useu.usmission.gov/1990transatlantic_declaration.html

This agreement was the first one official document dedicated to further cooperation. Unfortunately, the situation in Yugoslavia began to have an effect for the stability of this declaration. Slightly more than six months after the signing of the TD it was clear that the summits meant in the agreement did not show any effective results. The same time major issues have showed, US-EU differences over trade policy became even more problematic question. It was especially seen in the endgame to the Uruguay Round¹⁰, which finally concluded in December 1993. The EU also asked a help to stabilize a situation in Balkans but president Bush administration refused to engage America. Indeed, the US explicitly asked Europe to take primary responsibility for the crisis in Bosnia (Soeren 2005). Baker, who defined the US national interest in classically narrow terms of secure borders and material survival, in 1991 said: *'We have no dogs in this fight'*.¹¹ Clinton, who came into office in January 1993, continued this non-engagement policy for another two years until September 1994, when the US finally intervened militarily to secure the Dayton agreement¹². In the same year, the Clinton administration came into office and they were more disposed to regard the EU as a potential international partner, particularly on the transnational, or global, issues that were beginning to dominate the international agenda. Under these circumstances it is hardly surprising that the meetings authorized by the TD did not measure up to expectations. Both sides have had their own

¹⁰ The **Uruguay Round** was the 8th round of multilateral trade negotiations (MTN) conducted within the framework of the General Agreement on Tariffs and Trade (GATT), spanning from 1986 to 1994 and embracing 123 countries as "contracting parties". The Round led to the creation of the World Trade Organization, with GATT remaining as an integral part of the WTO agreements.

¹¹ Ross C. (2007). *Independent Diplomat – Dispatches from an Unaccountable Elite*. Cornell University press, p.126

¹² The General Framework Agreement for Peace in Bosnia and Herzegovina, also known as the Dayton Peace Agreement (DPA), Dayton Accords, Paris Protocol or Dayton-Paris Agreement, is the peace agreement reached at Wright-Patterson Air Force Base near Dayton, Ohio, United States, in November 1995, and formally signed in Paris on 14 December 1995. These accords put an end to the 3 1/2-year-long Bosnian War, one of the armed conflicts in the former Socialist Federative Republic of Yugoslavia. <http://www.osce.org/bih/126173>

difficulties and there was little incentive on either side to make them more effective instruments toward attaining a US-EU partnership.

After the Clinton administration came into force, the relations between the United States and Europe continued to be difficult and tense. Trade conflict shared apart all hard work done during the past 3 years and there was a fear that continuing trade conflicts would poison the political partnership that remained from the Cold War. The changes by leading powers in the country was not the only one factor aggravating the quality of transatlantic relations. For example, in 1989 the US imposed duties against the EU agricultural products as a response to Brussels banned imports of hormone-treated beef. In other words, both sides tried to show their power in transatlantic relations and find out which of them is stronger. US-EU differences over agricultural trade policy delayed the conclusion of the Uruguay Round of Multilateral Trade Negotiations by several years until an agreement was finally reached in December 1993 (Ahearn 2003). Any possible trade conflicts are always a huge object regarding the state stability. Increasing concerns about the US-EU relations caused some individuals on both sides of the Atlantic began to call for a major new transatlantic initiative. As it is seen through history, the best solutions and ideas are born in the most complicated situations when you are already ready to drop hands. By 1995, the Clinton administration feared that continuing trade conflicts were poisoning the overall US-EU relationship, and leaders on both sides of the Atlantic began to share the ideas about new initiative or other political gesture to underscore the staying power of the transatlantic alliance. In June 1995, Secretary of State Warren Christopher delivered a speech in Madrid titled 'Charting a Transatlantic Agenda for the 21st Century' in which he called for a major step forward in transatlantic relations: A broad-ranging 'transatlantic agenda for common economic and political action'.¹³ The need to make some reasonable changes was felt in other hands it would cause the end of political and economic cooperation between trade partners. New project was identified.

Another chapter in the development of mutual ties was the **New Transatlantic Agenda (NTA)** signed in 1995. The NTA was driven by the concern of leaders on both sides that the new political situation is not promising anything good. The importance of the transatlantic relationship for both parties was clear and that made clear the expanding the scope of the relationship. In it, the parties undertook further steps towards political and economic partnership. Major changes were made. But the most important was the shifting from the “consultations” to the “common actions” format. That represented the new era of transatlantic relations which was meant to talk less and do more. The document identified the following key cooperation areas: promoting peace, stability, democracy and development around the world; responding to global challenges; contributing to the expansion of world trade and closer economic relations;

¹³ Secretary of State Warren Christopher speech on the Middle East Process (1996). Ireland http://webapp1.dlib.indiana.edu/virtual_disk_library/index.cgi/4233379/FID396/SPEECHES/WCSPCH96.PDF

and building “bridges across the Atlantic.” (Crespo, Hamilton, Roberts, Tindemans 1998). Together with the NTA was launched its supporting **Joint Action Plan** which outlined three more substantive policy objectives:

- Promoting peace and stability, democracy and development around the world. In the Agenda, this focused primarily on Central and Eastern Europe (including the Balkans), as well as Russia and the newly independent states, although the Middle East and the more general issues of nonproliferation, human rights, and development were also noted.
- Responding to global challenges. This called cooperation to fight international crime, drug-trafficking, and terrorism, as well as dealing with refugees, environmental protection, and infectious disease.
- Contributing to the expansion of world trade and closer economic relations. Specific actions in this area were to be directed at both the multilateral trading system and bilateral economic relations. (European Commission 2015)

Unfortunately, this supporting document still left the difficulties on trade barriers. The dealing states decided once again try to deepen the relations with the one more agreement for the further NTA development.

The 1998 **Transatlantic Economic Partnership** (TEP) further developed NTA concepts. The TEP identified the following priorities of bilateral cooperation: eliminating barriers to trade in goods and services; ensuring mutual recognition of technical norms, standards and professional qualifications; and dealing with issues related to government procurement, intellectual property rights, biotechnology, environmental protection and standards of food production. The key area in the field of multilateral cooperation was further liberalization of global trade, with special emphasis on the implementation of WTO agreements.

The Transatlantic relationship at the end of the XXth century is characterized “*by a rapidly expanding agenda of common interests, deepening integration in the business world and among other organized nongovernmental organizations, a proliferation of inter-governmental contacts and negotiations, and a pattern of recurring public apprehensions and resentments.*”¹⁴ In the beginning of the XXIth century both sides have founded that deeper cooperation between them is more needed than before. As a testimony of the previous agendas, the EU and US finally started the negotiations on the new agreement – The Transatlantic Trade and Investment Partnership. Before the beginning of TTIP negotiations the EU and the US discussed trade relations issues within the multilateral trading system under the auspices of the GATT, which morphed into the WTO in 1995. In the beginning the US assumed leadership in this system, promoting

¹⁴ http://www.tponline.org/WP/wp-content/uploads/2013/09/Toward_Transatlantic_Partnership_Cooperation_Project.pdf

gradual liberalisation in the global economy, with the EU adopting a more productive leadership position since the Uruguay Round (1986-1994). Because of successful multilateral trade negotiating rounds tariffs have been lowered dramatically since the establishment of the GATT in 1947. Unfortunately, increased tariffs have become an almost negligible barrier to imports. According to the EC data, the average „most-favoured-nation“ tariffs are 5.2 per cent for the EU and 3.5 per cent for the US, with both parties actually applying ever lower tariffs on each others imports of under 3 per cent average (European Commission 2013a:17).

In the last few years the EU-US relations are spinning around the one main goal – to sign a new agreement which will ensure the elimination of trade barriers and tariffs - The Transatlantic Trade and Investment Partnership. The need to promote a strong transatlantic relationship was seen since the early 2000s. It was clear, that regulatory cooperation can play in building a strong transatlantic relationship. Both sides tried to find a way to revival of the US-EU relations and for both economies. The TTIP was considered as the best solution for all problems solution. With this in mind, it could be argued that the trade agreement is a specific response which can be regarded as a symptom of deeper change (Cox, 1980). According to the EC website, the 'TTIP could create jobs and growth at home, give global trade a shot in the arm, and boost our influence outside Europe too'¹⁵. Despite of the great goal, this agreement caused very active discussions all around the World.

In general, the Transatlantic Trade and Investment Partnership is a bilateral trade agreement which is a potential reciprocal free trade agreement (FTA) that the United States and the EU are negotiating with each other. (Akhtar & Jones 2014) Unlike other trade deals, TTIP is different. It is because “*of its scale and the extent to which it will interlock EU and US economies and impact upon a wide range of ‘regulations’, including the protection of social, environmental and labor standards, and the provision of health and public services*”¹⁶. The core of TTIP is about the unnecessary costs of technical barriers to trade (TBTs), sanitary and phytosanitary (SSPS) barriers (in food and fee regulatory instruments), and other regulatory barriers in goods and services markets. Even more, this partnership aims are preventing new unduly costly barriers from arising.¹⁷ The idea about a large transatlantic market is not a new one it can be tracked in 1998 when the leaders from both sides of Atlantic set up the ‘Trans-Atlantic Business Dialogue’ (TABD)¹⁸. Furthermore, the aim to create a better relation between these states was organized once again in 2011. Then they met to follow the work of the 2007 Transatlantic Economic Council (TEC). The High-Level

¹⁵ European Commission (2016). *In focus: Transatlantic Trade and Investment Partnership (TTIP)* <http://ec.europa.eu/trade/policy/in-focus/ttip/>

¹⁶ Lambert J. (2015). *What's wrong with TTIP: Voices opposing the EU-US trade agreement*. Calverts Co-operative <http://www.jeanlambertmep.org.uk/wp-content/uploads/2015/01/whats-wrong-with-ttip.pdf>

¹⁷ European Parliament (2015). *TTIP: Technical Barriers to Trade, Including Standards*. [http://www.europarl.europa.eu/RegData/etudes/ATAG/2015/542213/IPOL ATA\(2015\)542213 EN.pdf](http://www.europarl.europa.eu/RegData/etudes/ATAG/2015/542213/IPOL ATA(2015)542213 EN.pdf)

¹⁸ Trans-Atlantic Business Council. (2016) *About TABD*. <http://www.transatlanticbusiness.org/tabd/about-tabd/>

Working Group on Employment and Growth was formed by the US and European leaders. This group have had to work on identifier policies and measures to implement in order to expand trade and investments.¹⁹ That was a place where the original ideas about the TTIP was born. The final report of this group recommended ,to launch negotiations on a comprehensive trade and investments agreement. The US and the EU member states have been negotiating this agreement since 2013 February when the joint declaration made by Barac Obama, Jose Manuel Barroso and Herman Van Rompuy relaunched the transatlantic partnership idea regarding the recommendations of HLWG.²⁰ These negotiations were officially launched when all 28 EU members gave the European Commission the mandate to negotiate the TTIP. According to the first concluded agenda both sides decided to conclude the negotiations in two years. Unfortunately, many problematic questions was raised during the meetings, and they have had to update the timeline and aim to conclude the TTIP by the end of 2016. Twelve rounds of negotiations were organized until the beginning of the 2016.

The final trade agreement has the main goal of eliminating trade barriers and tariffs in a large proportion of the economic sectors in order to make it easier to buy and sell goods and services between the United States and the member states of the EU²¹. It is estimated that the economic gains following this trade agreement will result in €119 billion in the EU's member states and €95 billion in the United States a year²².

As the European Council has announced in 2013 *'the agreement will be ambitious, comprehensive, well-balanced and fully consistent with World Trade Organization (WTO) rules and obligations'*.²³ This agreement is dedicated to develop trade and investments by tapping into unused potential of a true transatlantic market, generating new economic potential for employment and growth thanks to increased market access and greater regulatory compatibility, paving the way for global standards which could also be adopted by third countries. The figure below shows three main sectors which are listed under TTIP idea. (Council of the EU 2013)

¹⁹ European Commission. (2016). *Transatlantic Economic Council: Cooperation on Innovation and Growth*. <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1263>

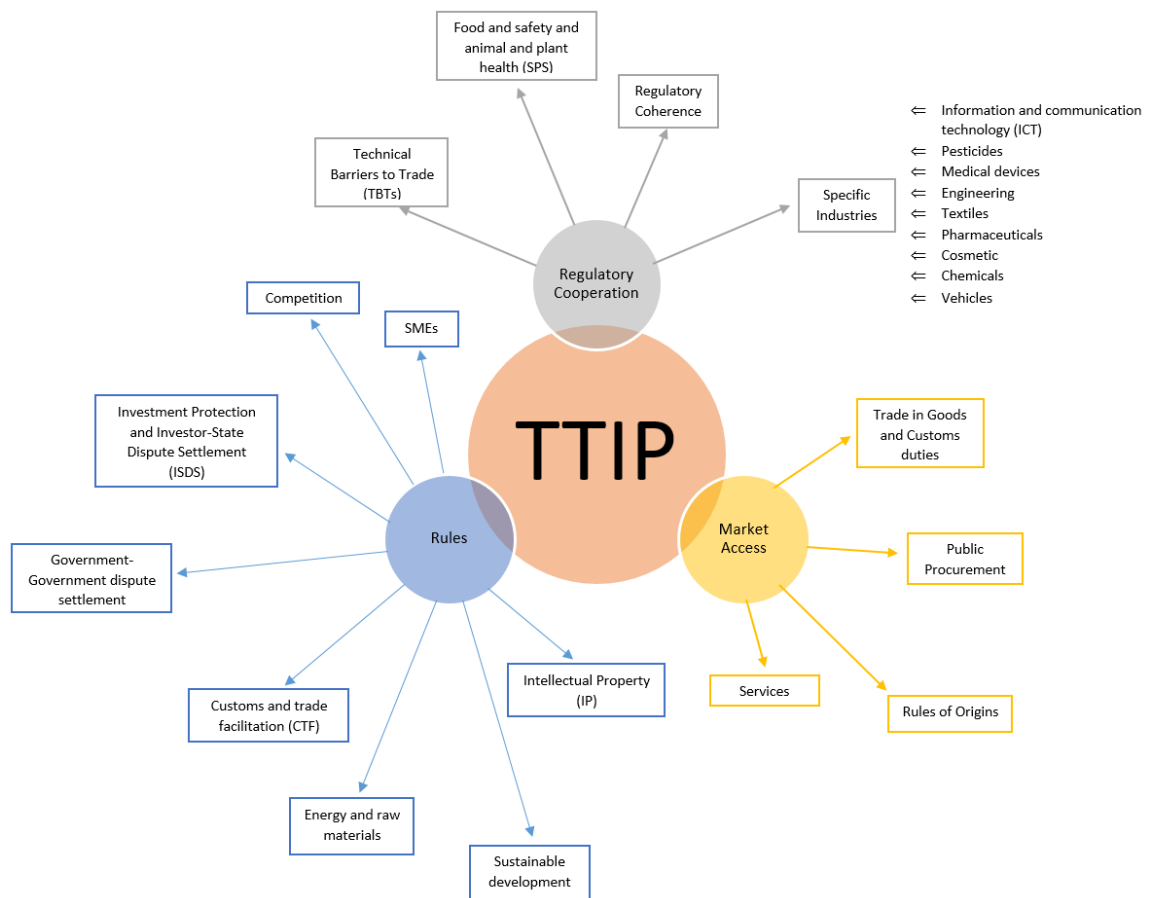
²⁰ European Commission (2013). *Final Report: High Level Working Group on Jobs and Growth*. http://trade.ec.europa.eu/doclib/docs/2013/february/tradoc_150519.pdf

²¹ Transatlantic Trade and Investment Partnership (TTIP) <http://ec.europa.eu/trade/policy/in-focus/ttip/>

²² Questions and answers [Web Page]. URL: <http://ec.europa.eu/trade/policy/in-focus/ttip/questions-and-answers/>.

²³ Council of the EU. (2013). *Directives for the negotiation on the Transatlantic Trade and Investment Partnershio between the European Union and the United States of America*. http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/foraff/145014.pdf

Figure 5. Transatlantic Trade and Investment Partnership (TTIP) conception



Authors work

Source: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1230>

All the aims of TTIP should be described in the 24 chapters which would be divided in to three thematically sections: market access, regulatory cooperation and rules. The section concerning market access focuses on achieving the EU's objective to gain easier access to the American market, in particular in trading goods, services (including financial services) and public procurement. The second section aims at cutting 'red tape and costs' and includes regulatory coherence, technical barriers to trade (TBT), food safety and animal and plant health, chemicals, cosmetics, engineering, medical devices, pesticides, information and communication technologies, pharmaceuticals, textiles, and vehicles. The last section on rules will lead to the adoption of new rules to make it easier and fairer to export, import and invest. It will contain rules on trade and sustainable development including labor rights, energy and raw materials, customs and trade facilitation, SMEs, investment protection and investor-state dispute settlement (ISDS),

competition, intellectual property and geographical indications, and government-government dispute settlement²⁴. (Buonanno & Dudek; Fekbema, Heid & Lehwald 2013; Ghailani & Ponce Del Castillo)

The goals of the TTIP are idealistic because both sides decided to reach as perfect agreement as it could be. It is natural, that the previous agenda is meant to be changed when the meetings took place because the dialogue allows to discuss problematic questions and find the spheres which required an additional attention. After the first three negotiating rounds in 2013, the negotiators from the EU and US got a better understanding what kind is the respective approaches to the areas covered by the agreement. And the green light for real negotiations was given only in the fourth round. It took three more rounds to find out that there are the clear differences of view in how merge between the EU and the US should look. And there some main issues was found in these TTIP negotiated aims. It became clear that each of divided sections has more than one issue which are faced during the EU-US rounds.

The first bubble represents a sector with the traditional tariffs and customs matters, government procurement, origin rules and services. The EU and US tariffs are already low and indeed many are equal to zero. But the agricultural sector is the exception. There was too many different regulations and rules for this sector. Comparing the requirements number in the EU and US – the EU has more than 40 requirements for agricultural products, when the US have only 5. So, even in this sector, which already has many zero tariffs, both sides meet regulatory issues. And they play a significant role.

Taking into account “regulatory cooperation”, the leaders from both sides of Atlantic meet such issues as whether the costs of differences in regulation or its technical enforcement for bilateral trade can be substantially lowered. Broadly speaking, this is the hard core of TTIP. Happily, the EU-US has more than two decades of consultations and regulatory on regulatory regimes in its history. That allows to think that this hard core issue can be solved in the future. But like always, some challenges rises from both sides. EU wants to be in control despite of fact that overall framework is a trade agreement. Although tariffs on food trade tend to be higher than other forms of trade between the US and EU, they are still relatively low, which points again to TTIP’s anticipated role in engaging non-tariff barriers to trade (NTBs). NTBs in relation to the EU and US food sectors are typically concerned with differences in Sanitary and Phytosanitary (SPS) practices, Genetically Modified Organisms (GMOs), and both hormonal and non hormonal growth promoters. Divergences in agricultural and food policy represent a major point of interest in trade negotiations between the two parties. These differences, the impact that a free trade could have on regulatory alignment, and the heightened level of passion of EU citizens about this topic specifically make

²⁴ European Commission. (2016). *In focus: Transatlantic Trade and Investment Partnership (TTIP)*. <http://ec.europa.eu/trade/policy/in-focus/ttip/>

a discussion about GMOs as well as livestock sanitation and processing practices highly important when considering the future of the TTIP. (Felbermayr, Heid & Lehwald 2013; Jančić; Young)

As the EU and US political relations dynamic can be called a stable and predictable to the near future, unfortunately there is an absolutely different situation regarding the dynamic of EU-Russia relations. In 1988, the real history of the relations between the EU and Russia began. They signed a first treaty between the Soviet Union as a state and the European Communities. This treaty was called an Agreement on Trade, Commercial and Economic Cooperation. The objective of the Agreement is “*to facilitate and promote the harmonious development and diversification of their trade and the development of various types of commercial and economic cooperation*”²⁵. The Agreement regulates trade in goods, except coal and steel, between the Parties. It includes a most favored-nation standard of treatment, provides for the elimination of quantitative restrictions, relief from duties and taxes. It stipulates that the goods shall be treated between the Parties at market-related prices. It provides for exchange of commercial and economic information and encouragement of trade promotion activities. It provides for the economic cooperation in order to strengthen and diversify economic links, contribute to development of standard of living, encourage environmentally sound policies.²⁶ At the first time in the history, the EU started to build the bridge for better Europe together with Russia.

Historical current flow in the direction which led to the collapse of Soviet Union in 1991. That was the time of big changes in the Europe. In December of 1991, the Soviet Union disintegrated into fifteen separate countries. Fifteen new neighbors’ countries were established for the EU members. And Russia became a Former Federation of Russia. The Communities announced a Statement on the future status of Russia and other former Soviet Republics. The Statement acknowledged Russia as a successor of the Soviet Union and the EU decided to take into account each of the former Soviet Republics. In late 1991, EU had first realized that the original agreement which was signed with the USSR in 1989, had to be replaced with new agreements, due to the formation of number of successor states of varying size and structures. As a result, the Agreement on Trade, Commercial and Economic Cooperation have been concluded with each of them. It is absolutely normal, that first of all this agreement touched the Russia because it was the biggest disintegrated country (Lazareva 2013, Badalov 2012).

1991 is the mark for the underlying issue dimensions of the EU-Russia relationship. The framework of EU-Russia relations after 1991 has been dominated mostly by geostrategic changes. Fifteen new countries came like rain from a clear sky. Some of them joined the EU and this gave the EU and Russia a

²⁵ Russian Mission (2016). *Agreement On Partnership and Cooperation*
http://www.russianmission.eu/userfiles/file/partnership_and_cooperation_agreement_1997_english.pdf

²⁶ European Union External Action
<http://ec.europa.eu/world/agreements/prepareCreateTreatiesWorkspace/treatiesGeneralData.do?step=0&redirect=true&treatyId=5981>

territorial interface by making them true neighbors. First enlargement which closer the EU and Russia happened in 1995 when EU enlarged to Finland and then, in 2004, the Baltic States joined the EU²⁷. Since the first steps by near cooperation in 1991, the EU offered a warm welcome. We can even say, that the policy response of the EU to post-communist changes in Russia and new created countries could be developed in three overlapping stages. The first stage started with the period immediately following the collapse of the USSR in 1991. The EU was ready to help in all possible ways for Russia - give money, trade and advice. It also tried to transfer its own law system, policies making process, values and standards of democracy. Unfortunately, this burden of aid was not only because Russia needed a help to become a nicer place but also to enable it to gradually integrate with the EU. The main idea of EU's original strategy towards Russia was that Russia wanted to be "like us" and that it needed our help. In other hand, that was only a vision created by the EU. But the EU insisted that bilateral relations should be based on EU norms and "shared values". But there was one very important fact that Russia not wanted to become like the EU.

In the period of second stage from 1994, the new instruments were developed. Such instruments as the Partnership and Cooperation Agreement (1994), and the Common Strategy (1999), were used to improve the coordination of EU policy on Russia. These agreements also set down a new legal basis for the development of trade and investments links. The new partnership agreement with Russia also had have a very important role – *"to establish regular political dialogue and to support Russia's transition to market oriented economic system based on human right and democratic principles"*²⁸. This so called Partnership and Cooperation Agreement state the determination to work together and strengthen the political and economic freedoms which constitute the very basis of partnership. The parties, EU and Russia, state that they belief in the importance of the rule of law, respect for human right, the establishment of the multiparty system with free and democratic elections and economic liberalization leading to a market economy. (Hughes J. 2006)

The first Common Strategy to be created was on Russia. This Strategy was dedicated to development of "ever-closer cooperation" and "strengthen the strategic partnership". It was one more document which marked the initial actions for EU towards Russia. According this Common Strategy: *the EU and Member states were to ensure the coordination, coherence and complementary of all aspects of their policy towards Russia.* (Lazareva 2013,p. The Common Strategy on Russia set a precedent for the "Christmas tree method" of policy-making which brought to a day light the EU minus. Rather than concentrate and keep working on main issues, Member States stared to ad new requirements to the document according to their own national interests. (Lazareva M., 2013) Finally, as J. Hughes named: the document outlined EU "visions", "principal

²⁷ European Commission (2016). *From 6 to 28 members* https://ec.europa.eu/neighbourhood-enlargement/policy/from-6-to-28-members_en

²⁸ Scuette R. (2004). *EU-Russia Relations: Interests and Values – A European Perspective*. Carnegie Papers. Washington: Carnegie Endowment for International Peace.

objectives” and “specific initiatives” but distinguished two extremely important goals – maintaining a stable democracy in Russia, and “intensified cooperation” on common challenges. (Hughes 2006)

The EU had hopes that it would be possible to change Russia from the base. The common values which are applied for the Member States must to also fit for Russia if she wants to be a part of so called Europe. But, the country as Russia, which society and ideology is strongly based on the culture, has to be considerable as an equal partner for the EU. Many years Russia was eager to follow their own values and the EU wanted to change them in enough short time and only by its own wishes trying to ignore Russia’s will. This is one of the reason why EU-Russia relations have experienced misunderstandings and frustrations. European still try to find the way how to make Russia look more ‘like us’. The EU made a step trying to convince Russians that they need for reform the subject of much lecturing. Misfortune, but this action was taken as arrogant and ignorant. (Shuette R., 2004) The relations between Russia and the EU have had a many different experience form the beginning. A lot of them were caused because of so different cultural backgrounds. Considering that culture is at the center of Russia’s self-understanding, the EU must take it into account. There is necessity to rethink initial blueprint towards culture aspect and take a step back, then analyses what makes us different and what unites us.

The biggest changes happened after the Putin’s coming in the post of Russia President. First signs of Vladimir Putin showed up at 1999. At that time he was a prime minister of Russia Federation. He was involved in writing and presenting Russia’s official strategy to the EU in October of the same year. One year later, Putin’s become a president of Russia Federation. That was the beginning of so called “Putin’s era” or “Putinism” (Gudkov L., 2011). Putin’s came to power in Russia has significantly changed the political approach concerning the EU. Russia’s policy become oriented more to forging a keeper tier while retaining complete sovereignty. Putin never ties of linking Russian identity, culture and history to Europe, but the EU is Russia’s most important economic partner. Putin’s Russia does not seek any membership in the EU and all these years of trying to cooperate are marked by a refusal to allow the EU influence in Russia’s domestic development, including its economic policies or internal affairs, such as the Chechen or Ukraine conflicts (Lynch. D., 2004).

So as we can see the complicated Russia’s interaction with the EU started from the very beginning of Putin when he was just a Prime minister of Russia. Therefore, all situations started to be even more complicated when he became a president. It allows us to understand that any political dialogue is always fulfilled by many hidden expectations from the EU side and even more suspicious from the Russia. Russia believes, that the EU is seeking to eliminate the independency of Russia and wants to stay as a dominant power in the region. However, Russia wants to help shape globalization, but not be one that is shaped by globalization. Russia keeps in it minds that they are special actor in the World and not a one from all. This is as the clustered black clouds over the heads which may to lash out at any time.

From 1999 Russia started the relations with the EU which was clearly written and presented in a document - "The Medium-term Strategy for the Development of Relations between the Russia Federation and the EU 2000-2010". The Strategy was written and presented to Brussels in October 1999 by then-Prime Minister Putin.²⁹ Putin started to shape the relations between Russia and the EU by his own direction while he had not even seated the post of the president. This document wrote by Putin presented a new strategy which was as an answer for The Partnership and Cooperation Agreement. Main point which the strategy reifies was that Russia's autonomy is a great power distanced from the EU:

"As a world power situated on two continents, Russia should retain its freedom to determine and implement its foreign and domestic policies, its status and advantages of a Euro-Asian state and largest country of the CIS. The "development of partnership with the EU should contribute to consolidating Russia's role as the leading power in shaping a new system of interstate political and economic relations in the CIS area." And thus, Russia would "oppose any attempts to hamper economic integration in the CIS [that may be made by the EU], including through 'special relations' with individual CIS member states to the detriment of Russia's interests." (Vladimir Putin)

It was said very clearly that Russia is refusing to allow Brussels to interfere in its sovereign affairs. But despite those strictly statements there was still left a place for tries to cooperate and create a good relation between two sides. Unfortunately, as we are going to discuss later, the statements said in 1999 has sharply shaped EU-Russia relations during past 17 years. And still it remains the centerpiece of its policy towards Europe. For a many years, Europe is trying to join all the European countries to the one Union and to set the same rules for all and find a way towards better cooperation in any field: economic, energetic, social and political. But all Member States should adopt the values and rules given by the Union and there is no other choice – take it or leave it. And there we see a country which is very important for creation of better Europe and it is – Russia. Notwithstanding Russia's position is not a helpful for aspiration of the EU. Moscow continues to refuse to allow Brussels to have any possible influence over the direction of Russia's reform policies and internal affair, including post-Soviet countries in which, according Russia, it still has an influence. Sadly, but the reality in relations with Russia keep a Greater Europe vision far away from it.

Soon it became clear that the initial blueprint was not working by 2003. At that time Russia would have found it hard to follow EU rules. Russia stood up on her feet. That's mean, that Russia no longer need helps from the West. After years of stabilization process consisted from chaos and humiliation, Russians reached stability. Furthermore, at the Russia-EU summit in London in 2005 political agreement was reached to conclude a New (Basic) Agreement to replace the existing PCA. Negotiations on the New Basic

²⁹ Lynch D. (2004). *Russia's Strategic Partnership with Europe*. Washington: The Center for Strategic and International Studies and the Massachusetts Institute of Technology

Agreement (NBA) were launched in July 2008. 12 rounds of negotiations were held. In anticipation of the resumption of the negotiations on the NBA after a lengthy pause initiated by the EU, Russia strives to place special emphasis on the need for new realities to be reflected in the future agreement, such as Russia's accession to the WTO and the ongoing active process of Eurasian economic integration. Both Russia and the EU have undergone major political, economic and social changes since the PCA was signed. (Ferrari A., 2015)

The year 2008 was expected to bring the positive momentum into the relations between Russia and the EU. However, not for the first time, the reality turned out to be different from expectations. And this time it was even worse than before. Russia did not show any signs of liberalizations which could have positively affected the bilateral dialogue. The new president of Russia, Dmitry Medvedev, limited himself with the pushing through legislation that extended presidential and parliamentary terms of office. It is noticeable that the situation between EU-Russia turned in a bad way. In that year Russia for the first time in its post-Soviet history used the military power outside the own territory in order to force change of borders (Moshes A., 2009). Georgia was that country which suffered Russia's attack. The result of the Russian-Georgian conflict strengthened the impression that Russia had regained exceptional rights in the post-Soviet territory. Despite of fact, that the EU considered these actions as unacceptable, the EU returned to the business with Russia. After this action, in January 2009, followed other unexpected action which was considered as threatening of Europe energy security. Russia stopped the gas supply for Ukraine. This was not the first time when Russia lost the reputation as an Europe's reliable energy supplier. (Ferrari A., 2015).

Over the last seventeen years, experts, officials and politicians in Russia have been regularly referring to Greater Europe. The phrase has been used in various meanings. On several occasions since 2001 Vladimir Putin has raised the concept of Greater Europe – a partly integrated common space comprising mainly Russia and the EU³⁰. Putin clearly outlined Russia's assets as a potential member of the new European community, and by doing so, identified the key areas of proposed integration as the economy, society and defense. The concrete outlines of the Greater Russia project's architecture gradually took shape between 2002 and 2011. They presented a Greater Europe that would consist of two integration blocs – the Western bloc of the EU, with Germany in the dominant role, and the Eastern bloc, consisting of the emerging Eurasian Union, with Russia in a hegemonic position. In advocating this concept, Vladimir Putin's objectives included five-point plan for Greater Europe which Menkiszak (2013) described in many details:

1. "A harmonized community of economies, from Lisbon to Vladivostok", which in future could perhaps transform into a free trade area or even pursue some more advanced forms of economic integration. This community would be built in gradual steps that would include Russia's membership in the WTO,

³⁰ Stratfor (2013). *Russia and the Creation of 'Greater Europe'*. <https://www.stratfor.com/analysis/russia-and-creation-greater-europe>

harmonization of legislation, customs procedures and technological standards, and elimination of bottlenecks in Pan-European transport networks;

2. “A common industrial policy based on a synergy between the technological and resource potentials of the EU and Russia” - This policy would be implemented through joint projects to support small and medium enterprises and, even more importantly, “a fresh wave of industrialization” based on the establishment of strategic sectoral alliances in the shipbuilding, automobile, aviation, space, medical and pharmaceutical industries, nuclear energy and logistics;

3. “A common energy complex in Europe”. The complex would comprise extended energy infrastructure, the Nord Stream and South Stream gas pipelines, and would be governed by new regulations, including a new energy treaty proposed by Russia, which would balance the interests of suppliers, buyers and final consumers of energy. Russian and European companies would share energy assets, and co-operation would be developed at all stages (from exploration and extraction to delivery to end consumers). Co-operation would also extend to education and personnel training, creation of engineering centers, and implementation of energy efficiency and renewable energy projects;

4. Co-operation in science and education. It would include, among other measures, the implementation of joint research projects, especially for applications in high technology industries, based on a shared financing effort, as well as exchanges of researchers and students, traineeships, etc.;

5. Elimination of barriers impeding human and business contacts. This objective would be achieved by abolishing visas for travelers between the EU and Russia based on a clear plan and definite time schedule. (Menkiszak M., 2013)

Also important in terms of the context of Putin's ideas was the agreement on the so-called road maps for the four common spaces between the EU and Russia, corresponding to the main concept of the Greater Europe. In 2003 Moscow summit, Russian President Vladimir Putin proposed giving a political impetus to the formation of four common European spaces. On the 10th of May 2005 the EU and Russia signed four ‘roadmap’ documents at summit level in Moscow, on four different spaces for cooperation:

- the Common Economic Space,
- the Common Space of Freedom, Security and Justice,
- the Common Space of External Security and
- the Common Space on Research, Education and Culture. (Laquer W., 2015)

These four common space shows that the EU and Russia over the years has come to encompass a great number of fields for cooperation. We can use the history of the four common spaces concept as an example of how EU-Russia relations are made. The work on this approaches in relations between these two parties represents a stock taking of what has been done and what should be done in the future work. The very structure of the concept also provides an appropriate guideline for showing how and where EU-Russia cooperation has developed since its beginnings. Let’s take a deeper look to the each of the Common Space

and what type of political dialogue they are forming in EU-Russia relations. (Bond 2014; DeBardeleben 2007)

The relations between the EU and Russia have had a lot of up's and down's. During the long history of cooperation there was reached a lot of agreements and signed many new partnership documents. Putin has also given his part for reaching a better cooperation and creating a strengthen Europe. Unfortunately, many of positive changes during Putin's presidency stayed forgotten in today World. This is a result of Putin's aggressive policy and the wishes to re-join post-Soviet territory and become a leader for all of them. From the very beginning of Putin's leadership, its political dialogue was based on enough aggressive form. He didn't try to hear what the EU is proposing to the Russia. Putin's one and only seek was to keep Russia independent and strong in any price.

Putin did not want to re-establish the Soviet Union, but he did want to re-establish the Russian sphere of influence in the former Soviet Union region. To accomplish that, he had to do two things. First, he had to re-establish the credibility of the Russian army as a fighting force, at least in the context of its region. Second, he had to establish that Western guarantees, including NATO membership, meant nothing in the face of Russian power. That became more visible when the EU enlarged its territory with more new Member States in 2004. Since then, as we can guess, the Russia felt unsaved and thought that now the Putin's Russia has a more risk to lose its independence because of enlarged borders with the EU. Several years after the last EU enlargement Russia started the actions which was considered as inappropriate by the EU.

The first aggressive actions and a will to be stronger than others from Russia side showed in 2005-2006. Then, Russia tried to use the natural gas supply as a weapon to reach its political goals in the Europe. In a fierce political standoff that is threatening to affect domestic fuel bills across Europe. The conflict began when Russia claimed that Ukraine was not paying for gas and was diverting gas bound from Russia to the EU from pipelines that crossed the country. Delivery from Siberian gas fields to Ukraine was cut off by reducing pressure in the pipeline network that also carries billions of cubic meters of gas chiefly to Germany, Italy and France. The fallout was immediately felt in Germany and Hungary last night as gas suppliers warned of possible cutbacks. This actions were understood as real threat for the EU energy policy. (Ferrari A., 2015)

Second moment when Russia lost a trust was in 2008. Georgia was once the jewel of its empire, and Russia has never psychologically accepted it as a sovereign state. Nostalgia for the Soviet empire has long been the leitmotif of Russia's ideology. The Georgia President has led his country in a broadly democratic direction, curbed corruption and presided over rapid economic growth that has not relied, as Russia's mostly does, on high oil and gas prices. Unfortunately, the president of Russia was not happy about this conversion to the West side. The reaction of Putin was marked by the Russia armed invasion through Georgia in 2008. As it was announced by the highest Russian officials justified the operation by pointing to the need to protect Russian citizens living in South Ossetia from what Moscow's leaders chose to call "genocide" by

the Georgian army in South Ossetia, purporting to follow the internationally accepted mode of behavior when governments must protect their citizens using military means, if necessary. But truly his Russo-Georgian War was an armed conflict between Georgia, Russia, and the Russian-backed self-proclaimed republics of South Ossetia and Abkhazia. This war was as a tool to influence Georgia's domestic policy. Above all, it was used as a tool to prevent Georgia from further strengthening ties with the West. Georgia had lost the war, but Russia was not able to exploit its military advantages in terms of numbers, geography, air-superiority and heavy equipment, hindered more by the disorganization of the Russian troops than by Georgian resistance. If Russia had been as quick in 2008 as it was in Crimea in 2014, Tbilisi would have fallen before Western diplomacy could react. The five-day war killed hundreds, left thousands of refugees in temporary shelters, and brought relations between Russia and West to their lowest point until that moment. By invading Georgia as Russia did, Putin re-established the credibility of the Russian army. The war in Georgia, therefore, is Russia's public return to great power status. This is not something that just happened — it has been unfolding ever since Putin took power. This brutal and efficient move was a victory for Vladimir Putin, Russia's president-turned-prime-minister, not just over Georgia but also over the West, which has been trying to prize away countries on Russia's western borders and turn them democratic, market-oriented and friendly (Roudik P., 2008). Russia has shown what can happen to those that distance themselves from it, doing so will be harder in future. Russia started to revolt against the EU will to create the wider united region in the base of the “common values”.

By the end of 2013, the World was shocked by the one more armed attack organized by the Russia Federation. And once again, this armed conflict was caused by the post-Soviet country will to join the EU. This time, the Ukraine get an access to the sights. Ukraine tried to fight not military, but the political fight while building of a sustainable democratic state. This fight started in the end of 2013 when a wave of demonstrations and civil unrest in Ukraine demanding closer European integration. This demonstration was called “Euromaidan” and was more than just demonstration as it was said by the journalist Lecia Bushak: “grown into something far bigger than just an angry response to the fallen-through EU deal. It's now about ousting Yanukovich and his corrupt government; guiding Ukraine away from its 200-year-long, deeply intertwined and painful relationship with Russia; and standing up for basic human rights to protest, speak and think freely and to act peacefully without the threat of punishment”³¹. The president of Russia felt that a democratic Ukraine would be a denial of Putinism: it would demonstrate that there is no such thing as an Eastern Slavic specialness that endows with legitimacy a model of democracy specific to some Russian tradition (Ferrari 2015; Eberhardt & Menkiszak 2015).

The unrest in Ukraine did not passed away without the huge attention from Russia. Finally, Moscow directly made an intervention in the war in Ukraine. Considering the political decisions made by president

³¹ "Kiev's Minstrel of the Street Revolution". Newsweek. 18 February 2014.

of Russia, we can guess that Putin could not allow to loss of Russian influence in Ukraine. No matter how it would be strange, Russia do not accept with the accusation from the EU side that they actions were illegal and still make an actions in Ukraine. Now, Ukraine’s territory is divided into two separate parts. Crimea is splinted from the Ukraine and decided to support Russia side. Actions in the Ukraine started from 2006 shows that Russia still believes in her own power. And the EU is the biggest enemy in a fight beyond post-Soviet territories. The common-values idea is much more suitable for many countries then Russian oppression and this is the fact which is forcing Russia to worry about. Until Putin is in the president post there will be no changes towards the European side, because his policies and the manner of political dialogue could be called as a principle – “divide and conquer”. Previously, this section describes the events have only confirmed that Putin reach intimidate and thereby take power into his own hands.

EU has failed to change Russia during the Putin era. Through all this time it is noticeable that Russia has had a big impact on the EU. On energy issues especially, when Russia is picking off individual EU member states and signing long-term deals which undermine the core principles of the EU’s common strategy. That raises questions about the EU. Is it truly as common as we wish? Or it is only the preface dealing with Russia? Dealing with Russia is hard work for the EU. The main reason is that all members have a different experience dealing with Russia. And it causes an additional difficulties trying to take a suitable decisions towards Russia. The EU consists from 28 different states which have their goals, ideas and opinions in all the matters. This is the EU’s biggest problem, however, is its inability to agree on analysis of the nature of the Russian government and to unite around a common strategy. Furthermore, Russia sees this weakness of the EU and use it in its favor.

Regarding the different opinions about Russia, the European Commission have identified five different groups in the EU. Each of these groups has its own distinct policy approaches to Russia.

Figure 6. Europea Union (EU) political dialogue approaches towards Russia



Author work.

Source: Leonard M. & Popescu N. (2007). *A Power Audit of EU-Russia Relations*

Broadly speaking, we can say that the EU is split. Five different approaches towards Russia do not keep this Union so united. But first of all, there is a need to identify what is each group policy towards Russia, what kind of IR theories they apply and what is the effect for the relations with Russia.

Hidden ,Trojan Horse' in the EU. “When the United States has concerns about European foreign policy,” says a European diplomat based in Brussels, “you can usually expect the UK or the Netherlands to speak up. Now Russia is doing exactly the same – getting EU member states to represent its positions and read from a Russian script.”³² It is very favorable for Russia because many decisions in the EU must be voted 100% in favor. And when there some members again, all the procedure must be looked and discussed once again. Mostly of the time it take a long. The most horrifying new is that Russia, in 2007, understood this EU weakness and even then they knew that they must have their own ,Trojan horse ‘in the Union. Its ambassador to the EU Vladimir Chizhov once claimed that: “Bulgaria is in a good position to become our special partner, a sort of a Trojan horse in the EU.

Despite of fact, that Russia named Bulgaria as a possible ,Trojan horse ‘, there are two other states which, actually, are the ,Trojan horse ‘: Greece and Cyprus. These member states have ancient cultural and more recent geopolitical and economic roots. The support for Russia is founded because of the political help dealing with Turkey and, of course, supply of military equipment. And Russia, won’t be Russia, if energy sector won’t be included. European diplomats from other member states argue that, in exchange, Greece has sought to position itself as a ‘promoter’ of Russian positions within the EU on issues ranging from EU involvement in the Eastern neighborhood to the regulation of energy markets.³³

Greece has a very important relationship with Russia which are keeping them favorable for Russia. Athens is participating in the construction of the first ever Russia-controlled oil pipeline in the EU: Burgas-Alexandroupolis which aims as reducing Greece’s dependence on Middle Eastern oil.³⁴ Following up the several past years information, the Greece still stay in the light of interest as a ,Trojan horse‘. Greece members of the European Parliament voted against the Association Agreement with Ukraine in the autumn of 2014, which was supported by the majority of the Strasbourg chamber. They also abstained in the vote on Association Agreements for Georgia and Moldova. Furthermore, Greece do not agreee with the sanctions imposing for Russia in 2014. The Greek ambassador refused to agree to the key passage on sanctions – prolonging the blacklisting of 132 individuals and 28 “entities”, mainly in eastern Ukraine and Crimea. Cyprus is one more ,Trojan horse ‘in the line after Greece. Cyprus generally follows the Greek approach to Russia. Cyprus generally follows the Greek approach to Russia, in part because of the

³² ECFR interview, Brussels, 1 June 2007.

³³ ECFR interviews with EU and EU member states officials in Brussels on 1 June 2007, 16 July 2007 and 5 October 2007.

³⁴ ‘Russia agrees to speed up Balkan oil pipeline project’, International Herald Tribune, 2006.

protection that Moscow has offered it in international bodies such as the United Nations. Russia has been a firm supporter of the Cypriot position in the conflict over North Cyprus - support which even extended to vetoing a UN resolution condemning the Republic of Cyprus for its rejection of the Annan peace plan in 2004.³⁵ This favorable relations with Russia guaranteed that Cyprus has become the most important haven for Russian capital in the EU. In 2006, Cyprus was formally the biggest investor in Russia - providing almost a fifth of total foreign investments in Russia (\$9.8 billion). (Leonard & Popescu 2007) Together, Greece and Cyprus often take the lead defending Russia 's position on issues such as energy or the Eastern neighborhood. There is no single formula for how Russia projects power in Europe, but the goal of its Trojan horse strategy is the same: to build a web of political leaders, parties and civil society organizations that will legitimize Russia's aims to destabilize European unity and undermine European values.

Partners for cooperation. Russia seeks to cooperate with only the biggest and most influence having member states in the EU. These countries, - Germany, France, Italy and Spain, - are classified as a ,general partners ' . All countries have strong political and economic bilateral relationships with Russia from the old times. In Putin's rule these relations are respected in a principle „one great power owes another “. For a several decades, France has wanted to strengthen its own position in international relations. And Russia became a useful ally for French because of nuclear power and permanent member of the UN Security Council.

Germany, also as France, has deep economic relationship with Russia. This is the reason why a political dialogue must be organized in a friendly way. Germany was Russia's biggest trading partner before the First World War, throughout the inter-war period, and once again after the Cold War. Even during the Cold War, the situation stayed the same. This shows that these economic relations have a long history after. (Spaulding,1991). In 2005, Germany's trade with Russia amounted to an impressive €38.9 billion. Russia also supplied almost 40% of German gas needs, making Germany Russia's most important gas market. German energy companies are central to the German-Russia partnership.

³⁵ The Scotsman . (20014). 'Russia Veto for Cyprus' . <http://news.scotsman.com/topics.cfm?tid=778&id=453672004>

Figure 7. Russia gas exports to Germany, 1999-2015



And as we can see in the diagram above, this dependence on Russia gas become more and more important for Germany. In 2015, Gazprom pipeline gas exports to Europe rose by 8% in 2015, mostly because of falling natural gas production in the EU. What's more important, that Russian gas exports to Germany rose to record levels as the chart below shows. Russia now accounts for more than half of Germany's foreign fuel imports, according to Bloomberg.

Italy is also very dependent form Russia. It is not such a big amount of the gas needed for Italy, but it also reach about 32%. But the energy field is not the only one keeping a good relationships. Italy, under Silvio Berlusconi (1994–1995, 2001–2006 and 2008–2011), strong economic relations were lubricated by an extremely warm personal relationship with Putin. It was much seen when Putin even extended to a public defense by the Italian Prime Minister of the conduct of the war in Chechnya. After S. Berlusconi, Romano Prodi has deepened trade and energy links.

Only the Spain has a less strength relations with Russia. It is because Spain, differently, then three above mentioned states, do not have such strong politic and economic place in the EU. Spain is not so interested for Russia, because it is difficult to impose political pressure for this country. The dependence on Russia gas is less and this do not allow Putin threat Spain as other EU members. Moreover, Spain has different position about ownership of EU energy companies – it supports full ownership unbending to EU energy companies. Concluding, it is important to mentioned, that support from these biggest EU member states are the most important for any coherent EU policy on Russia. They have also been wary of greater EU engagement in Ukraine or Georgia for fear of irritating Russia. And, apart from Spain, they have blocked the European Commission's plans for energy liberalization.

Friendly Pragmatists. This group consisted from the biggest part of the EU members: Austria, Belgium, Bulgaria, Finland, Hungary, Luxembourg, Malta, Slovakia, Slovenia and Portugal. The follows the lead of the voice by the biggest members, such as Germany or France. The approach of ,friendly pragmatism 'do not ten to oppose actions which they fear might irritate Russia. They cooperation is prevail

of business interest over political goals. They find Russia as a partner, rather than enemy or opponent in the political affairs. They try to avoid any military tension and causes which could foster the military tension or threats from Russia's side.

Frosty Pragmatists. While keeping business interests high on the agenda, the governments of these countries have not refrained from criticizing Russia's human rights record and failings on democracy.

New Cold Warriors have developed an overtly hostile relationship with Moscow and are willing to use the veto to block EU negotiations with Russia. These group of countries consist of the newest EU members states but only the Baltic States have the most suspicious looks towards Russia's actions. That make sense because for a many years these countries were under Soviet Union regime which leader was Russia. Since then the Baltic States is always ready to defend them selves and feels very insecure especially in the decisions which could fisicaly had an impact for them.

As Mark Leonard and Nicu Popescu (2007) represented in their publication -the five groups of the EU must to unite around a common approach especially when such important cases as international decisions are in the top priority and this one that reflects the EU's long-term strategic interests. The common situation of miscooperation is currently in Russia's favour. Regarding this situation, the authors recommend six possible solution which would be able to get rid from the situation in which the EU is stuck for a while:

- Pushes for the implementation of all international agreements and standards Russia has committed itself to, in order to further promote the rule of law;
- Makes Russia's participation in G8 summits conditional on its commitment to the spirit and the letter of common agreements, with the threat of organizing more low-level meetings within the G7 format should Russia be uncooperative;
- Introduces the policy of 'principled bilateralism' where EU governments are expected to use bilateral links to serve common EU goals and introduce an early warning system to inform of impending energy deals or bilateral disputes;
- Makes the EU Neighbourhood Policy more efficient to encourage participating countries to respect the rule of law and draw them further into the EU's orbit;
- Gives the European Commission political backing to use competition policy to investigate energy deals; and authorise it to pre-approve major energy deals;
- Provides assistance to Turkey, Ukraine and Moldova in implementing the EU's energy acquis communautaire. (Leonard, Popescu, 2007).

We can conclude, that five before mentioned groups are looking towards two possible solutions dealing with Russia. One way is Russia's integration into the EU. They want involve Russia in as many

institutions as possible and encouraging Russian investments in the EU's energy sector. Sometimes, they are even ready to ignore that Russia breaks the rules, which are obligatory for other member states. Other part of the member states see and treat Russia as a threat. They believe, that Russian expansionism and contempt for democracy must be rolled back through a policy of 'soft containment' and excluding Russian investment from the European energy sector. If the EU will follow one of these possibilities, two very different scenarios are possible. Following the first one, Russia will gain all the benefits of co-operation with the EU, but she will be able to not obey by stable rules apply for usual member state. Second one, the way which could be very risky for the EU, because than it would be hard for the EU to draw on Russia's helps to tackle a host of common problems in the European neighborhood and beyond. If the EU wants to have Russia as a law-abiding, reliable, and eventually democratic neighbor on a continent where even the last shadows of the Iron Curtain have dispelled, it must build its partnership with Russia on the same foundations that made European integration a success – interdependence based on stable rules, transparency, symmetrical relations and consensus. These foundations will not build themselves. The Union must be much more determined about agreeing rules of engagement with Russia, and then defending them.

For Russia, it is natural to deal with individual EU member states. It is the way how Russia sees international politics. There is no better way than dealing *tete-a-tete* with great powers. It allows to seduce the political and economic leaders of big member states. Konstantin Kosachev, the chair of the Duma's international relations committee, represented the new perspective of Russia's point of view towards the EU: „We are sick and tired of dealing with Brussels bureaucrats, In Germany, Italy, France, we can achieve much more. The EY is not an institution that contributes to our relationship, but an institution that slows down progress.“³⁶ Dealing with the EU Russia applies different policies which caused an economic cause. Many diplomatic pressure, trade embargoes, transport blockades and early renegotiation of gas or oil supply contracts. And this is happening of the political reasons seeking to have a stronger political influence in each country.

The EU's foreign policy instruments are limited to „soft power“. This is the main reason why the EU's reaction to Russia's annexation of Crimea and its subsequent military intervention in Eastern Ukraine consisted primarily of the imposition of economic sanctions. Sanctions are one of the EU's tools to promote the objectives of the Common Foreign and Security Policy (CFSP): peace, democracy and the respect for the rule of law, human rights and international law.³⁷ The EU and US has imposed different types of sanctions regimes in connection with Russia's aggression against Ukraine). The current sanctions placed on Russia and on certain local actors from Crimea and Ukraine's Donbas region were initiated by

³⁶ ECFR interview in Moscow (2007)

³⁷ European Union External Action. (2016). *Sanctions Policy*. https://eeas.europa.eu/topics/sanctions-policy/423/sanctions-policy_en

Transatlantic partners, the US and the EU, and are supported by a host of countries including Albania, Australia, Canada, Iceland, Japan, Liechtenstein, Moldova, Montenegro, Norway, Switzerland and Ukraine. In a brief view these regimes target several aspects which we are going to classified in this chapter.

Russia invasion in Ukraine were too much for the EU. According the existing agreements in the EU these actions are strictly restricted. Any harmful actions can be allowed in the territory of other state. As a response the EU started meeting section on sanctions appliance for Russia which list is still growing (Annex 1). Especially if these actions pose a threat for state sovereignty. Furthermore, these actions requires the highest reactions and imposed limitations. This is the reaction which the EU showed after the Russia invasion in Crimea on 18 Mach 2014. As Francesco Giumelli explains in EUISS Chaillot Paper 129/2013, international sanctions may pursue three sets of goals: signal to foreign target countries or domestic audiences' dissatisfaction with certain policies; constrain the target countries or their leaders from undertaking future actions; or coerce a government into changing or reversing existing policies. Three different types of sanctions were imposed step by step for Russia:

- Individuals and legal entities that have been involved in actions undermining or threatening the territorial integrity, sovereignty and independence of Ukraine may be listed and have their assets in the EU area frozen.
- Restrictions and later a total ban on the import into the EU of goods originating in Crimea or Sevastopol, in response to the illegal annexation of Crimea and Sevastopol.
- Economic sanctions against Russia restricting the use of EU financial markets, and prohibiting the export of armaments and dual-use goods and of equipment and services to the oil industry. (Biersteker & Portela 2015)

The first sanctions regimes were imposed on 18 March 2014. They were meant to target the individuals and legal entities that have been involved in actions undermining or threatening the territorial integrity. Sovereignty and interdependence of Ukraine. Not only assets in the EU countries were frozen, but also the individuals were restricted from travel into the EU zone. Later, these sanctions were extended. These sanctions involved even Russia decision makers, persons or companies who have any sorts of deals with the separatists in eastern side of Ukraine. This list included 132 individuals from Russian and Ukrainian in all and 29 legal entities. (Bond, Odendahl & Rankin 2015).

Later in the same year, 23 of June, the EU adopted the next step of regulations. The regulations were against the import of goods form Crimea and Sevastopol. The technical and financial assistance and insurance connected with such imports were also mentioned. Restrictions implemented that equipment and technology for transport, telecommunications and energy should not be exported to Crimea and Sevastopol.

After the tragic catastrophe of the Malaysia Airlines flight MH-17, the EU finally decided to extend sanctions on Russia and on separatist-controlled area. The final sanctions were economic sanctions which restricted the opportunity of Russian state-owned banks to seek financing on European capital markets and trade with certain sectors. The prohibitions for investments or trading in Russian state securities were applied. Targets for these prohibitions became five state-owned Russian banks – Sberbank, VTB, VEB, Vneshekonombank, and Rosselkhozbank – and financial institutions with their subsidiaries. The embargo on the export and import of arms from Russia and connected services were imposed as an addition for regulation. These sanctions were reinforced and broadened on 8 September because then was the end of 90 days limitations which were applied in 23 June. The regulation duration was extended for more 30 days and included also three state-owned defense companies – Oboronprom, United Aircraft Corporation and Uralvagonzavod – and three state energy companies – Rosneft, Transneft, and Gazpromneft. According this extend no new loans can be given to the companies listed. Unfortunately, the trade credits were allowed. The last extension were imposed for the restrictions on the export of dual-use goods³⁸ to the Russian military sector. Nine more companies were included. The extensions firstly were originally due till 15 July 2015, but on 15 March 2015 the European Council discussed the situation in Ukraine and it was agreed “that the duration of the restrictive measures against the Russian Federation, adopted on 31 July 2014 and enhanced on 8 September 2014, should be clearly linked to the complete implementation of the Minsk agreements, bearing in mind that this is only foreseen by 31 December 2015”. On 22 June 2015 the European Council decided to prolong all sanctions until 31 January 2016.

In accordance for the EU, US also implemented sanctions for Russia (Annex 2). The US applies sanctions according three presidential executive orders. The first, Executive Order 13360, was signed by President Barack Obama on 6 March 2014. The two following executive orders, 13362 and 13362, were approved on 17 and 20 March 2014. The main aims of the US sanctions are to increase Russia’s political isolation as well as the economic costs to Russia. The special attention is dedicated for the areas which are the most important for President Putin and those close to him (Nelson 2015). The US imposed sanctions includes the following:

- Asset freezes for specific individuals. Assets of individuals close to Vladimir Putin have been frozen. US individuals and entities are prohibited from conducting financial transactions with them.
- Asset freezes for specific entities, particularly state-owned banks, and energy, companies and arms producers.
- Restrictions on financial transactions with Russian firms in finance energy and defense.

³⁸ Goods, software and technology that can be used for both civilian and military applications and/or can contribute to the proliferation of Weapons of Mass Destruction (WMD) <http://ec.europa.eu/trade/import-and-export-rules/export-from-eu/dual-use-controls/>

- Restrictions on exports of oil-related technology.
- Restrictions on exports of dual-use technology. (Nelson 2015)

One month later, 28 April, the US was attempt to take further actions. The sanctions to Russia were expanded. This time the US extended its export restrictions on technologies and services regulated under the US Munitions List. But these expanded sanctions was not the last ones. On 16 July 2015 US Treasury³⁹ imposed several new economic sanctions. As in the EU sanctions, the US also included the same two financial institutions, Gazprombank and VEB, also two Russian energy firms, Novatek and Rosneft. The access to US capital markets was limited for them. In the same month, list of sanctioned financial institutions was extended one more time with adding three more banks. Furthermore, the arm firms were thrown in to the lite of sun. Eight arm firms were designated and these entities were frozen and transactions involving these companies were generally prohibited. One more extension was approved on 29 July.

Going back in 2014, one more extension for sanction regime was taken. On 9 December the economic sanctions were extended and Russia's largest bank – Sberbank – was included in the list of sanctions. Transactions for US individuals or entities was reduced from 90 to 30 days for all the six listed banks. Banks were not only ones touched by extensions once again, five more defense technology firms were blocked by the Treasury.

Russia has an exclusive relations with the EU. These relations meet a lot of challenges which most of them are political issues. Unfortunately, the political issues has a huge effect on economic situation. Analyses of the statistical data is very helpful trying to understand the mean of political events for states economy. Best time interval for watching Russia's dependency of political issues is the past ten years. This period is chosed because of possibility to compare

In the summary, we can conclude that sanctions against Russia was taken by the political reasons. Because the main goal of the economic sanctions is imposed by sender in order to impose costs on the target with the aim of changing its political behavior with regard to the relevant conflict issue. The sanctions in combination with diplomatic efforts are the non-military responses to the Russian military aggression in Ukraine. Both, the US and the EU, hasn't so far seen a military response as an option dealing with Russian actions in Crimea and Sevastopol. The alliance within the US and the EU tried carefully design and target the sanctions in a regard to have as much impact as possible on the regime and minimize the impact on the population.

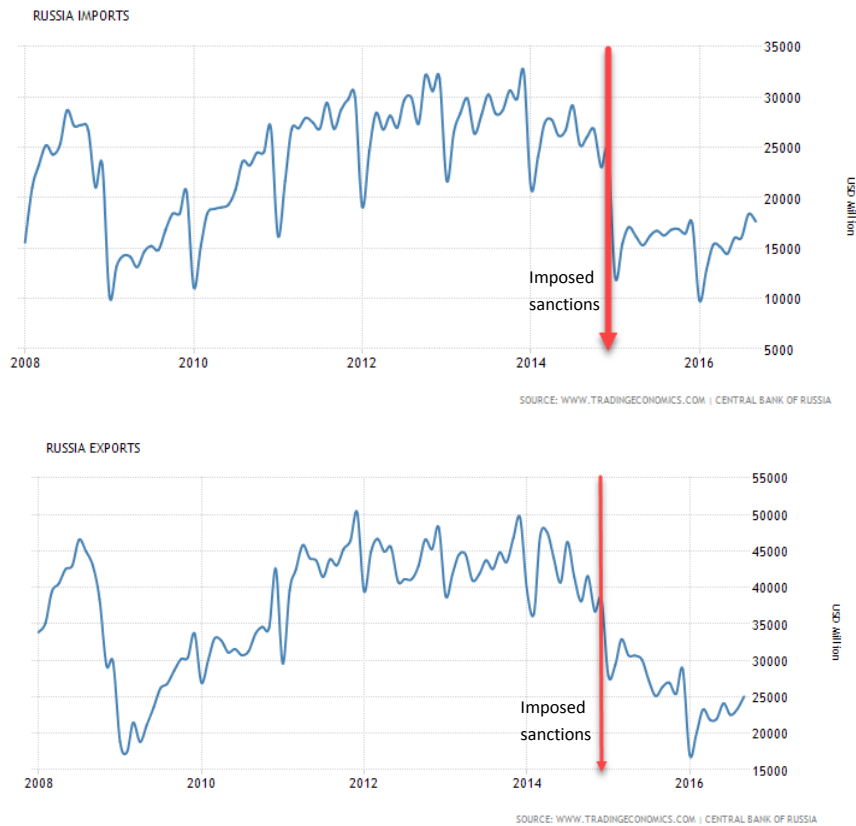
³⁹ The U.S. Treasury, created in 1789, is the government department responsible for issuing all Treasury bonds, notes and bills. Key functions of the U.S. Treasury include printing bills, postage and Federal Reserve notes, minting coins, collecting taxes, enforcing tax laws, managing all government accounts and debt issues, and overseeing U.S. banks in cooperation with the Federal

In Russia case it is difficult to analyse of how the sanctions are hitting the Russian economy. The reason why it is difficult concern the sanctions interactions with other factors and the difficulty to isolate the sanctions from these. But according the World Bank information there are three channels which have hit the Russia economy. First one talks about sanctions caused volatility on the foreign exchange market and a significant depreciation of rouble (ibid.). Second way is the restriction on access to international financial markets. These restrictions has tightened domestic and external credit conditions and this created a negative effect on investment and consumption. This effect have impacted the economy the most. And why is that? The main reason is that the biggest six banks were included in the “black” list and they affect the whole economy. The third channel mentioned by the World Bank is the crisis of confidence. The geopolitical tension and sanctions from the largest world entities have developed this consequence. It has caused great uncertainty regarding policy and economic development. But there we must noticed that despite of economical fall, authoritarian regimes are less sensitive to sanctions than democracies. Despite of fact, that economic growth has slowed downed the head of country has some additional powers to protect loyal elites. The authoritarian regimes have relatively more control over resources and rents which allows them to save loyal elites from economic hardship and distribute resources as they decide in order to stay in power. For brief example, Russia has its Putin’s rent management system. This system fulfils this function. Moreover, politically authoritarian regimes are not answerable to the state population for their actions. They can manipulate with public opinion by using the media and the internet. By the help of media they successfully suppress and eliminate any opposition. Even the events in Ukraine were perfectly disguised with Russians propaganda machine. In the Russian narrative the sanctions are interpreted as a strategy seeking to weaken Russia. The propaganda announces that the main goal of the US and the EU would be to bring about regime change in Moscow and “the American and European sanctions originate from an aggressive, illegitimate and counterproductive policy where Russia finds itself in a purely defensive position” (Fischer, 2015).

The propaganda is a political tool forming the audience opinion in the country. As it is known from the very old times, Russian propaganda is always under Putin foot. This case is not an exception. This tool effectively disseminate disinformation about the conflict in Ukraine both at home and abroad, as well as giving its own version about the “real” nature of sanctions. According this mass-media “America wants to see regime change in Russia and has manipulated its European allies to take part in this scheme”. Perceptions in Russia are manipulated and the Russian population do not understand the real aims behind the sanctions: The West wants Russia to leave Ukraine and respect it as a sovereign state. The authoritarian Russian regime is thus a factor that on the one hand supports the sanctions by leading to slower growth due to the suboptimal resource allocation favoring the rent-dependent sector, but on the other counteracts the sanctions by protecting loyal elites and unopposed blaming the West for all economic hardship and Russia’s

isolation. The regime has shown strong state capacity in controlling public opinion, thus manipulating the perceptions of the population and creating inimical feelings towards the US and the EU.

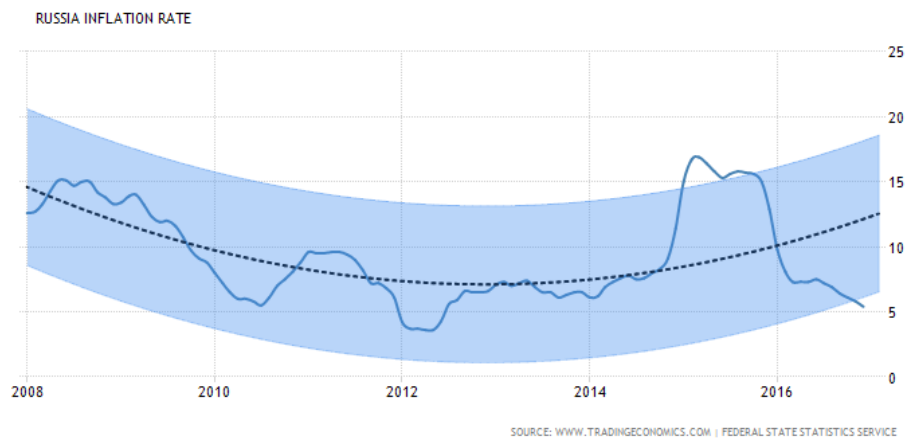
Figure 8. Russian imports and exports of goods, January 2008-October 2016 (\$ mil)



Source: www.tradingeconomics.com: Central Bank of Russia

Together with other factors the economic sanctions applied for Russia have impacted its health being negatively. There are no doubts, that sanctions imposed against Russia is causing the crisis in the country. This crisis has effect on the Russian economy, both consumers and companies, and regional financial markets, as well as Putin's ambitions regarding the Eurasian Economic Union which he was planning so carefully. The geopolitical tension from the surrounding countries, threats of sanctions and imposing of them have originated a crisis of confidence that has damaged the eagerness of domestic and foreign actors to embark on business ventures in Russia and to invest. As it is available to see above, the Russia imports has fall down in the same level as it was at the time of World Economic Crisis.

Figure 9. Russia inflation rate, January 2008-October 2016

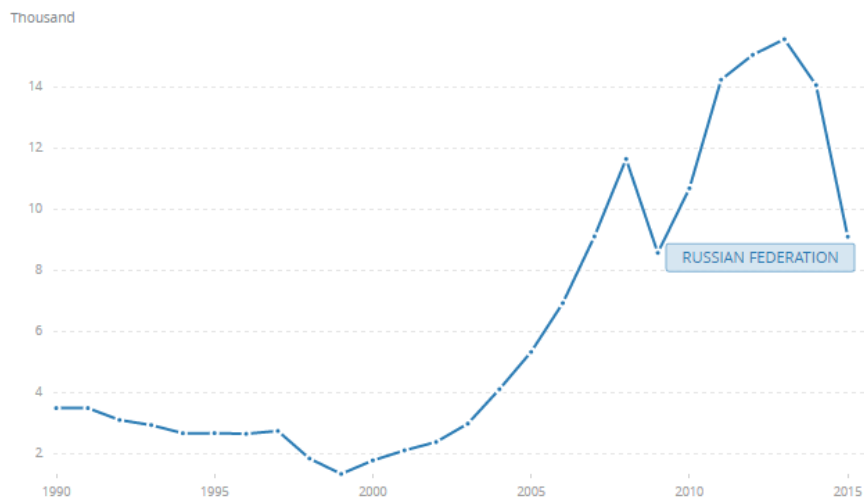


Source: www.tradingeconomics.com: Central Bank of Russia

The ruthless financial sanctions have targeted Russia’s main state banks and key companies. These banks and companies has contributed to a stained financial situation in the whole economy and led to difficulties in refinancing debt in the short run and in financing investments. Such measures as monetary inflation reach double number in 2015 which showed very bad situation in Russia’s economy. By the beginning of 2016 the situation was more stabilized and the inflation rate increased.

In a short word, the effect made by sanctions affects Russia’s economic development in the medium and long run. The situation is more compounded by the EU and US export bans on specific products that are crucial for the energy and defense sectors. The bans will affect technological development in both these areas. The current economic crisis in Russia has possible three main causes: the worsening structural problems of the Russian economy; serious tensions in the relations between Russia and the West, which have led to the “sanctions war”; the dramatic slump in oil prices.

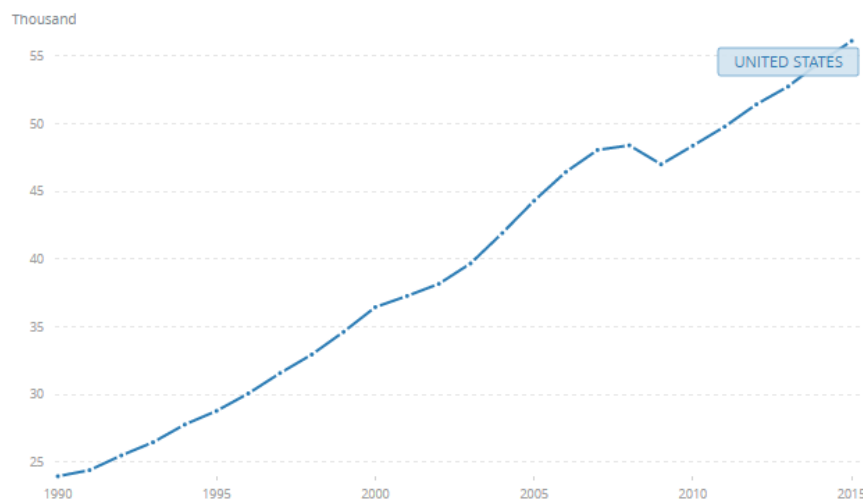
Figure 10. Russia Federation GDP rates, 1990-2016



Source: www.tradingeconomics.com: Central Bank of Russia

The reality was that Russia always get the easy money and do not have to invest in other sectors. And now, when state is facing the challenges of imposed sanctions, the leaders have to develop other industry sector. In broad perspective, since the beginning of Russia’s Federation the GDP was growing very slowly until 2003. Since 2003 it started to grow so much faster unfortunately the economic crisis hit Russia’s economy. But this fall of GDP was not such huge as it is seen right now as a result of applied sanctions. After the economic crisis Russia reach an amazing rise of economy. The situation was getting better ant better. But Puttin political decisions triped it. Hard power was used to create a pressure for Ukraine and that was one bad decision which get in Russia to the situation of 2008. While the US is keep growing and gaining even better economic situation years by years.

Figure 11. United States GDP rates, 1990-2016



Source: www.tradingeconomics.com: Central Bank of Russia

The industry sector is not an only problem showing that Russia has an inventible long time effect of sanctions. In the beginning of 2015, Russia had inflation level which reached two-digit levels for the first time since the Economic Crisis in 2008. Even the interventions in the market failed to improve the stability of the Russian currency. Now we have the end of year 2016 and the inflation situation is getting better. But for the past two year Russia have met the economic insecurity. The economic stagnation has caged Russia in its hands. Considering the main reason of this stagnation we can conclude only two main reasons – wrong political decisions made by Russian leaders. As result Russia nor only has stuck and even get back in the 2008 crisis, but also get a politically motivated loss of trust by the perspective of West world. The indirect effect of sanctions is more difficult to estimate, but the tendency of European and US actors to withdraw end masse from financial and investment co-operation with Russian companies, often “just in case”, may have some long-term consequences. One more important measures showing that Russia has a major effect of sanctions is oil price. In 2014, it has slumped by more than 50%. That was a very painful for Russia economy, because it has directly influence for the budget stability. If oil prices decrease by 1 dollar,

Russia's budget revenue decreases by around US\$ 2 billion, but at the same time if the dollar appreciates by 1 trouble, Russia gains RUB 210 billion in additional budget revenue. Even though this dynamic produced a positive outcome in 2014, and Russia closed the year with a budget surplus⁴⁰.

Even the sanctions are a political tool reaching to change the political situation in Russia by economic means, unfortunately, the political effect of the sanctions are less clear than the economic. In fact, this is because economic factors act in favor of sanctions succeeding. The EU and the US have a concerned view towards Russia's political situation because of its insecure, so called, democratic actions, propaganda and threats. Unfortunately, all these means work as favor for Russia in this difficult crisis time. The political factors act on a contrary then economic factors because of the main previously discussed points. We can start with the authoritarian political system, used in Russia. This makes the regime less sensitive to the sanctions. Previously in this chapter mentioned Putin's rent management system let to protect loyal elite, the media and internet can control opinion because of its subordination for authority. Propaganda is working very effectively and let people believe in anything what's Putin needs. The result of propaganda leaves no space for doubts. The idea that the West wants to hurt Russia for no particular reason and the effect has been spread that the West wants to see regime change in Russia are welcomed by the citizens of Russia. And it helps magically hide the real political behavior toward Ukraine which is the real goal of the West. One of the biggest surplus for Russia in its situation is that both parties have loss in this sanctioned period. The last, most non-sedative factor is that Russia has found the "Achilles heel" of the EU. Russia has tried many times to split the EU countries by using different embargoes regimes, threats and incentives. That shows the weakest part of the EU which is working in favor for Russia. The problem of the EU is that common union actually is not so common. The best examples can be tracked after the application of sanctions. Furthermore, the sanctions were firstly applied by the EU itself, but the EU member states are those who are breaking the rules. May 2016, France has defied an EU travel ban and granted a visa to Russian Agriculture Minister Alexander Tkachev, despite the fact he is blacklisted from entering the bloc due to his support of Moscow's annexation of Crimea. France has defied an EU travel ban and granted a visa to Russian Agriculture Minister Alexander Tkachev, despite the fact he is blacklisted from entering the bloc due to his support of Moscow's annexation of Crimea.⁴¹

⁴⁰ OSW Report. (2015). *The Economic and Financial Crisis in Russia: background, symptoms and prospects for the future*. https://www.osw.waw.pl/sites/default/files/raport_crisis_in_russia_net.pdf

⁴¹ Chadwick V. (2016). France ignores EU sanctions list, grants visa to banned Russian minister. *Politico*. <http://www.politico.eu/article/france-ignores-sanctions-russian-minister-news-via-alexander-tkachev-crimea/>

3. GENERALIZATION OF EU POLITICAL RELATIONS DYNAMICS WITH US AND RUSSIA

Politics and Economics approach international trade from completely different points of view using completely different analytical frameworks. The problem is that states think in terms of geography and population, which are the relatively stable factors that define its domain while markets are defined by exchange and the extent of the forward and backward linkages that derive therefrom. The borders of markets are dynamic, transparent, and porous; they rarely coincide exactly with the borders of states and a few markets today are even global in their reach. When trade within a market involves buyers and sellers in different nation-states, it becomes international trade and the object of political scrutiny. The political analysis of this subject treats international trade as fundamentally different from domestic economic activity. The international exchange of goods, services, or resources with another country raises many political questions of national interest, especially questions concerning the economic and military security of the nation.

When states are using soft power and keep more liberal position it is more easier to create a dialogue between states because in such cases they look forward with more respect for each other. It allows

Trade embargoes are another economic tool of foreign policy and a great deal of IPE research has focused upon the political economy of trade policies. The multilateral economic embargo on South Africa, for example, linked that nation's policy of racial apartheid with international trade. The logic of an embargo is to shut off imports of many vital items and reduce export earning, thereby reducing domestic welfare and providing the state with an incentive to change its policies. The South Africa embargo was relatively successful in this respect, although ending the embargo was obviously not the only reason why that government ended apartheid. The U.S. trade embargo against Cuba, on the other hand, has been ineffective in bringing down the Castro government. The conditions for the effective use of trade and trade embargoes in foreign policy is a productive area of IPE research. Much of the work on the IPE of international trade has been, as seen above, an attempt to bring economic factors into the study of International Relations by taking economic security concerns and economic foreign policy tools into consideration. This process has also produced a counter flow -- bringing political factors into the analysis of International economics. Adding politics to economics is not a straightforward process. The conventional economic analysis of international trade is based upon the Heckscher-Ohlin-Samuelson factor proportions theory, which provides a neoclassical analytical framework for the study of comparative advantage. This theory is essentially stateless and therefore apolitical. What the factor proportions theory has to say about trade between two nations is not fundamentally different from the analysis of trade between two regions (Northern England and Southern England, for example), or trade between two cities or tribes. What should the state's policy be towards international trade? Interestingly, this is the one question on which economists agree. Except in

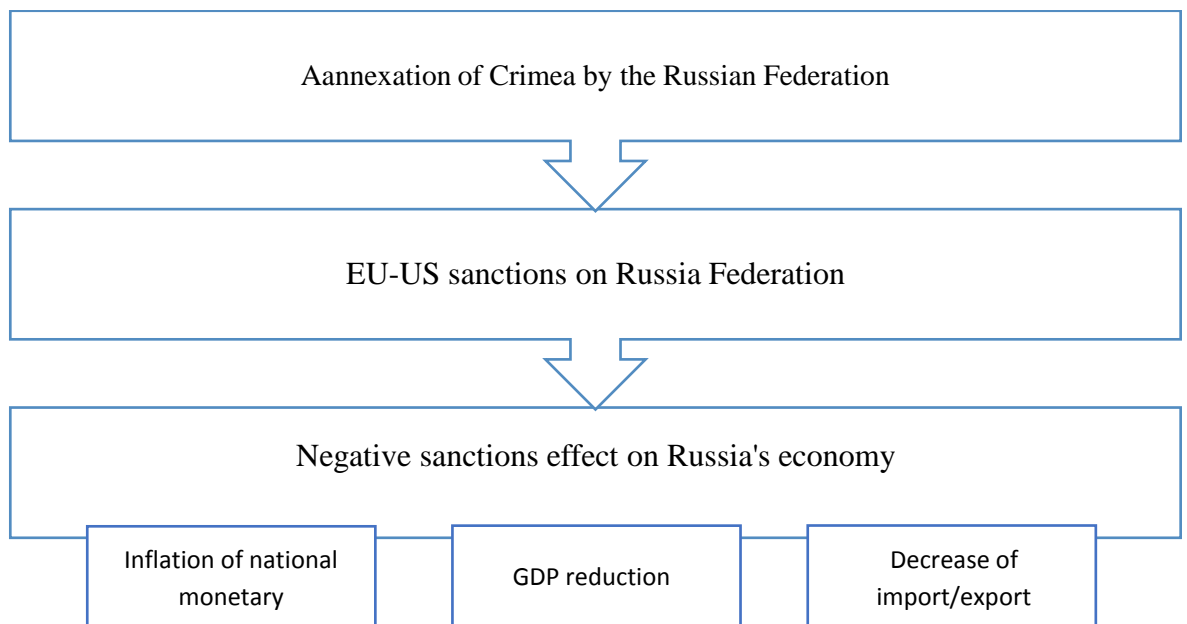
certain special cases, free trade results in an efficient allocation of resources and therefore maximizes the value of those resources globally. Basically free trade eliminates the waste that occurs when goods and services are produced inefficiently. The key to this economic analysis is that it is unconcerned with where production takes place (at home or abroad) and only concerned with maximizing the value of the resources used in production and minimizing the waste of inefficient local production. In short, the economic theory of comparative advantage does not care where the wheat in your bread was grown, or who baked the loaf, but only that the production of the bread is not inefficient or wasteful. Nation-states define themselves by population and geography. States, therefore, do care about the where and who and this creates a tension between the economic and the political analysis of trade.

These relations between the politics and economics are inseparable. And the correlation between both sides are required in many spheres thinking about the healthiness of the state and even the situation of IR. The chapter below have determined the two different types of IR. The first one can be compared as an ideal type of IR and IPE when both sides have the same values, ideas, goals and willingness to reach a higher level of cooperation. This type of relations is suitable for the EU-US relations. Regarding the political actions applied in IPE both of them can be PRISKIRTOS for the Economic Liberalists. Economic Liberalists are cooperative, try to find the best way to foster new agreement but in the same moment they play as an individual actors, equal partners in the world and keeps the social values in the first position when dealing with one another. Through a long history of cooperation the EU and US always kept the relation in the warm way. First of all, the economic position stability leading the Global Market of the US is always attractive for the EU which seeks to be such important in the World. For a many years, the US saved its position and even in the economic crisis time in 2008, the US stayed still leading state. As it is seen in the chart below, very different situation is with other important partner for the EU. Russia, unfortunately, has a very difficult situation regarding the economic stability and especially when we are talking about the political relations specific. Since the creation of Russia Federation the specific of IR has not changed until nowadays. Mercantilism is dominating IPE theory in Russia. State power is main source for international goals. Differently than US, Russia ignores the idea about same values. It is the weakening pool for the state and the EU is the biggest mistake which individual states can choose. So many independent countries can not to seek the same goal in all the spheres. In the result some of them must ignore their own wishes and must accept the majority. For Russia, such type of relations is not suitable. In contrary, it is more important to stay military strong and independent state. The only one way to be leading country in the World is to rise the goals which corresponds only for one, individual states, wishes and reach then in any cost. Furthermore, the regime “divide and conquer” is still dominating in Russia’s perspective. Despite of globalization and modernization process in the World, Russia stays at the same position as it was in 1990 and that has a huge cost.

Considering the fact that all high level meetings are arranged only by politics its natural, that the biggest attention is brought to the state interest rather that economical wealth. The most important fact is that even the economical agreements such as trades are still voted by politicians which not always take in to account an economic effect of agreements. Unfortunately, the economic specialists have no rights even participate in such high level meetings which causes some misunderstandings in decision making process.

CONCLUSIONS

1. A theory of IR is a set of ideas that explains how the international system works. The research project focused mainly on IPE theory and what position states choose for their cooperation. State interests often include such indicators as self-preservation, military security, economic prosperity, and influence over other states . Sometimes two or more states can have the same or different state interests which are the main indicators representing the IPE branch selected for state. During the clarifying process there were identified two main IPE theories which are used by selected states. The EU and US are using Economic Liberalism model which represents the main ideas such as cooperation, social interests and economic prosperity. Russia Federation take the opposite IPE theory – mercantalism which represent completely different values. State power, conflictual type of cooperation and politic decisive features are the main reflections in Russia's relations with other states.
2. Determination of the political relations dynamics showed two different approaches of international cooperation. The EU-US transatlantic relations represents the stability and mutual understanding between both sides. While relations with Russia has a more dynamic view.
3. Results of research project allows to conclude that political decisions has a merge effect on states economy which can be positive or negative. It depends on political relations model which states are using on IR. Positive effect on states economy shows a high level of cooperation and understanding between both trading partners. The EU-US relations belongs to this positive relations. Russia's relations with the EU reflects completely different effect on states economy. Because of Russia's conflictual politic position it suffers a negative economic effect of political decision making process:



Aggressive political decisions caused a new flow of crisis in Russia. In a short word, the effect made by sanctions affects Russia's economic development in the medium and long run. It allows to conclude that the type of political relations and taken decisions have an in sight effect on states economy while economic reasons can be used only as the means to reach some political changes.

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1 ANNEX. Timeline - EU restrictive measures in response to the crisis in Ukraine

Source: <http://www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/history-ukraine-crisis/>

Date	Event
2014	
18 December	European Council focused on the eastern neighbourhood EU leaders discussed the situation on the eastern borders of Europe, support to Ukraine and relations with Russia. They welcomed the strengthening of the sanctions on investment, services and trade with Crimea and Sevastopol. > European Council meeting, 18 December 2014
28 November	EU strengthens sanctions against separatists in Eastern Ukraine As requested by the Foreign Affairs Council of 17 November, an asset freeze and an EU travel ban were imposed to 13 persons and five entities involved in action against Ukraine's territorial integrity. This decision brought the total of persons subject to EU sanctions over Ukraine's territorial integrity to 132 and the number of entities under EU asset freeze to 28. > EU strengthens sanctions against separatists in Eastern Ukraine, 28 November 2014  > List of persons and entities under EU restrictive measures over the territorial integrity of Ukraine, 1 December 2014 
17 November	New sanctions under consideration Ukraine was the main focus of the Foreign Affairs Council. EU ministers asked the European External Action Service (EEAS) and the European Commission to present a proposal on further sanctions against separatists. > Foreign Affairs Council meeting, 17-18 November 2014
12 September	Further economic sanctions on Russia A new package of restrictive measures targeting exchanges with Russia in specific economic sectors entered into force, reinforcing the measures adopted on 31 July. > Reinforced restrictive measures against Russia, 11 September 2014  > Statement by the President of the European Council Herman Van Rompuy on further EU restrictive measures against Russia, 8 September 2014 
30 August	Special meeting of the European Council Following the dramatic escalation of the situation, with the presence and actions of Russian armed forces on the Ukrainian territory, the European Council asked for the preparation of new economic sanctions against Russia. > Special meeting of the European Council, 30 August 2014
29-31 July	Adoption of additional restrictive measures against Russia Following the conclusions of the European Council meeting of 16 July, the Council adopted a package of targeted 'economic sanctions'. These measures concern exchanges with Russia in specific economic sectors. > Statement in the name of the European Union on the agreed additional restrictive measures - 'economic sanctions' against Russia, 29 July 2014  > Adoption of agreed restrictive measures - 'economic sanctions' - in view of Russia's role in Eastern Ukraine, 31 July 2014  > Adoption of agreed EU restrictive measures over Crimea and Eastern Ukraine, 30 July 2014  > A summary of the EU restrictive measures including 'economic sanctions' over the situation in Eastern Ukraine and the illegal annexation of Crimea, 29 July 2014 
25 July	Further EU sanctions over situation in Eastern Ukraine The Council adopted reinforced EU sanctions. The Council's Committee of Permanent Representatives (Coreper) also discussed the preparatory work on further targeted measures. > EU sanctions over situation in Eastern Ukraine strengthened, 25 July 2014 
22 July	Council takes action following the downing of flight MH17 EU ministers discussed the situation in Ukraine following the downing of flight MH17. They asked to finalise preparatory work for economic sanctions in four sectors, paving the way for their adoption. > Foreign Affairs Council meeting, 22 July 2015
22 July	Council takes action following the downing of flight MH17 EU ministers discussed the situation in Ukraine following the downing of flight MH17. They asked to finalise preparatory work for economic sanctions in four sectors, paving the way for their adoption. > Foreign Affairs Council meeting, 22 July 2015
18 July	Ukraine crisis: EU broadens remit of sanctions The Council widened the legal basis for EU restrictive measures making it possible to target entities which materially or financially support actions against Ukraine. > Ukrainian crisis: EU broadens remit of sanctions, 18 July 2014 
16 July	Special meeting of the European Council EU leaders regretted that Russia and the separatists had not taken the requested steps set out in the June European Council conclusions. They agreed to target Russia with a new set of 6 restrictive measures including restriction on economic cooperation with Russia. > Special meeting of the European Council, 16 July 2014
26-27 June	European Council conclusions EU leaders set out four specific steps to be taken by Russia and the separatists for de-escalation. They also signed the Association Agreement with Ukraine. > European Council, 26-27 June 2014

23 June	<p>Import ban on goods from Crimea</p> <p>The Council adopted measures to implement the EU's policy of non-recognition of the illegal annexation of Crimea and decided on a ban on goods originating from Crimea or Sevastopol.</p> <p>> Foreign Affairs Council meeting, 23 June 2014</p>
12 May	<p>Agreement on a new set of sanctions</p> <p>In light of events in Eastern Ukraine and the illegal confiscation of entities in Crimea, the Council agreed on a new set of sanctions and took note of the preparatory work done by the Commission and Member States on possible targeted measures, as requested by the European Council in March.</p> <p>> Foreign Affairs Council meeting, 12 May 2014</p>
15 April	<p>Foreign Affairs Council focused on the situation in Eastern Ukraine</p> <p>The Council decided to strengthen sanctions against persons responsible for misappropriating Ukrainian state funds and targeted additional individuals under the assets freeze and travel ban.</p> <p>> Foreign Affairs Council meeting, 14-15 April 2014</p>
20-21 March	<p>European Council focused on Ukraine crisis and further sanctions</p> <p>Following the annexation of Crimea and Sevastopol to the Russian Federation, 12 names were added to the list of Russian and Crimean officials subject to EU travel bans and asset freezes. In addition, the European Council cancelled a planned EU-Russia summit and noted that member states will not hold any bilateral regular summits with Russia.</p> <p>EU leaders also requested the European Commission to prepare broader economic and trade sanctions that could be imposed if Russia further destabilised Ukraine.</p> <p>> European Council meeting, 20-21 March 2014</p>
17 March	<p>Introduction of a first set of restrictive measures against 21 Russian and Ukrainian officials</p> <p>EU ministers decided to introduce a first set of measures against 21 officials responsible for actions threatening Ukraine's territorial integrity.</p> <p>> Foreign Affairs Council meeting, 17 March 2014</p>
6 March	<p>Extraordinary meeting of EU Heads of State or Government on Ukraine</p> <p>EU leaders condemned Russia's actions in Ukraine and decided to start preparing individual restrictive measures (assets freeze and travel bans).</p> <p>The leaders confirmed the actions proposed by EU foreign ministers on 3 March, that is to suspend bilateral talks with the Russian Federation on visa matters and on the New Agreement.</p> <p>> Extraordinary meeting of EU Heads of State or Government on Ukraine, 6 March 2014</p>
3 March	<p>Extraordinary meeting of the Foreign Affairs Council on the situation in Ukraine</p> <p>The EU and the member states who participate in the G8 decided to suspend the preparations for the G8 Summit in Sochi in June and considered possible consequences for bilateral EU-Russia relations.</p> <p>Furthermore, the Council agreed to swiftly work on the adoption of restrictive measures for the freezing and recovery of assets of persons identified as responsible for the misappropriation of Ukrainian state funds.</p> <p>> Foreign Affairs Council meeting, 3 March 2014</p>
2015	
21 December	<p>Extension of economic sanctions</p> <p>The Council prolonged EU economic sanctions against Russia until 31 July 2016.</p> <p>In March 2015, EU leaders decided to align the existing sanctions regime to the complete implementation of the Minsk agreements, which was foreseen for the end of December 2015. Since the Minsk agreements will not be fully implemented by 31 December 2015, the duration of the sanctions has been prolonged whilst the Council continues its assessment of progress in implementation.</p> <p>> Russia: EU prolongs economic sanctions by six months</p>
5 October	<p>Extension of EU sanctions over misappropriation of Ukrainian state funds</p> <p>The Council extended the asset freeze for one person covered by measures applying until 6 October 2015.</p> <p>> Council decision (CFSP) 2015/1781 amending decision 2014/119/CFSP concerning restrictive measures directed against certain persons, entities and bodies in view of the situation in Ukraine, 5 October 2015</p>
14 September	<p>Extension of EU sanctions over action against Ukraine's territorial integrity</p> <p>The Council extended until 15 March 2016 the application of EU restrictive measures targeting action against Ukraine's territorial integrity, sovereignty and independence. 149 persons and 37 entities are subject to asset freeze and travel bans under these sanctions.</p> <p>> EU extends the validity of sanctions over actions against Ukraine's territorial integrity</p>
22 June	<p>Extension of economic sanctions</p> <p>The Council extended EU economic sanctions until 31 January 2016. These sanctions were introduced in response to Russia's destabilising role in Eastern Ukraine. They target certain exchanges with Russia in the financial, energy and defence sectors and dual-use goods.</p> <p>> Russia: EU extends economic sanctions by six months</p>
19 June	<p>Extension of restrictions in response to the illegal annexation of Crimea and Sevastopol</p> <p>The Council extended until 23 June 2016 the EU restrictive measures in response to the illegal annexation of Crimea and Sevastopol. These measures include prohibitions on import of products, investment, tourism services and exports of certain goods and technologies.</p> <p>> Crimea: EU extends restrictions in response to illegal annexation</p>
5 June	<p>Extension of EU sanctions over misappropriation of Ukrainian state funds</p> <p>The Council extended the asset freeze for three persons covered by measures applying until 6 June 2015.</p> <p>> Misappropriated Ukrainian state funds: Council extends asset freezes</p>

19-20 March	<p>European Council</p> <p>Leaders decided to align the existing sanctions regime to the implementation of the Minsk agreements. Economic sanctions will remain enforced until the end of 2015 when the last point of the peace plan is to be implemented: Ukraine regaining control over its borders in the east.</p> <p>EU leaders also stressed the need to challenge Russia's ongoing campaign of public disinformation about the conflict in Ukraine. The EU High Representative, Federica Mogherini, was invited to prepare an action plan on strategic communication for the June European Council.</p> <p>EU leaders agreed on the objectives of the Eastern Partnership summit, which then took place in Riga on 21-22 May 2015. The European Council repeated its commitment to the eastern partners and set as a priority to strengthen the democratic institutions to the east.</p> <ul style="list-style-type: none"> > European Council conclusions on Ukraine and relations with Russia, 19 March 2015
13 March	<p>Extension of EU sanctions over action against Ukraine's territorial integrity</p> <p>The Council extended until 15 September 2015 the application of EU restrictive measures targeting action against Ukraine's sovereignty, territorial integrity and independence.</p> <p>150 persons and 37 entities are subject to asset freeze and travel bans under these sanctions.</p> <ul style="list-style-type: none"> > EU extends validity of sanctions over action against Ukraine's territorial integrity, 13 March 2015
5 March	<p>Extension of EU sanctions over misappropriation of Ukrainian state funds</p> <p>The Council adjusted and extended EU restrictive measures focused on the freezing and recovery of misappropriated Ukrainian state funds.</p> <ul style="list-style-type: none"> > Council extends EU sanctions over misappropriation of Ukrainian state funds, 5 March 2015
16 February	<p>EU strengthens sanctions against separatists in Eastern Ukraine</p> <p>As requested by the Foreign Affairs Council of 9 February, an asset freeze and an EU travel ban were imposed to 19 persons and 9 entities involved in action against Ukraine's territorial integrity.</p> <ul style="list-style-type: none"> > List of persons and entities under EU restrictive measures over the territorial integrity of Ukraine, 16 February 2015 
12 February	<p>EU leaders welcomed the results of the Minsk agreement</p> <p>At an informal meeting of heads of state or government, EU leaders gave cautious support to the Minsk agreement. They indicated that they will not hesitate to take the necessary steps if the agreement is not implemented and the ceasefire is not respected.</p> <ul style="list-style-type: none"> > Informal meeting of heads of state or government, 12 February 2015
9 February	<p>Additional listings on hold</p> <p>The Council unanimously adopted additional listings concerning separatists in Eastern Ukraine and their supporters in Russia. These consist of an asset freeze and a travel ban on 19 persons and 9 entities involved in action against Ukraine's territorial integrity.</p> <p>To give space for diplomatic efforts and the Minsk talks, the Council put the entry into force of the measures on hold until Monday 16 February 2015.</p> <ul style="list-style-type: none"> > Foreign Affairs Council, 09/02/2015
29 January	<p>Extension of existing individual restrictive measures</p> <p>The Council strongly condemned the indiscriminate shelling of the residential areas, especially in Mariupol, and the escalation of fighting in the Donetsk and Luhansk regions of Ukraine.</p> <p>In response to those events, the Council agreed to extend the existing individual restrictive measures, targeting 132 persons and 28 entities for threatening or undermining Ukraine's sovereignty and territorial integrity, until September 2015.</p> <p>It also called for a proposal on additional designations for decision at the Foreign Affairs Council on 9 February 2015.</p> <ul style="list-style-type: none"> > Foreign Affairs Council meeting, 29 January 2015
17 June	<p>Extension of sanctions in response to the illegal annexation of Crimea and Sevastopol</p> <p>The Council extended the restrictive measures in response to the illegal annexation of Crimea and Sevastopol by Russia until 23 June 2017. The measures apply to EU persons and EU based companies. They are limited to the territory of Crimea and Sevastopol.</p> <ul style="list-style-type: none"> > Illegal annexation of Crimea and Sevastopol: EU extends sanctions by one year
10 March	<p>Extension of EU sanctions over action against Ukraine's territorial integrity</p> <p>The Council extended until 15 September 2016 EU restrictive measures against 146 people and 37 companies. In view of the continuing undermining or threatening of the territorial integrity, sovereignty and independence of Ukraine.</p> <ul style="list-style-type: none"> > Ukraine territorial integrity: EU extends sanctions by 6 months
4 March	<p>Extension of EU sanctions over misappropriation of Ukrainian state funds</p> <p>The Council extended by one year asset freezes against 16 people identified as responsible for the misappropriation of Ukrainian state funds or for the abuse of office causing a loss to Ukrainian public funds.</p> <ul style="list-style-type: none"> > Misappropriation of Ukrainian state funds: EU extends asset freezes against 16 people

2 ANNEX. US sanctions applied for Russia Federation in response to the crisis in Ukraine Source: <http://www.stewartlaw.com/Article/ViewArticle/1078>

A. OFAC Sanctions

OFAC's sanctions program currently consists of three different categories of sanctions:

1. Traditional blocking sanctions against specific Ukraine- and Russia-related individuals and entities, which are listed on the List of Specially Designated Nationals and Blocked Persons ("SDN List");
2. Sectoral sanctions prohibiting certain types of transactions with specific entities operating in particular sectors of the Russian economy, which are listed on the Sectoral Sanctions Identification List ("SSI List"); and
3. Prohibitions on new investment and on the exportation or importation of goods, technology, or services to or from Crimea.

1. U.S. Blocking Sanctions (SDN List)

The sanctioned individuals and entities include:

- Crimean separatists and Russian supporters;
- Crimea-based businesses;
- Crimean seaports;
- Former Ukrainian government officials;
- Russian government officials and members of Russian President Putin's inner circle;
- Russian banks;
- Russian defense and arms companies, such as Kalashnikov Concern and the Almaz-Antey Group;
- Businesses and holding companies owned or controlled by sanctioned persons; and
- Individuals and entities that have supported serious and sustained evasion of sanctions.

2. U.S. Sectoral Sanctions (SSI List)

Financial Services Sector

- **Sberbank of Russia** – the largest bank in Russia;
- **VTB Bank OAO** – Russia's second-largest banking group;
- **Gazprombank OAO** – the third-largest bank in Russia and the financial arm of the world's largest gas producer, Gazprom, which provides financial services to more than 45,000 companies and has 40 branches in Russia;
- **Vnesheconombank (VEB)** – a Russian state-owned financial institution that acts as a development bank and payment agent for the Russian government;
- **Russian Agricultural Bank/Rosselkhozbank** – a Russian state-owned financial institution that acts as a Russian government agent and has the second-largest regional branch network in the Russia; and
- a number of subsidiaries of such banks.

Energy Sector

1. **Rosneft** – Russia's largest petroleum company and third-largest gas producer;
2. **Gazprom Neft** – the fourth-largest oil producer in Russia;
3. **Transneft** – a Russian government-owned pipeline company;
4. **OAO Novatek** – Russia's largest independent natural gas producer; and
5. a number of subsidiaries of Rosneft.
6. **Gazprom** – a large government-owned energy company that engages in gas exploration, production, transportation, storage, processing and sales;
7. **Gazprom Neft**;

8. **Lukoil** – a Russia-based oil and gas company;
9. **Surgutneftegas** – another Russian oil and gas company; and
10. **Rosneft** and related companies.

Defense Sector

1. **Rostec**, a state-owned defense conglomerate, and its subsidiaries.

3. U.S. Trade Embargo and New Investment Ban Regarding Crimea

Third, the United States has imposed comprehensive sanctions against the region of Crimea under Executive Order 13685 of December 2014. The following transactions involving Crimea are generally prohibited:

- New investment in Crimea by U.S. individuals and companies and other entities (including foreign branches);
- The importation into the United States, directly or indirectly, of any goods, services, or technology from Crimea; and
- The exportation, reexportation, sale, or supply, directly or indirectly, from the United States, or by U.S. individuals, companies, and other entities (including foreign branches), of any goods, services, or technology to Crimea.

B. BIS and DDTC Sanctions

Unlike the OFAC sanctions, which regulate the conduct of *persons*, the BIS and DDTC restrictions apply to the export, reexport or foreign transfer of U.S.-origin *items* (including items in the possession of foreign persons outside of the United States). The BIS and DDTC restrictions are summarized below.

1. Military and Defense-Related Restrictions

- In late March 2014, the BIS and DDTC placed a hold on issuing licenses for exports and re-exports of controlled items, defense articles, and defense services to Russia until further notice.
- In April 2014, the BIS and DDTC announced that they would deny pending applications for licenses and revoke existing licenses to export or reexport controlled “high technology” items to Russia or occupied Crimea that contribute to Russia’s military capabilities.
- BIS subsequently imposed an export license requirement under 15 C.F.R. § 744.21 for exports, reexports, or transfers of listed items when the exporter knows or has been informed by BIS that the item is intended, entirely or in part, for a military end use or military end user in Russia. BIS will deny licenses for exports, reexports, or transfers that it determines would make a material contribution to Russia’s military capabilities.

2. Energy Sector Restrictions

Under 15 C.F.R. § 746.5, BIS requires a license for exports, reexports, or transfers of listed items when the exporter *knows* or has been informed by BIS that the item will be used directly or indirectly in exploration for, or production of, oil or gas in Russian deepwater, Arctic offshore locations, or shale formations in Russia, or is *unable to determine* whether the item will be used in such projects. A presumption of denial applies for exports, reexports, or transfer for projects that have the potential to produce oil. BIS will review license applications for projects that have the potential to produce gas on a case-by-case basis.

3. Crimea

Under 15 C.F.R. § 746.6, a license is generally required to export or reexport to Crimea or transfer within Crimea *any* item subject to the EAR, other than food and medicine designated as EAR99 and certain software necessary to enable exchange of personal communications over the Internet. BIS will review license applications with a presumption of denial, except for items authorized under OFAC Ukraine-Related General License (GL) No. 4 such as medical devices, medical supplies, and agricultural commodities, which will be reviewed on a case-by-case basis. There are some limited exceptions to this license requirement.

4. Entity List

The BIS has added several Crimean and Russian entities to its Entity List. These entities include, but are not limited to, Russian defense and energy companies. The BIS's Entity List designations overlap with, but do not match, OFAC's designations.

Typically, a license is required for the export, reexport or foreign transfer of any items subject to the EAR to entities designated on the Entity List, with a presumption of denial. These restrictions apply to most of the Crimean and Russian entities on the Entity List. However, BIS has designated five Russian energy companies on the Entity List that are subject to fewer restrictions than those applicable to most entities on the Entity List:

- **Gazprom;**
- **Gazprom Neft;**
- **Lukoil;**
- **Surgutneftegas;** and
- **Rosneft.**

For these five companies, a license is required for export, re-export or foreign transfer of items subject to the EAR when the exporter, reexporter or transferor knows those items will be used directly or indirectly in exploration for, or production from, deepwater, Arctic offshore, or shale projects in Russia. License applications for such transactions will be reviewed with a presumption of denial when for use for projects in Russia with the potential to produce oil.