OSCE Confidence Building in the Economic and Environmental Dimension

Current Opportunities and Constraints
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Executive Summary

Defusing the current confrontation between Russia and the West will take a concerted effort and innovative thinking on all sides. Narratives and world-views have diverged so far that the sides do not even share a common baseline of facts. As a result, the Western position holds that Russian actions over a period of years, culminating in annexation of Crimea and intervention in eastern Ukraine, present a grave and unique challenge to peace and order in Europe, and normalization of relations cannot begin until those actions are reversed. The Russian position holds that Western actions in recent decades, culminating in a coup d'état in Kyiv, present a grave challenge to peace and order justifying the Russian reaction; and that normalization of relations cannot begin until the West accepts Russian actions and rescinds the actions it took in response.

To be successful, the task of stabilizing tensions and preventing their exacerbation must proceed on many fronts, including all three OSCE baskets, including the “second basket,” the Economic and Environmental Dimension. Although some of the expressions of the current confrontation are economics-related – sanctions, membership in free trade blocs, etc. – those are effects rather than causes. The economic dimension has been less politicized than the security and human dimensions, which have seen long-standing arms control agreements discarded or violated, and human rights concerns viewed as weapons of domination. In contrast, until 2014 trade between Russia and the West was relatively unaffected by political tensions.

Confidence-building measures (CBMs) in the economic and environmental fields have been implemented with success in a number of situations – but not in any resembling the current confrontation. If the functions of CBMs are to make both sides feel equally more secure, establish a track record of mutual implementation and accomplishment, and develop a cadre of experts who are comfortable dealing with one another, we cannot rely on the current OSCE toolbox. While traditional “direct” CBMs – those in which both sides take steps regarding one another to make both feel equally more secure – may currently be problematic, two other types may be more feasible:

1. cooperation between the conflicting sides to address a problem facing both; and

2. cooperation between the conflicting sides to assist third parties with problems they cannot resolve by themselves.

As a possible application of the first of these, we cite social networks on the commercial internet (as opposed to cyber security), which present both Russia and the West with common problems such as youth radicalization. As possible applications of the second in which the OSCE could play a role, we recommend:

- multilateral water management issues, such as environmental concerns regarding the Araxes/Araks/Aras river basin, on which Azerbaijan and Armenia are unable to cooperate owing to their mutual hostility; and
· trade issues such as harmonizing standards between the European Union (EU) and the Eurasian Economic Union (EEU) to assist “states-in-between” to trade with both, whether or not they are affiliated with either regional grouping.

We also recommend that the OSCE increase its capacity for applying confidence-building measures in the economic and environmental dimension beyond the small, protracted, secessionist conflicts that have hitherto formed the preponderance of OSCE activity in this field, by:

· updating and revising the 2003 Maastricht economic and environmental dimension strategy, taking into account new conditions and new needs;

· organizing a workshop to follow up its 30 May 2011 Workshop on Economic and Environmental Activities as Confidence Building Measures;

· restructuring the Office of the OSCE Coordinator on Economic and Environmental Activities into a separate institution; and

· giving more OSCE Field Operations a specific mandate on confidence building in the Economic and Environmental Dimension.
Introduction

The present report is a discussion of the potential for OSCE confidence building in the economic and environmental dimension in the context of current relations between Russia and the West.¹ There is little doubt that those relations stand at their lowest point since the end of the Cold War. Much has been written of the causes of these tensions, and in its most neutral form these efforts can be boiled down into one sentence: that the two sides have vastly different perceptions of the events of the last several decades; that by a process – gradual at first, but then accelerating – each side has come to see the other as an antagonistic force intent on thwarting some or all of its interests; and that these vastly different perceptions have become so ingrained that the chasm between perceptions is unlikely to be bridged any time soon.

Conceptually, the report starts with a brief examination of the disintegration of security arrangements between Russia and the West, the economic component of their relations, and experiences in the application of confidence-building measures (CBMs) in the economic and environmental dimension, as well as other activities with a confidence-building effect, to see how lessons learned through those experiences can be applied to develop recommendations for building security in the OSCE area with regard to the relations between Russia and the West. It is understood that the project’s value added lies in identifying concrete options for roles and functions that the OSCE could assume in formulating and implementing mechanisms for building confidence in the economic and environmental dimension as part of its overall confidence-building efforts in the current confrontation.

¹ The West is defined as states affiliated with NATO and/or the EU.
Context: Economic Aspects of Geopolitical Rivalry in Europe

One now speaks openly in the OSCE “of geopolitical and geo-economical rivalry between the West and the East.”\(^2\) The disintegration of European security arrangements and fundamental differences in almost all thematic areas characterize current relations between Russia and the West. Bedrocks of the security architecture of the 1990s – the Anti-Ballistic Missile Treaty, the Conventional Armed Forces in Europe Treaty, and the Intermediate Nuclear Forces Treaty – have been disavowed or disregarded. Against this background, suspicions – based on highly dissimilar understandings of the events of the last few decades – grew exponentially in the last ten or twelve years, culminating in an open breach over events in Ukraine in 2013-14.

The confrontation proximate to the Ukraine crisis takes place in a complex and rapidly evolving context. As a reaction both to mass migration caused by instability outside Europe and to the slow and uneven recovery from the financial crisis of 2008, the value and stability of Western integrative projects has been called into question; while at the same time Russia has sought to create its own analogous regional groupings through the Eurasian Economic Union (EEU) and revitalizing the Collective Security Treaty Organization (CSTO). This process has caught several states in an uncomfortable position between blocs. Some small conflicts on the territory of the former USSR, which have been contained for the past generation with the help of OSCE mediation, have taken on a new geopolitical significance. In addition, new actors are appearing: some, such as Iran, brought in by the geopolitics of the Syrian Civil War; others, such as China, reaching out as their rapidly growing economic strength impels them towards a global economic role with projects such as the Belt and Road initiative and 16+1, facilitated by Europe’s increasing connectivity. All of these factors interact with the Russia-West confrontation – both affecting it and being affected by it.

The current round of confrontation between Russia and the West shows no signs of dying down. The confrontation runs deep and hinges on vastly different perceptions of causes. As the Russian scholar Andrei Zagorski perceptively put it, the sides “have no common baseline of facts.”\(^3\) This divergence does not begin in 2013; its actual genesis is lost in the mists of the late twentieth century, but the baseline was clearly divergent by the time of the NATO bombing campaign against former Yugoslavia (1999). As the narratives grew further apart, older, Cold War-era divergences in perception were grafted back on; and by the time the Ukraine crisis began in late 2013 the narratives were already distant from one another. These “disagreements do not follow ideological lines and there is hardly any economic rationality behind them. Growing mistrust and confrontation in the OSCE region thus seem to be driven mainly by diametrically opposed security concerns and threat perceptions across the politico-military, the economic and environmental, and the human


\(^3\) Public appearance, Vienna, April 2014.
dimensions.”  

At the same time, in the wider world, “[t]here are signs that the open global economic system might be unraveling and protectionism may return. Multilateralism seems to be in retreat, with its key institutions being questioned and at risk of being weakened.”

The divergent narratives have resulted in distrust in many areas, of which the following stand out:

First, a **generalized existential distrust**: Russian officials tend to believe that since the collapse of the Soviet Union there has been a conspiracy of Western powers seeking to keep Russia from assuming what Russians believe is its rightful place in world affairs. Western officials tend to believe that what Russia sees as its “rightful” place is an autocratic hegemony that disregards and brutally violates the sovereignty of the states around it.

Second, the **anxiety of “states-in-between”** fearing for their sovereignty. Enthusiasm for the enlargement of NATO – an occurrence usually cited (not only on the Russian side) as an irritant in the Russia-West relationship – was highest in the early 1990s among states newly liberated from Soviet hegemony, rather than those which were already members. The new states, and their diasporas in the West, believed that NATO membership would ensure that they stayed on the right side of any new division of Europe (domestically, they also feared that adherents of the old regime, or those who were nostalgic for it, might undo democratization unless it was reinforced by alliance with other democratic states). Over two decades, Russia and the West adopted sharply differing attitudes towards this aspiration and what it implied for the security and sovereignty of the “states-in-between.” The net result was a feeling among the “states-in-between” that the world was once again dividing into two camps, and they felt under pressure to choose one, whether or not that was in their best interest.

Third is a specific **distrust over energy** (and in the widest sense access to the products of all extractive industries), given Russia’s role as supplier and Europe’s role as consumer. We should add the caveat that Russia and the EU are intensely interdependent in energy, and that in most instances the sides continue to cooperate reasonably well – Russia keeps supplying, the EU keeps buying, and they jointly invest in infrastructure. However, each has always questioned the long-term reliability of the other. From the time of the collapse of the Soviet Union, the West has sought to prevent a Russian monopoly in controlling both the extraction and distribution of hydrocarbons, while Russia has sought to control as much of these as it could to maximize its power both in pricing and political leverage. While new non-Russian pipelines and energy fields solved one problem for the EU, new Russian ownership of energy infrastructure and legacy distribution pipelines, highlighted by “gas wars” with Ukraine that affected many countries in Europe, combined to keep European distrust of Russian motives alive. The EU’s Third Energy Package addressed these fears, demanding the “unbundling” of the vertical networks that Russian energy champions had established, thereby exacerbating Russian distrust. Since the European Energy Charter and Third Energy Package were part of proposed Association Agreements with Eastern Partnership countries – the “states-in-between” – energy became a major irritant and

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5 Ibid.

6 Davies, L., “What is the current state of play with regard to energy rules and norms in relations between the EU and Russia?” (contribution to this project).
source of distrust in the perceived geopolitical struggle between two presumed “rival camps.” As one commentator put it, “[T]he two sides remain wholly at odds in virtually every aspect of their vision of the role that energy security plays.”

Fourth, the revolution in information technology and its related fields – a specific sector of what the OSCE usually categorizes as fields of “new threats and challenges” – has put new forms of weaponry in the hands of both governments and private persons, and in so doing created new commercial and military competition, and an arms race to avoid strategic disadvantage. There are no norms deterring the use of these technologies and weapons, no “mutually assured destruction.” The internet, as a form of the media, is above all a commercial venture, and certain types of confidence-building efforts involving the internet may therefore fall into the second dimension.

The Ukraine crisis was thus both caused by a long history of divergent perceptions and interests, and was itself the proximate cause of an open breach. To frame that crisis as neutrally as possible, the Western position holds that Russian actions in Ukraine since 2013, including the annexation of Crimea, present a grave and unique challenge to peace and order in Europe, and normalization of relations cannot begin until those actions are reversed. The Russian position holds that Western actions in recent decades, culminating in a coup d’état in Kyiv carried out by “Nazis” aided and abetted by certain Western states, have presented a grave challenge to peace and order; that Russia was therefore justified in reacting as it did; and that normalization of relations cannot begin until the West accepts Russian actions and rescinds the sanctions it imposed in response.

It is possible that one of these mutually exclusive views will prevail, and that normalization of relations will follow. It is at least as likely, however, that neither side will accede to the other’s demands on how to move forward, and that the confrontation will continue, with the constant threat of escalation, and a continuation of the distrust that currently prevails.

A realistic goal under such circumstances is to prevent escalation and stabilize the situation. That requires a certain level of trust, now clearly lacking. Trust is a level of predictability: a baseline of shared premises that allows each side to have confidence that it can predict the actions of its interlocutor and that while those actions may be competitive, they will not be aimed deliberately at seeking harm. Shared premises in turn require a baseline of shared facts and a baseline of shared values. Neither of these exists in the current confrontation between Russia and the West. Hence the need for confidence-building measures, which seek to reduce tensions between sides that do not share such common baselines. Confidence building in the economic and environmental dimension may be a useful tool for increasing trust, since it is easier to depoliticize and isolate from the geopolitics of confrontation.

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8 Russian Foreign Minister Sergei Lavrov stated, “Крым отдавать в руки нацистов, которые совершили государственный переворот в Киеве, на волне которого пришли нынешние власти, было бы, я считаю, преступным.” ("To let Crimea fall into the hands of the Nazis who carried out a coup d’état in Kyiv, on whose wave the current authorities came to power, would have been, I think, criminal.") See Russian Foreign Minister Sergei Lavrov’s remarks and answers to questions at Territoriya Smyslov (Terra Scientia) at the Klyazma River National Educational Youth Forum, 11 August 2017.
Economics and the Environment in the Current Context

This report focuses on the Economic and Environmental Dimension (EED) in the current confrontation, how it can be a point of departure for approaching confidence building in the context of that confrontation, and the potential role of the OSCE in that effort. Two things seem clear: first, the underlying causes of the current confrontation are geopolitical, not economic; but second, the geopolitical confrontation has expressed itself across the wide spectrum of east-west relations, including a significant expression in the economic dimension.

With regard to the first point, the clear focus of Russian suspicions of the West until at least 2008 was political- and security-related, and revolved around the enlargement of NATO. This can be seen especially in the Russian reaction to NATO military action during the Kosovo crisis of 1999 and in the wake of the enlargement of 29 March 2004, with the accession not only of components of the former Warsaw Pact, but also of former union republics of the Soviet Union. This suspicion is echoed in Russian President Putin’s speech in Munich on 10 February 2007. It is widely believed that the results of NATO’s 2-4 April 2008 Bucharest Summit, which adopted a declaration stating that NATO had agreed that Georgia and Ukraine “will become members of NATO,” played a crucial role in the Russia-Georgia war of August 2008.

In contrast, Russian-West economic relations were growing rapidly and with fewer trouble spots during the same period. There was a downturn in trade in 2009 – more probably ascribable to the global financial crisis than to political events – that was quickly overcome. Those disputes that existed arose mainly from anxieties related to the supply of natural gas. When Russia and Ukraine failed to sign a gas contract by the end of 2008, leading to a cut in supply in January 2009, the European Council invited both sides in an even-handed attempt to seek a solution. Thus, with some exceptions, both sides tended to see the trade and economic aspects of their relations in less political terms than they saw other matters: deteriorating political relations had little spillover effect on economic relations; and growing economic ties had little spillover effect on political relations. Russia continued to see the EU primarily as a trading partner, not as a geopolitical rival.

That benign view changed after the Georgia War, and especially after the initiation of the EU’s Eastern Partnership Initiative. By mid-2009, some Russian officials began to express the view that the EU was a geopolitical rival, not just a trading partner. This view gained wider currency in connection with

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9 Recalling that the United States and certain other Western states refused to recognize or withheld de jure recognition of the incorporation of the Baltic states into the Soviet Union.
12 The relationship between “weak and asymmetrical” and strongly interdependent economic relations is discussed at some length in the OSCE Network publication European Security – Challenges at the Societal Level by Wolfgang Zellner et al.
Vladimir Putin’s resumption of the presidency in 2012, and Russia placed new emphasis on turning its customs union into a full-blown Eurasian Economic Union (EEU), which borrowed many of its structural elements from the EU, as if to offer an alternative. Geopolitical rivalries had thereby found an economic expression: the EU and EEU became, at least in the minds of some, shorthand for the western and eastern geopolitical “camps.” The proximate cause of the Ukraine crisis was the question of which “camp” Ukraine (and a number of other states-in-between, including Armenia, Georgia, and Moldova) would join, framed in the choice between an Association Agreement with the EU (including a Deep and Comprehensive Free Trade Agreement) and accession to the Eurasian Customs Union (later the EEU). Armenia’s decision to join the latter was openly based on security and political grounds.

After Russia’s seizure of Crimea in the Ukraine crisis, followed by the conflict in eastern Ukraine, the EU joined with the U.S. to impose several rounds of economic sanctions. Russia responded in kind.

**Economic issues thus became expressions of a geopolitical confrontation driven primarily by security and political concerns.** Environmental matters are far less relevant to the geopolitical confrontation, and mainly appear in connection with the potential competition for access to natural resources and transport routes. It is also clear that a number of participating States “in between” or elsewhere in the region – Kazakhstan, Moldova, Armenia, Belarus, and Uzbekistan – were uncomfortable with the idea of having to renounce one or another set of potential partners, and have since been engaging in tentative steps, such as trade and educational exchanges, to strengthen their connectivity with both sides. How can measures on economic and environmental issues be used to relieve tensions all around?
The OSCE is a political organization. Its “second basket,” the Economic and Environmental Dimension, was created to retain the three-basket structure of the Helsinki Accords, and, as two of the papers received for this report note, the second basket’s potential has always been under-fulfilled. That is not strange: first, economic actors are usually not state authorities or non-governmental organizations, all of which operate in a self-contained context in which the pieces and their positions on the board are clear. Rather, economic actors are commercial persons and companies with their own priorities, needs, and logic, played out on a board which is subject to myriad external forces and unforeseen events. Second, the economic and environmental dimension of the OSCE has been given greater emphasis by poorer, smaller participating States than by the larger and more prosperous: a natural difference, because in larger economies the OSCE and its programs are marginal to the economy, while in smaller, poorer, developing countries OSCE and other international programs can have a significant impact. In the current crisis the OSCE is almost surprised to find that “…the second dimension is taking on a new relevance. Indeed, in a radical reverse of the past 30 years, the economic and environmental dimension is no longer the ‘empty basket’ and, at the moment, is one of the few entry points for dialogue between Europe and Russia (and countries farther East.” The Economic and Environmental Dimension has this potential because it can be depoliticized more easily than other dimensions.

It is clear, however, that any such dialogue will be along lines very different from those that have preoccupied OSCE thinking to date on the Economic and Environmental Dimension. That thinking can be traced to five main documents: the OSCE Strategy to Address Threats to Security and Stability in the Twenty-First Century, the OSCE Strategy Document for the Economic and Environmental Dimension, both adopted at the 2003 OSCE Ministerial Council meeting in Maastricht; the Ministerial Council Decision Strengthening Good Governance and Promoting Connectivity, adopted at the 2016 Ministerial Council in Hamburg; the OSCE’s Guide on Non-Military Confidence-Building Measures; and finally one of the documents that prepared the way for the Guide, the Report of the OSCE Chairmanship Workshop on Economic and Environmental Activities as Confidence Building Measures, Vienna, 30 May 2011.

The first of these documents, the OSCE Strategy to Address Threats to Security and Stability in the Twenty-First Century, places the discussion in the optimistic post-Cold War context in which “[c]o-operation has now replaced previous confrontation. Threats to security and stability in

13 Evers, F., “Confidence-building in the OSCE Economic and Environmental Dimension;” and ter Haar, B., “The OSCE from security to sustainability?” (contributions to this project).
15 OSCE, Eleventh Meeting of the Ministerial Council, 1-2 December 2003, Maastricht 2003, MC.DOC/1/03.
16 Ibid.
the OSCE region are today more likely to arise as negative, destabilizing consequences of developments that cut across the politico-military, economic and environmental and human dimensions, than from any major armed conflict.20 If this had remained the case, we would not today be in need of building confidence. The economic threats the OSCE Strategy sees are those related to “lack of rule of law, weak governance in public and corporate spheres, corruption, widespread poverty and high unemployment,” matched with environmental threats revolving around unsustainable utilization of natural resources.21

The Strategy Document for the Economic and Environmental Dimension expands on the brief references to the economy in the first Maastricht document. Its main concern is to secure the blessings of globalization for all countries, including those which had recently emerged into the global market: “Successful integration of our countries into the global economy is a precondition for benefiting fully from globalization and trade liberalization.”22

“Globalization, liberalization and technological change offer new opportunities for trade, growth and development, but have not benefited all the participating States equally, thus contributing, in some cases, to deepening economic disparities between and also within our countries.”23 Here the focus is on a lack of good governance: “Problems of governance, such as ineffective institutions and a weak civil society, lack of transparency and accountability in the public and private sectors, deficient economic and environmental legislation and inadequate implementation of economic and environmental laws, rules and regulations, absence of national and individual security and inadequate treatment of vulnerable groups, poor public management and unsustainable use of natural resources, corruption and lack of respect for business ethics and corporate governance, deprive participating States of the capacity to ensure sustainable economic, social and environmental development and to address economic and environmental challenges and threats to security and stability effectively, and need to be addressed in all their aspects.”24 From the vantage point of 2003, integration into the global economy, good governance, transparency, and accountability were the best tools to overcome disparities and take on corruption, unsustainable development, and inequitable distribution of the benefits of globalization.

The 2016 Hamburg OSCE Ministerial decision on Strengthening Good Governance and Promoting Connectivity is possibly the most important contribution of OSCE to the second dimension since 2003, as the document and its stress on connectivity reflect the new constellation of actors playing new roles in European and Eurasian trade and cultural exchange, and the new realization of the importance of connectivity. In Operative Paragraph 7 (OP7), for example, the OSCE “[r]ecognizes that connectivity through transport and trade facilitation, including through measures at different levels of government, can enhance economic co-operation that is mutually beneficial and contribute to good-neighborly relations, confidence-building and trust in the OSCE area.”25 In OP9, it “[e]ncourages participating States to enhance co-operation between landlocked, transit and non-landlocked countries for

21 Ibid., p. 3.
22 Ibid., p. 16.
23 Ibid., p. 14.
the benefit of regional economic development.”26 In OP13, the OSCE “[e]ncourages participating States to further pursue, where appropriate, opportunities for mutually beneficial regional and sub-regional economic co-operation.”27

The new emphasis on connectivity does not, however, shift the balance of emphasis away from the earlier stress on governance, transparency, and accountability: the Hamburg decision contains fifteen mentions of good governance; thirteen of transparency, and six of sustainability; plus fourteen mentions of corruption, and seven of money laundering. Thus the vision, though augmented, retains its former assumptions and emphases.28 One may conclude that this is because the drafters, polarized by the confrontation, were unable to agree on extensive new text dealing more directly with the changed economic relations between Russia and the West.

None of those documents deals with confidence building per se. For that we must turn to the OSCE’s Guide on Non-Military Confidence-Building Measures, which notes, “There is no commonly accepted definition for CBMs…For the purposes of this Guide, non-military confidence building measures are actions or processes undertaken in all phases of the conflict cycle and across the three dimensions of security in political, economic, environmental, social or cultural fields with the aim of increasing transparency and the level of trust between two or more conflicting parties to prevent inter-State and/or intra-State conflicts from emerging or (re-) escalating and to pave the way for lasting conflict settlement.”29 The Guide goes on to define the function of CBMs in the Second Dimension: “Economic CBMs can bind States and communities together through economic co-operation and thereby remove barriers of mistrust…”30

The Guide’s references to the conflict cycle derive from the OSCE’s main experiences of situations that might require the use of confidence-building measures: mostly ethnic conflicts within or between small newly-emerging states. This is a long way from Cold War-era CSBMs between two large established military blocs. Like the Maastricht and Hamburg texts, it is also at some considerable distance from the current situation, in which large established states are distrustful of one another’s motives and each is convinced that others are waging a campaign of subversion against it.

The Report of the OSCE Chairmanship Workshop on Economic and Environmental Activities as Confidence Building Measures focuses on very practical issues of developing CBMs in the Economic and Environmental Dimension. It makes a number of recommendations, including to add an economic and environmental component to the existing early warning system; to develop a “clearing house mechanism” to serve as an institutional memory for best practices; to integrate its environmental activities into global efforts towards sustainable development; and to facilitate sub-regional political dialogue on economic and environmental issues. The Workshop Report also lists good practices in the development and implementation of CBMs in this dimension, which Evers summarizes concisely:

− Obligatory adjustment to the needs of affected populations and political conditions on the ground;
− Strict neutrality of third party facilitators;
− Dominance of political objectives over the aim of technical success;
− Co-ordination with CBMs in the other OSCE dimensions and with parallel efforts by other international organizations;
− Local ownership of initiatives by all stakeholders.31

The Workshop Report thus tries to distill the results of long OSCE experience in CBMs in the Economic and Environmental Dimension, and to a certain extent to take that experience out of the specific context of regional, separatist and ethnic conflicts in which the OSCE has mainly tried to apply them. We must also recognize that the role of OSCE field presences in the second dimension – and the potential strengthening of that role – are severely hampered by the closures of field presences over the last ten years and by the lack of an explicit reference to the second dimension in the mandates of several missions that remain open.

It would be worthwhile for the Chairmanship to convene a follow-up workshop with the specific aim of applying these lessons to the current East-West confrontation.

All of these documents, however, point to a double disconnect in OSCE thinking between the areas in this dimension on which the OSCE has focused and the very different dynamics of the economic aspects of the current east-west confrontation. One disconnect is political: as Evers notes in his paper,32 current discussion within the OSCE of threats in the Economic and Environmental Dimension still focuses on those threats “deriving from globalization, liberalization and technological change that have not benefited all participating States equally, thus contributing in some cases to deepening economic disparities between as well as within States”33 – using the language of the Maastricht strategy document, which is not adequately descriptive of current needs in OSCE action.

At the same time, there is also a geopolitical disconnect between the current standoff, which involves states, and the traditional confrontations to which the OSCE has tried to apply confidence-building measures in the second dimension: namely, separatist conflicts in which one party is a non-state actor. Most of the papers received for this project, in fact, discussed confidence-building measures applied in such small-scale separatist conflicts, rather than in the unprecedented (in this century) standoff between large states and blocs of states. How then to proceed with a discussion of and recommendations for confidence building under changed circumstances?

31 Evers, op. cit., p. 11-12.
32 Ibid., pp. 3-4.
33 OSCE, Strategy to Address Threats to Security and Stability in the Twenty-First Century, Maastricht, 2 December 2003, MC.DOC/1/03.
Confidence Building in the Current Confrontation

As we have seen, there is no one definition of confidence-building measures as a whole; and *a fortiori* of CBMs in the economic and environmental dimension, which cannot simply be translated from security CBMs. The nature of the actors differs greatly between the two, as the economic dimension involves the actions of large numbers of individuals or companies acting more or less in accordance with market forces; whereas security CBMs generally involve a much smaller number of well-defined groupings, often states or those aspiring to act as states, which share as a basic characteristic the ability to use organized armed force. Kemoklidze and Wolff, in their paper for this project, define CBMs by their purpose: CBMs “are not meant to deal with the root causes of conflicts as such,” but rather aim “to lessen fear and suspicion among conflicting sides by making the parties’ behaviour more predictable.”

While economic actors, too, seek predictability, the effects of external actions and chance occurrences are more pronounced than in the security field. But the economy is based on interaction among multiple parties. We may thus define confidence-building measures in the economic and environmental fields as:

Measures, taken by one or more of the parties in a conflict or confrontation, or by third parties in relation to parties in conflict or confrontation, which have the effect of increasing the connectivity and cooperation among parties, thereby solving problems – some of them engendered by the conflict – and establishing a track record of cooperation. In the case of east-west confrontation, such measures can help build partnerships, alleviate third-party suffering, and lead to workable, mutually acceptable solutions to sources of distrust.

In developing such measures for the current situation, we should be mindful of Maslow’s hammer: if the only tool you have is a hammer, everything looks like a nail. We should be careful not to fall into the habit of limiting ourselves to the standard OSCE toolbox of CBMs, some of which may, indeed, point the way towards CBMs useful in the current standoff, but others of which may be inapplicable. Rather, we need to focus on what confidence-building measures would address the current problem of intense distrust among large states, not on what capacities the OSCE currently possesses. This could include, for example, an OSCE role in Track 1.5 and Track 2 diplomacy or other vehicles for information exchange, or even in promoting agreement on norms, rules, and regulatory frameworks.

We must also bear in mind that placing confidence in one’s counterpart is an individual choice, contingent on one’s experiences and how they are interpreted. Therefore, confidence building in the OSCE region cannot be seen in isolation from other arenas in which the organization’s participating States interact. Tensions between Russia and the West over Syria, for example, are a critical reference point when it comes to relations between the two in the OSCE region (and vice versa), while interactions over Ukraine also shape

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34 Kemoklidze, N., and Wolff, S., “Trade as a Confidence-Building Measure,” (contribution to this project).

the perceptions of what confidence might exist or be built when it comes to other flash points (such as protracted conflicts) elsewhere. All are affected by a strong and widespread backlash against globalization in all its forms. Thus, confidence-building efforts in the Economic and Environmental Dimension are part and parcel of a complex set of interactions transecting geographical arenas and issue areas. Consequently, one needs to recognize that the set of possible measures is circumscribed by the environment, and to be realistic about the contribution that measures in the second dimension can make to confidence building: clearly, measures in the economic and environmental dimension alone cannot resolve the current crisis in Russia-West relations; but neither should one underestimate their potential to begin a process of sustainable tension-reduction that can eventually spill over into the politico-military and human dimensions of the OSCE.  

Working within the definition of CBMs we formulated above (while recognizing that there is no consensus on a single definition of confidence-building measures), let us try to define what types of actions in fact build confidence and what our goals are for building confidence in the current confrontation, and refer to the papers received to provide examples of confidence building that can perhaps be translated from their original context into the current one.

### 4.1 Goals and Types of Confidence-Building Measures

In looking at what we want CBMs to do under current conditions, we may start by looking at what first-dimension confidence- and security-building mechanisms, which are far more established, are expected to accomplish. The desired effects are threefold:

1) **Making sides feel equally more secure.** The aspect of symmetry is important. Because systems and conditions differ from country to country, identical actions might affect the sides differently, meaning that a particular measure may be more beneficial to one side than to the other. Such disparities can be addressed in two ways: either structure an individual CBM to be perfectly symmetrical for the target countries, or develop a package of CBMs that, taken as a whole, is equitable both in effects and sequencing. Obviously, if the early measures favor one side, it has less incentive to follow through on the later measures favorable to the other side.

2) **Establishing a track record for interaction between the sides,** on the assumption that if the interlocutors establish a track record with one another of faithfully implementing negotiated measures that are not related to a resolution of the underlying conflict or confrontational situation, the interlocutors will have greater confidence in the faithful implementation of comprehensive solutions that may be negotiated in the future.

3) **Developing a cadre of experts and negotiators** from both sides who have worked together and who therefore know one another and can turn to one another to solve problems, defuse crises, etc. For example, various arms control treaties, such as the Intermediate Nuclear Forces Treaty, Conventional Armed Forces in Europe Treaty, etc., established inspection regimes through which inspectors from the sides dealt with one another frequently and got to know one another well.

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36 Kemoklidze and Wolff, op. cit., p. 27.
Given these goals, and mindful that we have more than just hammers in our toolbox, we should define types of CBMs, some of which may be more applicable than others to current circumstances and to the Economic and Environmental Dimension. We can identify in general three types of CBMs:

1) The sides agree to **direct and mutual actions that reduce the threat each poses to the other and thereby increase confidence**: this type parallels security CBMs such as agreements on limitations of arms and weapons deployments; prior notifications of exercises and movements; and intrusive inspections. In the economic field, this might consist of regulatory transparency or harmonization.

2) **CBMs (or actions with the effect of CBMs) that involve cooperation of the sides to achieve a common goal or meet a common challenge**. Cooperation in space is one set of measures that have the effect of CBMs to achieve a common goal; cooperation to combat climate change would have the effect of a CBM in meeting a common threat.

3) Lastly, the sides can **cooperate to assist third parties** – themselves in conflict – to undertake projects on which they would not normally be able to cooperate. This might include working on environmental challenges across hostile borders, or engaging in economic confidence building that the sides in conflict could not negotiate directly between themselves.

It is important to note that only the first type is the kind of “classic” CBM that tries to build confidence between sides by directly addressing the factors that make them suspicious of one another. The other two types attempt to build confidence indirectly, by engaging the sides in cooperating with one another.

### 4.2 Experience in Economic and Environmental CBMs

To translate these goals and types into the economic and environmental dimension, we must largely draw upon experience with confidence-building measures in protracted conflicts, the subject matter of most of the papers we received. Since the end of the Cold War, the greatest need for confidence-building measures has been in regional conflicts, especially protracted conflicts in which active hostilities have been suspended. At the same time, the actors in those conflicts usually react negatively to any actions explicitly described as “confidence-building measures,” which populations often view as accommodationism.

We must mention one important distinction between CBMs in the security field and those in the economic and environmental dimension: while the results of security CBMs may be invisible to the general public, in the latter dimension the affected populaces on both sides expect to feel the economic benefits of CBMs. They expect to see a tangible improvement in their lives. If they do not, or worse, if they see benefits accruing to their enemies and not to themselves, the CBMs will not be politically sustainable. Therefore, the CBMs must be justifiable in and of themselves. In addition, as the primary actors in the economic and environmental field are private and commercial, CBMs agreed by states are of necessity usually indirect.

#### 4.2.1 Examples: Increasing Equal Security

##### 4.2.1.1 Trade and Economics

With regard to the first and most important objective of CBMs – to make both sides equally feel more
secure – in economic fields, such as trade, the aspects are not straightforward, even though it is clear that, as the Informal Helsinki+40 Working Group concluded in 2013, “[T]here is unutilized potential for the enhanced contribution of the Second Dimension to conflict prevention and resolution, crisis management and post-conflict rehabilitation by developing appropriate activities as confidence-building measures.” In the broadest spectrum of economic interactions, including among States, economic actors require above all predictability to feel secure. This often implies to the sides the depoliticization of economic issues, so that the frictions between governments do not interrupt trade and investment between populations.

In a less globalized and interconnected world economy, initial confidence-building measures on trade were relatively simple: U.S. wheat sales to the Soviet Union in 1964, for example, were a test of the feasibility of expanding trade between Cold War opponents. Today, such transactions would be considered commonplace and would have no significant effect on confidence.

An example updated to reflect today’s more interconnected world is the 2016 arrangement worked out among the EU, Moldova, and the separatist authorities in Transdniestria, with leadership from the OSCE Chair-in-Office, regarding the application of Moldova’s Association Agreement, including a Deep and Comprehensive Free Trade Agreement, to Transdniestria. The arrangement gave Transdniestria a two-year breathing space to adapt its laws to retain the trading benefits with the EU it had hitherto received. Germany provided an economic advisory group to help the de facto Transdniestrian authorities with the transition. By analogy, such flexibility could be incorporated into negotiations between the EU and EEU with regard to the harmonization of rules and standards with the aim of alleviating pressure on states “in between.”

Trade critically depends on viable infrastructure, whether communication, transport, or customs. Addressing underlying infrastructural problems can have a confidence-building effect on its own and facilitate further confidence building by enabling more trade. Cooperation between east and west in addressing the infrastructure challenges of third parties can increase confidence among all parties involved. Drawing on experience from protracted conflicts, Kemoklidze and Wolff note that this is an area in which the EU Border Assistance Mission to Moldova and Ukraine has had a significant and positive impact since its inception in 2005. Harmonizing customs arrangements on the Moldovan-Ukrainian border, including on its Transdniestrian segment, improving cooperation between border and customs officials, and restoring vital road and rail connections have contributed to increased trade and combatting organized crime. Given the political sensitivities around the Transdniestrian settlement process and the heightened tensions on the Transdniestrian segment of Moldova-Ukraine border in the context of the ongoing Ukraine crisis, EUBAM played a critical and stabilizing role as an independent monitor with a long and trusted pre-crisis track record.

This experience highlights two important aspects of how we can think constructively about confidence building in the economic and environmental dimension. First, it underscores the importance of infrastructure and capacity issues: trade is dependent on transport links and on a regulatory environment, technological infrastructure, and the
Osce confidence Building in the economic and environmental Dimension

requisite human resources to ensure smooth, legal trade flows and combat crime and corruption. Here international partners can play a significant enabling role, especially if they commit for the long term. Second, coordination among international and local partners is key to the effectiveness and sustainability of confidence-building measures or activities with such an effect. East-west cooperation in helping third parties improve their infrastructure, regulatory environment, and human resources can have a beneficial effect not only on those third parties, but also on the east-west partners who assist them.

The False Allure of Sanctions Relief

The use of sanctions in the current confrontation has led to calls for a ban on economic sanctions, among the most irritating measures in economic interactions between countries. It is worth pointing out that the purpose of sanctions is to punish. If applied assiduously for decades, sanctions may—or may not—have the effect of helping to change unacceptable behavior or even the regime which indulges in it (as in the case of the Apartheid regime of South Africa). A good example of this disconnect between purpose and effect occurred recently with regard to UN Security Council sanctions on North Korea. After a North Korean nuclear test, Russian President Putin said on 4 September 2017, “The sanctions regime has run its course, it is ineffective...They will rather eat grass in North Korea than abandon this programme unless they feel safe...”38 One week later, Russia joined a unanimous vote in the UN Security Council to impose greater sanctions. This was not because Mr. Putin (or anyone else) changed his mind about the efficacy of sanctions in changing behavior, but rather because the members of the UN Security Council, including Russia, concluded that North Korea’s latest actions merited greater punishment.

Some have suggested that a mutual renunciation of the use of sanctions might constitute a confidence-building measure. However, this would be problematic, for two reasons:

First, sanctions have a unique place on the spectrum of actions states can undertake in their foreign relations: between statements which may vary in severity but which do not entail any concrete action, on the one hand; and military action on the other. When reacting to the behavior of other states, governments need a tool at some midpoint between hortatory statements and armed hostilities. Sanctions are designed to punish behavior that cannot be accepted, but not to start wars. Abjuring sanctions would further reduce the toolbox available between statements and military hostilities, leaving international judicial actions as the only other instrument to which states can have recourse. This would clearly not be sufficient, given the lack of credible enforcement mechanisms of international law, and especially in view of the specific nature of the Russia-West confrontation, which forms our current context.

Second, there are no universally understood answers to questions such as what behavior legitimately triggers sanctions, and by what processes (e.g., multilateral vs. unilateral) sanctions can be imposed under existing international

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The environmental aspects of confidence-building measures are much more straightforward than many of the economic aspects: to help the sides to be safe from environmental disaster, whether natural or man-made. There are also some straightforward economic aspects, usually related to natural or environmental resources, that allow for agreements to secure joint access to resources that might otherwise be out of reach owing to the hostility between those who must share in their development and sustainable exploitation.

With regard to preventive and emergency measures on natural and environmental disaster, Fawn and Lutterjohann, in their study for this project,\(^39\) have identified a good example in which sides that are normally hostile towards one another are willing to coordinate efforts when the potential costs of not doing so are sufficiently high:

Two insect pests are damaging crops and tourist potential of a contiguous area along the Black Sea controlled separately by Russian, Abkhaz, and Georgian authorities. One is the Box Tree Moth (*Cydalima perspectalis*), native to eastern Asia but introduced to Europe by 2006, spreading to the

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\(^39\) Fawn, R., and Lutterjohann, N., “Confidence-Building Measures in Inter-State Conflicts: New Roles for the Economic and Environmental Dimension: Towards a Framework for Integrating Competitive Narratives into CBMs: from Russian-Western Relations to Post-Soviet Conflicts,” (contribution to this project).
Black Sea in 2012 in shrubs of the common boxwood (*Buxus sempervirens*) that Russia imported from Italy in preparation for the 2014 Sochi Olympics. The larva immediately began to devastate the native species of boxwood (*Buxus colchica*). Boxwood is a fragrant decorative shrub found extensively in the nature preserves, parklands, and gardens of the region, adding to the natural beauty and therefore tourist potential.

The second pest is the Brown Marmorated Stink Bug (*Halyomorpha halys*), also native to the Far East. It likewise appears to have been introduced to the region in shrubs imported from Europe for the Sochi Olympics, and is attested in Sochi by 2013 and Georgia by 2015. By October 2016, it had infested areas controlled by Russian, Georgian and Abkhaz authorities, affecting the hazelnut crop, which is one of Abkhazia’s two cash crops and is economically important in western Georgia as well. Fawn and Lutterjohann point out that despite the confrontation between Russia and its Abkhaz protégés, on the one hand, and Georgia, on the other, experts from all three sides participated in two EU-funded workshops to address the issue, which ultimately resulted in a multi-national spraying campaign in which the OSCE and UN were also involved.

Turning to measures to **secure joint access to vital natural or environmental resources**, Relitz, in his paper for this project, identifies a confidence-building measure that provides a positive benefit to both sides, the alternative to which was not disaster but rather a disadvantageous status quo. He discusses the way in which the German OSCE Chairmanship succeeded in persuading right-bank Moldova and the separatist region of Transdniestria to expand their cooperation on managing the water of the Dniestr River. In 2013 the OSCE began work on a GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) project entitled “Inter-Communal Water Management on the Dniestr.” The river is the most important source of potable water in the region, but it is critically polluted by waste water flows from both banks. The project, which is still in its early phases, will improve water for 76,000 residents of 24 villages and towns.

One important caveat: the two sides had already established a long track record of cooperating on the Dniestr; this was primarily exchange of information, with Ukraine as well as between the Left and Right Banks, to help prevent flooding of the river during the spring run-offs. Given that track record and the generally relaxed atmosphere between the two sides, projects such as the German-financed project to improve the quality and safety of the water did not come out of the blue, but were a logical extension of existing cooperation.

### 4.2.2 Example: Establishing a Track Record of Negotiation and Implementation

With regard to establishing a track record of implementing agreements – that is, those agreements on particular issues which have created a positive “spillover effect” on other negotiations between the same sides – examples provide few grounds for optimism. Perhaps the longest-standing example of cooperation is the Enguri dam, which is managed jointly by the Georgian and Abkhaz sides and

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42 Relitz, S., “Opportunities and Challenges for Second Dimension CBMs in Protracted Conflicts: Inter-Communal Water Management Along the Dniester,” (contribution to this project).
provides hydroelectricity to both. An analysis by Kemoklidze and Wolff in their paper for this project\(^{43}\) points out, “Both the Georgian and Abkhaz sides often declare their indisputable right to operate and own the Enguri station; yet despite such mutually exclusive claims, the station has continued to operate without any disruption. Ethnic Georgian employees of the station unanimously agree that ‘for the whole duration of the post-war period, there were no conflicts between them and the few Abkhaz working at the station. Everyone has a clear understanding of their responsibility to ensure the smooth running of the plant.’ While there are some justifiable claims that this need not be a ‘unique’ case and that many aspects of this particular example of inter-ethnic cooperation could be exported at a smaller scale as well into other economic projects, it is not clear what the actual confidence-building effects beyond this case are.”\(^{44}\)

The caution is well placed: both in this and similar examples, the cooperation between the sides, while often smooth and effective, rarely creates confidence beyond the narrow confines of its direct operation. For example, before becoming “president” of Abkhazia, Sergei Bagapsh ran the company that cooperates with its Georgian counterpart to manage the Enguri dam and hydroelectric plant. This experience did not, however, lead him to cooperate any more than his predecessors with Georgia in fields outside management of the dam complex.

4.2.3 Example: Creating a Cadre of Experts for Negotiating and Implementing

With regard to the working-level cadre of negotiators, inspectors, etc., results of post-Cold War confidence-building measures in non-military spheres are mixed. Perhaps the clearest examples of cadre creation were the aggregate sets of confidence-building measures put in place by various members of the international community with regard to the Transdniestria conflict in Moldova. One CBM directly aimed at cadre creation was the Transdniestrian Dialogues project, a long-term project sponsored mainly by the United Kingdom Embassy in Chişinău and implemented by the Moldovan Foreign Policy Association. The project brought together future leaders from both sides. Though the project had a predominantly political orientation, it is clear that the ties forged during the project carried over into all spheres of interaction between the Left and Right banks of the Dniestr. Another CBM was put in place by the OSCE Mission in Moldova, which in 2008 revived sectoral working groups – many in the economic and environmental field – that had existed as part of a peace process set up in 2001 by the leaders of Moldova and Transdniestria, but which lapsed in 2003. The meetings of these groups to resolve day-to-day problems gave the sides a sense of joint accomplishment, and it was at an annual meeting of all the groups in 2011 in Bad Reichenhall, Germany, that agreement was reached on resuming official comprehensive peace negotiations in the “5+2” format, which had lapsed in 2006. As noted earlier, effectiveness increased through close coordination and cooperation with EUBAM, an EU assistance mission, on specific issues such as in the Working Groups on Customs, Railway Transport, Road Transport, and Law Enforcement Cooperation.

\(^{43}\) Kemoklidze and Wolff, op. cit., p. 10.

\(^{44}\) Internal quotations are from Basaria, V., “The Inguri Hydropower Station: Why This Model of Trans-Inguri Economic Cooperation Remains the Only One,” in *Regulating Trans-Inguri Economic Relations: Views from Two Banks*, International Alert, July 2011, pp. 18, 21.
Frank Evers, in his paper for this project, has compiled an exhaustive list of previous suggestions for CBMs made in official publications – notably the reports of the Panel of Eminent Persons. As Evers demonstrates, the 23 measures previously proposed are at an extremely high level of generality: nine of them merely recommend dialogue, evaluation, and placing items on the agendas of meetings that are already regularly scheduled; seven express the desire to develop CBMs, without actually proposing concrete measures; two call in a general way for increased economic connectivity; three propose adjustments to the OSCE itself to boost the capacity to deal with economic and environmental matters; and one calls for exploring the possibility of structural change in another international organization (the WTO). Many would not appear to be relevant to the current east-west confrontation (except in expressing the hope that areas causing east-west friction can be better managed). This level of generality can be explained by the need for consensus, but it provides us with no practical operational recommendations for concrete confidence-building measures.

All of this is not surprising, given the disconnect highlighted in Evers’s paper, as we noted above, between the areas in the Economic and Environmental Dimension on which the OSCE has focused, and the very different areas that come into play in the current east-west confrontation. We cite these suggestions to highlight the difficulty of elaborating concrete measures under current circumstances, which differ so markedly from the experience of the last three decades in east-west relations. Clearly, when it comes to the OSCE toolbox, some outside-the-box thinking is called for. That said, two recommendations on Evers’ list stand out as specific and potentially leading to concrete proposals:

First, to look at the question of economic connectivity between the European Union and the Eurasian Economic Union, giving special attention to the position of the states-in-between. Specifically, we would recommend talks between the EU and EEU on harmonization of standards and rules. That would, we believe, address some of the challenges faced by states in between as they attempt to keep options open and develop their economies by trading with the widest possible array of trading partners.

Second, to change the Office of the OSCE Coordinator on Economic and Environmental Activities into a separate institution, which could give him/her easier access at higher levels, particularly in the context of confidence building.

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Specifically, it would give the Coordinator greater facility to act as convener and agenda setter in talks such as those mentioned immediately above.

Evers likewise examines the documents of two international organizations, the Conference on Interaction and Confidence Building Measures in Asia (CICA) and the ASEAN Regional Forum (ARF). With regard to CICA’s approach to CBMs, CICA’s Catalogue of Confidence-Building Measures includes a substantial discussion of CBMs in the economic and environmental fields. However, Evers notes that the underlying “conceptual crux is the perception of the commonness of challenges and benefits,” which calls into question the applicability of these CBMs to the current situation in Europe, which is above all characterized by the absence of a common perception, including, with few exceptions, the perception that challenges and benefits are common. In addition, the focus on areas in which CICA states have common perceptions leads the organization to ignore some of the most troublesome areas of Asian inter-State interaction, such as conflicting territorial claims in the South China Sea.

Both Evers’s paper for this project and one of two by ter Haar highlight the need for the OSCE to make structural changes and re-focus its efforts if it wishes to play a role in resolving or mitigating the current stand-off. In a way, this duplicates the old dilemma of how one flies a plane while building it at the same time: a Catch-22 in which there is no impetus for change until concrete projects appear that demand change; and concrete projects cannot be assigned to the OSCE until it has the capacity to meet them. Let us try in the next section to find measures that can indeed be taken with current capacity, but which help develop the tools needed for the future.

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48 Evers, op. cit., pp. 14-17. CICA members include Afghanistan, Azerbaijan, Bahrain, Bangladesh, Cambodia, China, Egypt, India, Iran, Iraq, Israel, Jordan, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Palestine, Qatar, Republic of Korea, Russia, Tajikistan, Thailand, Turkey, United Arab Emirates, Uzbekistan, Viet Nam. CICA Observers are (i) States: Belarus, Indonesia, Japan, Laos, Malaysia, Philippines, Sri Lanka, Ukraine and USA; and (ii) Organizations: International Organization for Migration (IOM), League of Arab States, Organization for Security and Cooperation in Europe (OSCE), Parliamentary Assembly of the Turkic Speaking Countries (TURKPA) and United Nations. Current participants in the ARF are Australia, Bangladesh, Brunei Darussalam, Cambodia, Canada, China, Democratic People's Republic of Korea, European Union, India, Indonesia, Japan, Lao PDR, Malaysia, Mongolia, Myanmar, New Zealand, Pakistan, Papua New Guinea, Philippines, Republic of Korea, Russia, Singapore, Sri Lanka, Thailand, Timor-Leste, United States, and Viet Nam.


50 ter Haar, B., “How will the OSCE help to fight climate change?” (contribution to this project).
Where Can We Apply Confidence-Building Measures?

As we have seen, we must first ask not what our current toolbox of CBMs can do, but rather what we want CBMs to do. As mentioned above, in the case of east-west confrontation we want CBMs to build partnerships, reinforce predictability, alleviate third-party suffering, and lead to workable, mutually acceptable solutions to sources of distrust.

Given the high level of distrust, is the current standoff amenable to confidence-building measures? In her paper for this project, Rachel Salzman states emphatically that no CBMs are currently possible in the Economic and Environmental Dimension: “Everyone interviewed for this paper [in the United States] and almost every secondary source consulted agreed that economic CBMs are not a realistic option for restoring dialogue in the U.S.-Russia relationship or the EU-Russian relationship. There is no space for it either politically or economically on the U.S. side… While national interests in Europe will probably push towards renewed economic cooperation with Russia sooner than they will in America, economic CBMs are not an ideal near term option in either part of the West.”51 And, indeed, many of the types of activities that are associated with classical confidence- and security-building measures in the security dimension – information exchange, inspections, and specific prohibitions embodied in arms control treaties such as CFE, INF, etc. – are problematic when applied to the Economic and Environmental Dimension.

Perhaps, however, we can finesse the question Salzman was answering. In her formulation, “…[E]conomic CBMs are not the right tool for managing Western-Russian, and especially U.S.-Russian relations.” But as we have seen, there are several types of CBMs. One directly manages relations between the sides: for example, the Conventional Armed Forces in Europe Treaty contained numerous confidence- and security-building measures to ensure that both sides felt equally secure against a surprise attack by the other. This is the type of CBM, it would appear, that Salzman has in mind, and perhaps she is right that there is at present no political space for sustaining economic CBMs in this direction.

That leaves, however, two other types of confidence-building measures: one based on direct collaboration to address a problem or threat faced equally by the sides, and the other on collaboration between two sides to address a problem faced by a third party or parties. There are also hybrids of these two, of which we have seen an example in the collaboration between the EU and Russia to combat the boxwood beetle and marmorated stink bug infestations in Russia, Georgia and Abkhazia, both addressing a common problem and helping the latter two to overcome the instinctive suspicion they hold for one another. Let us look for possible examples of analogous measures to address the areas of distrust between the West and Russia.

51 Salzman, R. S., “Economic Confidence Building Measures in the Russia-West Relationship: Pipe Dream or Possibility?” (contribution to this project), p. 7.
6.1 The Internet

The world of cyberspace presents us with a clear example of the difference between direct and indirect confidence-building measures. The OSCE has adopted two Permanent Council decisions instituting confidence-building measures in the field of information and communication technologies. The first, in 2013, listed eleven measures, derived from security CBMs and aimed mainly at threats emanating from terrorists and other states.52 The second, from 2016, recapitulated the earlier CBMs and added five more to reflect the growing dependence of infrastructure and public and private activity on globalized IT platforms.53 These are all “direct” CBMs, and in the OSCE categorization, they are invariably considered part of the first, or security dimension, especially when considering participating States to be the principal actors.

While such direct CBMs on cyber weapons are currently problematic for any number of reasons, some indirect CBMs involving east-west cooperation may be possible in the Economic and Environmental Dimension with regard to certain purely commercial aspects such as social media. Private-sector social media companies such as Facebook, Twitter, VKontakte, Odnoklassniki, etc., have among them created an innovative tool for social mobilization. While there are clear differences over the “weaponization” of social media, Russia and the West do share certain concerns, such as the use of private sector social media as a platform for youth radicalization. There may also be areas for cooperation in fields such as “classical” cybercrime and the dark net. Although there are security and law-enforcement aspects to these areas, we mention them as examples of potential east-west collaboration, in the Economic and Environmental Dimension, in what is essentially a set of commercial platforms. Given that the OSCE has adopted CBMs in the ICT field, the logical next step would be to update those to reflect the increased domination of social networks and search engines, and specifically their misuse by malefactors of all stripes. However, because of the deep technical expertise necessary to mine these areas for feasible confidence-building measures, we must leave further elaboration to others, perhaps in a future project that we would recommend the OSCE undertake.

6.2 EU-EEU: Promoting Flexibility for the “States-In-Between”

The European Union and the Eurasian Economic Union are often labeled “integrative projects,” implying an equivalency. Without commenting on whether the content of these two projects merits that equivalency, we can state that they appear to be the focus of the current “camp” mentality that is so perturbing to the “states-in-between.” This represents a shift in Russian emphasis from geopolitical rivalry with NATO alone to geopolitical rivalry with both NATO and the EU. This shift occurred after the 2009 founding of the EU’s Eastern Partnership Initiative (EaP), which included six states that had formerly been components of the USSR: Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine. Russia appears to have interpreted the establishment of the EaP as an attempt by the EU to assert its own hegemony over a “camp.”54 The resultant maneuvering

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54 In 2009, shortly after the establishment of the Initiative, attitudes among senior Russian officials appear to have been split, with the position adversarial to the EU gaining currency later on, and especially after the return of Vladimir Putin to the Russian Presidency.
– which led to the public reversals of position in 2013 by Armenian President Sargsyan and then-Ukrainian President Yanukovych – is one proximate cause for the current confrontation.

Two papers written for this project deal with the potential for dialogue between the European Union and the Eurasian Economic Union. They take diametrically opposed views of such a dialogue. One, by Alexandra Vasileva, views it as a depoliticized alternative to the highly charged political relations between Russia and the West, including the EU, and suggests that “states-in-between” would automatically benefit from an increase in connectivity between the EU and the EEU. The other, by Rilka Dragneva-Lewers and Kataryna Wolczuk, states flatly that “Russia’s primary interest in Eurasian integration is to strengthen its own global influence,” and views the EEU as a vehicle for Russian geopolitical policy without its own economic or trade policy, and therefore not as a worthwhile interlocutor for the EU.

Both papers recognize the role of the EEU and the EU in sparking the current East-West impasse: in 2013, both Armenia and Ukraine negotiated Association Agreements, including Deep and Comprehensive Free Trade Agreements, with the EU. These were due to be initialed at an EU Eastern Partnership Summit in Vilnius in November 2013. These agreements would have precluded the membership of either country in the Russia-centric Eurasian Customs Union (now the EEU). Moreover, requirements of the Association Agreements – such as adherence to the EU Energy Charter and therefore to the Third Energy Package – were viewed in Moscow as extremely prejudicial to the interests of significant Russian energy champions such as Gazprom. Russian President Putin summoned the leaders of Armenia and Ukraine, separately, to Moscow. After his meeting with Putin on 3 September 2013, Armenian President Sargsyan announced that Armenia would not be initiaing the Association Agreement with the EU, and would instead join the Eurasian Customs Union, which it did on 2 January 2015. Several weeks after Ukrainian President Viktor Yanukovych met secretly with Putin on 9 November 2013, Ukraine’s Prime Minister announced that action on the Association Agreement with the EU had been put on hold and that it would not be initiaed in Vilnius. In response, massive protests broke out in Ukraine, as a result of which Yanukovych was forced to flee the country in February 2014. The Russian response to Yanukovych’s downfall – the annexation of Crimea and promotion of separatist conflicts in eastern Ukraine – led to the Western responses and Russian counter-responses that characterize the current standoff.

Vasileva notes that subsequent negotiations between Armenia and the EU led to an agreement on 27 February 2017 on a Comprehensive and Enhanced Partnership Agreement (CEPA), which would replace the 1999 Partnership and Cooperation Agreement. Unlike the unsigned Association Agreement, which would have admitted Armenia to the EU Free Trade Zone, the CEPA would provide Armenia with the significant benefit of “GSP+,” the EU’s “Special Incentive Arrangement for Sustainable Development and Good Governance.” This includes a set of substantial generalized tariff preferences, including elimination of tariffs on over 66% of product lines, that the EU provides to nine countries which have ratified and implemented 27 international conventions on human and

55 Vasileva, A., “Engaging with the Eurasian Economic Union: Platform for overcoming the current stalemate between the EU, Russia and countries in-between,” (contribution to this project).
labor rights, environmental protection and good governance.57 CEPA retains strict “non-preferential Rules of Origin” to determine the “nationality” of a good when entering a country. However, Armenia will implement these rules itself from January 2018, when it joins the “Registered Exporter” system (REX), in which registered exporters self-certify as to the statements on origin. Rules on origin have been a sticking point between Russia and the EU – Russia raised it as grounds for objecting to Armenian and Ukrainian association agreements with the EU – but leaving the issue essentially to a third party – in this case Armenia – may imply significant flexibility from both the EU and Russia.58 A similar flexibility is reflected in the EU’s willingness to extend the application of its DCFTA with Moldova to Transdniestria, and in Russia’s lack of opposition to this.59

The Armenian and Moldovan examples show that flexibility is possible. While we need to be mindful of Andrei Zagorski’s observation that “relations between the EU and the various EEU countries are a tangled web of different types of bilateral agreements, including with Russia,”60 this apparent flexibility on both sides implies that a dialogue focused narrowly on promoting that flexibility for states-in-between may serve to build confidence while avoiding the red lines of the EU about broader dialogue. The OSCE could consider offering its good offices as a neutral platform with an authoritative convening power and an expert agenda-setting facility to help the parties explore the options available in such areas as harmonization of standards and rules.

For example, as suggested by Kemoklidze and Wolff, such an exploration could analyze the practical impact of the extension of the applicability of the DCFTA to Transdniestria on Transdniestrian trade with Russia. While the extension of DCFTA implies that Transdniestria’s trade with Russia will follow DCFTA rules, the practical effects of this process on the ground might point the way for approaches that offer considerable flexibility and advantages to the “states-in-between.”61 Such discussions could result in greater clarity for “states-in-between” as they seek to define their sovereign course, with potential implications for the trade relations of Georgia and Moldova, against whose products (especially wine) Russia has often imposed measures.

6.3 Energy

The international trade in energy and its attendant legal and regulatory frameworks are so complex that any effort at confidence building in this field is a daunting prospect at best. There are already suits at the WTO on unbundling. Nor is an EU-EEU forum a reasonable place to discuss confidence building in this field, inasmuch as Kazakhstan’s energy interests, as well as its economic relations with the EU, put it at considerable odds with Russia within the EEU – a divergence that neither Russia nor Kazakhstan would want to highlight.62 Confidence building would have to take place directly between the EU and Russia, and the OSCE would not appear to be a natural participant in such efforts.

57 European Commission, “European Union’s GSP+ scheme,” January 2017, available at http://trade.ec.europa.eu/doclib/docs/2017/january/tradoc_155235.pdf. In addition to Armenia, beneficiaries of GSP+ are Bolivia, Cape Verde, Kyrgyzstan, Mongolia, Pakistan, Paraguay, the Philippines and Sri Lanka. As of this writing, the EU is reviewing the GSP+ status of the Philippines in light of severe human rights questions.

58 Davies, L., “The EU, Russia and Armenia’s GSP+ Scheme” (contribution to this project).

59 Kemoklidze and Wolff, op. cit., p. 28.


62 Davies, L., “Belarus, Kazakhstan and the EU/EEU” (contribution to this project).
6.4 Resolving Issues for Third Parties

Lastly, collaboration may still be possible on environmental and economic issues that present challenges to third parties who may not be able to address these challenges without a coordinated push from both east and west. Such a problem-solving approach could help, at the very least, to establish a track record of agreement and implementation, and to create a pool of experts from both Russia and the West who have worked together to solve problems. Work on these sorts of problems, which are not life-and-death issues for either Russia or the West, could also clear out an underbrush of issues on which ultimately Russia and the West might otherwise have to take sides. The net result could be a gradual, incremental rise in Russia-West confidence.

Relitz\(^\text{63}\) discusses **multilateral water management** (including both supply and environmental concerns) as a field in which confidence-building measures are possible. Ter Haar’s paper for this project\(^\text{64}\) likewise stresses the importance of the environmental challenges facing OSCE participating States, though he also highlights the disconnect between the rhetoric surrounding the problem and the actual accomplishments in this field. Manton and Saner, in their paper for this project,\(^\text{65}\) discuss inter alia the water management issues involved in the OSCE’s Aarhus Centers, established by the Office of the Coordinator of OSCE Economic and Environmental Activities (OCEEA) and the field operations, as a confidence-building measure. Are there water management challenges facing irreconcilable third parties that might benefit from a coordinated east-west diplomatic push?

One such might be the environmental degradation of the Araxes/Araks/Aras River, which rises in Turkey and currently forms the border between Iran (on the right bank) and, on the left bank, Armenia and Azerbaijan (including Azerbaijan’s exclave of Nakhchivan). The extremely hostile relations between Armenia and Azerbaijan, centering on the bitter and lethal Karabakh conflict, have frustrated all attempts at securing the simultaneous participation of both Azerbaijan and Armenia in multilateral projects in many fields, including water management. An earlier multilateral project envisioned for the entire basin of both the Mtkvari/Kura/Kur River and its tributary the Araxes (which flows into the Kura shortly before the latter reaches the Caspian) was limited in its area of implementation to the Kura after Azerbaijani-Armenian disagreement prevented cooperation on the Araxes. The Araxes remains without riparian management of either water allocation or pollution abatement.

**A diplomatic push from the EU and Russia, backed by technical expertise from both, and closely coordinated with Turkey and Iran, might help allow the Azerbaijani and Armenians to isolate this vital challenge from the deadlock that characterizes the rest of their relations.** The OSCE could coordinate the effort, either through the Coordinator for Economic and Environmental Activities or through the OSCE Minsk Group, whether through its Co-chair system, which includes Russia, France (and through it the EU) and the U.S.; or in its entire membership, which has been more or less inactive for the last twenty years, but which may be better-placed than the Chair to work on this sort of confidence building.\(^\text{66}\)

\(^{63}\) Relitz, op. cit.

\(^{64}\) ter Haar, B., “The OSCE from security to sustainability?”

\(^{65}\) Manton, I. and Saner, R., “The Potential of the Aarhus Centers as CBMs, Good Governance Tool and Civil Society Development Platforms in the SEE Countries,” (contribution to this project).

\(^{66}\) The full OSCE Minsk Group membership includes Armenia, Azerbaijan, Belarus, Finland, France, Germany, Italy, Portugal, the Netherlands, the Russian Federation, Sweden, Turkey and the United States.
Role for the OSCE

The OSCE has a long history of involvement in, and success with, confidence-building measures. The OSCE has several comparative advantages: it is widely viewed as more neutral than any of the other mediators in European conflicts. It has been on the ground in conflict regions for a long time, developing an expertise unmatched by most mediators. The OSCE has accumulated great experience as a convening authority and in setting agendas for talks, including talks in which the protagonists in today’s confrontation participated. Clearly, a potential role for the OSCE in this effort is built into its “toolbox.”

We would recommend that the OSCE Chair-in-Office and Secretariat begin the process of drafting of an update to the 2003 Maastricht Economic and Environmental Dimension strategy, one that would take into account the divisions that have arisen in the OSCE region, and at the same time propose the concrete steps necessary to incorporate confidence-building measures in the second dimension into that strategy. If the OSCE and its participating States are serious about playing a constructive and significant role in this dimension, that is a clear first step.

As we mentioned above, changing the focus of the OSCE in the Economic and Environmental Dimension, at the same time as the OSCE develops and implements specific confidence-building measures that aid in changing that focus, is a little like building an airplane and flying it at the same time. The OSCE’s decision-making processes are unwieldy; this was deliberate, designed to ensure that the sovereign rights of each participating State were given equal weight.

But that is a distinct advantage in today’s polarized world. As Evers points out, the strict neutrality of third-party facilitators is a requirement for successful confidence building, and the OSCE is as close as we can get to impartiality. Nonetheless, even where the OSCE does possess the potential to play a significant role, that potential has not been fulfilled, as ter Haar points out in his paper for this project. Ter Haar delicately ascribes that gap to a lack of activity and enthusiasm among participating States in utilizing the OSCE’s potential, at least in the environmental field. In this regard, an entrepreneurial effort by the OSCE, its institutions, and the delegations of the participating States in Vienna can help to pin down interest for concrete projects. And in the course of carrying out a few modest projects – later, perhaps, leading to more ambitious ones – the OSCE can perhaps succeed in the task of assembling this airplane while flying it at the same time.

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67 Evers, op. cit., p. 11.
68 ter Haar, B., “The OSCE from security to sustainability?”
Summary of Recommendations

1. The OSCE Chairmanship and Secretariat should update and revise the 2003 Maastricht Economic and Environmental Dimension strategy, taking into account new conditions and new needs.

2. The OSCE Chairmanship should organize a workshop to follow up its 30 May 2011 Workshop on Economic and Environmental Activities as Confidence Building Measures. This might include a systematic and comprehensive stock-taking of past and present CBMs in the Economic and Environmental Dimension to identify the conditions under which CBMs and activities with a confidence-building effect can have sustainable success in building trust and reducing tensions.

3. The OSCE should restructure the Office of the OSCE Coordinator on Economic and Environmental Activities into a separate institution, which could give him/her easier access at higher levels, particularly in the context of confidence building. Specifically, it would give the Coordinator greater facility to act as convener and agenda-setter.

4. More generally, an increase in OSCE Field Operations with a specific mandate on confidence building in the Economic and Environmental Dimension—either by adding this as part of the mandate of existing missions or establishing new missions—would usefully add to the institutional infrastructure and capacity of the OSCE.

5. OSCE should explore possibilities to secure east-west collaboration, along with the private sector, to combat misuse of the internet by terrorists and other criminals.

6. The OSCE should offer its good offices to act as a neutral convener of talks between the EU and EEU to explore flexibility in their respective customs regimes to facilitate greater trade with both unions by the “states-in-between.” Talks on harmonization of standards and rules would, we believe, address some of the challenges faced by states “in between” as they attempt to keep options open and develop their economies by trading with the widest possible array of trading partners.

7. The OSCE should help organize a joint diplomatic effort by participating States – including Russia, the U.S. and the EU – to persuade Azerbaijan and Armenia to participate together in slowing and reversing the environmental degradation of the Aras/Araks/Araxes River basin. In view of the recent closures of OSCE presences in both Armenia and Azerbaijan, the OSCE may wish to consider establishing a field presence, operating in both countries, specifically for this long-term project.

Written Contributions from OSCE Network Members

Davies, Lance
“The EU, Russia and Armenia’s GSP+ Scheme”

“Belarus, Kazakhstan and the EU/EEU”

“What Is the Current State of Play with regard to Energy Rules and Norms in Relations between the EU and Russia?”

Dragneva-Lewers, Rilka and Wolczuk, Kataryna
“The Eurasian Economic Union: Deals, Rules and the Exercise of Power”

Evers, Frank
“Confidence-Building in the OSCE Economic and Environmental Dimension”

Fawn, Rick and Lutterjohann, Nina
“Confidence-Building Measures in Inter-State Conflicts: New Roles for the Economic and Environmental Dimension: Towards a Framework for Integrating Competitive Narratives into CBMs: from Russian-Western Relations to Post-Soviet Conflicts.”

Kakachia, Kornely, and Lebanidze, Bidzina
“Between Trust and Cooperation: Developing Confidence-Building in Georgia’s Protracted Conflict Zones”

Kemoklidze, Nino, and Wolff, Stefan
“Trade as a Confidence-Building Measure”

Manton, Ida and Saner, Raymond
“The Potential of the Aarhus Centers as CBMs, Good Governance Tool and Civil Society Development Platforms in the SEE Countries”

Relitz, Sebastian
“Opportunities and Challenges for Second Dimension CBMs in Protracted Conflicts: Inter-Communal Water Management along the Dniester”

Salzman, Rachel S.
“Economic Confidence Building Measures in the Russia-West Relationship: Pipe Dream or Possibility?”

ter Haar, Barend
“How Will the OSCE Help to Fight Climate Change?”

“The OSCE from Security to Sustainability”

Vasileva, Alexandra
“Engaging with the Eurasian Economic Union: Platform for Overcoming the Current Stalemate between the EU, Russia and Countries-in-between”
This report is the joint production of a group of institutes of the OSCE Network of Think Tanks and Academic Institutions.

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