

Chapter 5

TTIP, Central and Eastern Europe, and Russia

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President Barack Obama's speech in Warsaw in June 2014 highlighted a new tone in transatlantic relations. For some countries of central and eastern Europe, it was high time—a welcome if belated change. For others, it seems to have come too late.

In the region that was once conveniently known as “eastern Europe,” the Transatlantic Trade and Investment Partnership has long been the Atlanticists' last best hope. These countries—broadly those that joined the European Union since 2004—are for the most part instinctively pro-American, for reasons dating back to the Cold War. They see American engagement in Europe as the best bulwark against Russia. They are also instinctively free-market. They worry about the dirigiste, protectionist approach of some south European countries. They want an outward-looking, free-trading Europe that is open to new ideas, new markets—and new members, not a cozy club of stagnant and declining economies.

They have a third worry too: American disengagement from Europe. As memories of the titanic struggles against Nazism and Communism fade, they worry that the United States will look coolly and pragmatically at its relationship with Europe, and decide that other things—notably Asia—simply matter more. Even before the Obama administration's unwisely characterized “pivot to Asia” they sensed that the commitment to Europe was slipping. Since then they have begun to fear that it is irreversible and perhaps even unstoppable.

When TTIP was first broached, it therefore seemed like an answer to the eastern Europeans' prayers. The benefits were huge. For a start, even in narrow economic terms it was a good deal. East European consumers (who have much lower wages than their counterparts in the richer half of the continent) care chiefly about low prices. If American imports were able to enter the European market freely, the cash-strapped households of the eastern half of the continent would among the strongest beneficiaries.

More importantly on the import side, American hydro-carbon exports are a vital part of any European move away from the continent's over-dependence on Russian gas and oil. For now, America does not export crude oil and it will export Liquefied Natural Gas (LNG) only to countries with which it has a free trade agreement. It also lacks the physical infrastructure to send LNG overseas in any significant quantities. LNG terminals will come into service from early 2016. Critics note that LNG from the United States will never flow to Europe in large enough quantities to replace the 160 billion cubic meters (bcm) which the EU imports from Russia, via four main import pipelines (North Stream across the Baltic sea, Yamal through Belarus, and the Bratstvo/Soyuz and Trans-Balkan pipelines through Ukraine).

But that is to miss the point. Even small amounts of LNG can be important bargaining tools for countries which otherwise dependent on Russia as a monopoly supplier. Lithuania, for example, has spent \$330 million on an LNG import terminal (a vessel called the *Independence*, which will be delivered from South Korea by the end of the year). Even before a drop of gas from that terminal actually reached Lithuania, Gazprom, the Russian gas giant, offered a 20% discount (Lithuania had previously been forced to pay some of the highest natural gas tariffs in Europe).

TTIP will stimulate American LNG exports to Europe, which will help create a more liquid LNG market, reducing risk and volatility and encouraging other providers to enter the fray. This virtuous circle could be a game-changer in the politics and economics of European energy security.

On the export side, the gains are more modest. The industrial champions of the post-communist region are mostly not great exporters. They are companies such as CEZ, the Czech electricity giant, or KGHM, the Polish copper and metals producer. Fairly few companies in the region at any level have big ambitions in North America. Most are still finding their feet in the 500 million-strong European single market. Some of the strongest performers are in service industries such as software—Poland's Comarch is an example—where they are largely unhampered by trade barriers. The biggest gains would be for niche exporters—artisanal foods, specialty cosmetics, and the like. Such small and medium-sized enterprises are daunted

by the regulatory barriers of selling in North America, but are eyeing the post-TTIP market eagerly.

But the big gains would come from the effect of stimulating inward investment. Greater investor protection, and growing confidence and familiarity, would put the region on the map for smaller American investors—typically those making their first overseas investment or acquisition—who at the moment feel may daunted by the EU's complexity. It is worth noting that east Europeans are poised to gain disproportionately from any extra foreign investment that TTIP would bring. Their labor costs are still low, land is relatively cheap, and the infrastructure has improved sharply since accession, thanks to the tens of billions of euros that the EU has poured into the region as catch-up subsidies (the so-called “structural funds”).

Against that, the costs of TTIP seem minor: genetically-modified food is unpopular in Hungary. American Budweiser is seen as an interloper in the Czech Republic, home to the original brew (from the town of Budvar, formerly Budweis). But overall few incumbent industries in the region would lose. If your domestic industries have survived German competition, you are unlikely to worry too much about America.

But the economic benefits are only part of a broader picture. For security-conscious east Europeans, American military and security engagement in the region will be most dependable if its anchored by strong trade and investment interests. Put bluntly, if some of the largest companies in the United States have big investments in eastern Europe, they will be invaluable allies on other issues.

To illustrate this, try a thought experiment. Imagine that Ukraine over the past 20 years had been run by determined economic reformers, rather than a bunch of incompetent kleptocrats. Imagine that as a result, the country's eastern and southern regions were not desolate, ill-run, hardscrabble places, dependent on Russia, but economically thriving, and studded with major American investments.

That may seem a stretch, but were it not for endemic corruption and bad government, Ukraine would be a tempting destination for outside investors. ADM, for example might have leapt into grain production in the “black earth” region, home to some of the most fertile soil in the world. U.S. Steel might have snapped up the metallurgy

plants. Peabody would have seen great potential in the coal mines. The missile and defense-electronics factories of the east would have been prize catches for Raytheon, while Lockheed Martin and Boeing would have seen the potential of Ukraine's aviation industry. GE would be making turbines in Ukraine, while Exxon and Chevron would be developing the off-shore oil and gas fields. American companies would have bought the ports at Odessa and Mariupol. Crimea would have Californian-run wineries, with its decrepit sanatoria taken over by Marriott, Holiday Inn, Hilton and other chains, creating a world-class tourism destination.

In such an environment, recent events, such as the Russian takeover of Crimea, and the Kremlin-backed insurgency in eastern and southern Ukraine, would be unimaginable. Not only would the population in the vulnerable regions be far better off, and less vulnerable to propaganda and subversion, but the "Ukraine lobby" in Washington would be formidable. Messing with the United States is a bad idea. Messing with corporate America intensifies the danger.

This is just one of the lessons of the past year in Ukraine, all of which are clearest to those closest to the action. The frontline states in what is shaping up to be a new cold war with Russia—particularly Poland, Estonia, Latvia and Lithuania—believe that European policy towards Ukraine has been ill-conceived. It was quite right to try to woo Ukraine with an offer of a 'Deep and Comprehensive Free Trade Agreement'—part of what the European Union called its 'Eastern Partnership.' But to do so without realizing that Russia would find this an existential threat was the product of naïveté bordering on lunacy.

Trade was only the notional heart of the row. The EU did not want Ukraine to break its trade ties with Russia. The Kremlin, however, wanted Ukraine to sign up to its own trade arrangement, the Eurasian Economic Union—something that would have precluded a deal with the EU. More fundamentally, the Kremlin could not accept that with the EU's free-trade agreement, Ukraine would also embark on a civilizational shift: the slow, painful and belated modernization of its public services, judiciary, energy industry and financial system, bringing the country inevitably towards the standards needed for eventual membership of the EU.

For Russia, the idea that its largest and closest neighbor should be a prosperous, successful, law-governed democracy is not a dream; it is a nightmare. A central feature of the story that the Kremlin propaganda machine tells to the Russian people is that Western-style reform is a sham and a failure. Russia's top-down 'managed democracy' is better. If Ukraine came even close to disproving that thesis, it would prompt Russians to ask if their country might not also be better run. What would that mean for the cabal of ex-spooks, cronies and thugs who make up the regime in Moscow?

So the real row about Ukraine was not about that country's future, but about Russia's. It was also about the West: how hard would the EU (NATO has a back seat here) be prepared to push its model in territories which the Kremlin regards as its front yard?

The answer proved to be: not much. Vladimir Putin's habit of stamping on Western toes stems from a closely observed analysis of where we think our vital interests are. His assumption was that ultimately the West did not care greatly about Ukraine's territorial integrity, and was not prepared to make real sacrifices to deter Russia or to reverse the takeover of Crimea.

At the time this is being written, that seems to be right. The West has not imposed serious sanctions on Russia. It is prepared to accept the division of Ukraine and the continuing Russian-backed insurgency in that country's eastern provinces. It talks a tough game on sanctions but it is not prepared to take steps that would seriously dissuade the Kremlin, such as cutting arms sales to Russia (France has a large contract to build two amphibious-warfare vessels) or cutting Russians access to the capital market and the financial system (from which the City of London earns rich returns).

The frontline states of eastern Europe do not want to be the next Crimea. They know that their poorest regions are vulnerable to subversion. They know that integration with the world economy brings not only prosperity but also strengthens friendships and alliances. TTIP is the best possible way to ensure that the Atlantic alliance is rebooted on the basis of shared economic interests, overlaying the existing military and security ties with their roots in World War Two and the Cold War.

The problem is that these countries are not longer representative of the broader region. While Europe's Atlanticists were focusing on the vagaries of Washington policy-making during the Obama administration, another trend was developing under their noses: a new neutralism exemplified by the attitude of the Czech, Slovak, Hungarian and Bulgarian governments to the crisis in Ukraine.

These countries do not see a threat from Russia. They do not want higher defense spending. They do not want sanctions. They do not like the way that NATO and the EU have been reacting to the crisis. In the Czech and Slovak cases, they even say that they do not want other NATO countries to put troops on their soil—making insulting comparisons with the Soviet-led invasion of the former Czechoslovakia in 1968. Among the “new neutralists,” enthusiasm for TTIP is conspicuous by its absence. Hungary has even become a cheerleader for South Stream, a Russian-backed pipeline which is being promoted in defiance of EU warnings that it breaches the rules of the single market.

This is a huge and sudden shift. Time was when the countries of what Donald Rumsfeld called ‘New Europe’ formed a coherent entity. They were all keen on European institutions having a dominant role as the continent's rule-setters. That, they believed, was the best way of keeping the big countries of Europe, with their protectionist agendas and ingrained distaste to the east Europeans, in check. And they all worried about Russia. Even before the chauvinist, revisionist tendencies of Vladimir Putin disturbed the horizon in Brussels and Washington, DC, security-policy experts in Tallinn, Riga, Vilnius, Warsaw, Prague, Bratislava and elsewhere were profoundly concerned by what they saw in the eastern neighborhood.

As a result, though the basic plusses and minuses of TTIP remain unchanged, what is missing now, in much of the region, is the political momentum. Trade deals require a political jolt to overcome vested interests and bureaucratic lethargy. Even two or three years ago, TTIP would have found some of its strongest supporters in the eastern half of the continent, where political leaders saw the deal as not just an economic matter, but a geopolitical game-changer.

The battle for TTIP must now be waged without countries that could once be counted on as allies. In their place may come others. One is Ukraine. Although not part of the EU, it would benefit from

TTIP. The most hopeful moments in the past year have come when the United States and the EU have closely coordinated their policies in Ukraine—notably in pushing the former regime, of the now-disgraced ex-president Viktor Yanukovich, to bite the bullet and accept the painful reforms that the EU association agreement required. Similarly, the most disastrous occasions have come when the EU and the United States seemed to be letting their policies drift apart. Ukraine will benefit from a broader and deeper market in LNG—meaning that it can import gas, if necessary, from Europe rather than being dependent on Russian supplies.

The other new allies are Sweden and Finland—two countries that are not members of NATO, but which are deeply concerned by the insecurity of the northeast European region. It would be nice to think that these countries—both free traders with strong export industries—would step up to fill the gap left by the central and southeastern Europeans. But there is not much sign of it. The Atlanticist center-right Swedish government is heading for defeat in parliamentary elections in 2014. Finland's shaky coalition government appears unwilling to take tough decisions on national security. More menacing behavior from the Kremlin may concentrate minds in Stockholm and Helsinki. But these are flimsy hopes, compared with those that rested on eastern Europe in its Atlanticist heyday.

The big winner from the clouds that hang over TTIP is clear: Russia. Even during the Soviet era, the Kremlin was determined to sever the bond between Europe and the United States. It pumped money and political support into neutralist and anti-American forces, notably the anti-Vietnam campaigns of the 1960s and 1970s, and the ecological and the anti-nuclear movements of the 1980s. That was a hard sell. Europeans were more scared of the Soviet Union than they were disdainful of America.

Since the collapse of communism, that has become easier. Many Europeans see no reason to feel grateful to America, and no reason to feel scared of Russia—a diminished force which no longer preaches a messianic, totalitarian ideology. Under Vladimir Putin, Russia has seized its opportunity created by American missteps and European complacency. It has used business and financial links (especially in the energy sector) to build murky mutually beneficial ties with European

politicians. It misses no chance to sow dissension between the United States and its European allies, on issues ranging from the Iraq war to issues of internet freedom and digital privacy. The furor surrounding the fugitive NSA contractor Edward Snowden exemplifies this. Germans routinely tell opinion pollsters that they see America as a greater threat to world peace than Russia. Moscow puts money into think-tanks and universities to promote anti-Americanism, and publishes well-financed supplements in cash-strapped media publications (such as Britain's *Daily Telegraph*). The RT television channel (formerly known as Russia Today) has become a source of anti-American propaganda which matches the most venomous Soviet broadcasters at the height of the Cold War—and enjoys a far greater reach.

TTIP presents a huge challenge to the Russian plan to divide Europe from the United States. It offers something that the Kremlin cannot match: a transparent, mutually beneficial agreement which creates a rules-based framework for international cooperation.

By contrast, the Kremlin's struggling rival project, the Eurasian Economic Union, is a secretive and discretionary affair, in which all economic and commercial considerations are subordinate to political considerations. The Eurasian Union is indeed in trouble. Other countries in Russia's shadow, such as Kazakhstan and Belarus, are deeply unhappy with the Kremlin's neo-imperialist approach, even if they also recognize that they have no immediate alternative but to go along with it.

If TTIP succeeds, it will change the political and economic landscape of Eurasia for decades. There will be no more doubt about American commitment to Europe. Eastern Europe's economic security will be particularly enhanced, both through stronger economic growth (and the social cohesion that goes with it) but also through stronger energy ties. The eastern hinterland (Ukraine, Moldova and Belarus) will benefit too. The magnetic attraction to the West will grow. Russia's economic model, based on the collection and distribution of natural-resource and bureaucratic rents, will look even more out of date and unattractive. It is hardly surprising that the Kremlin is making such efforts to derail TTIP. It is rather more surprising that we are so averse to noticing them.