

The EU – Russia Industrialists' Round Table
FIFTH GENERAL MEETING
(Russia, Moscow, December 1-2, 2003)

JOINT CONCLUSIONS

Section 1. Introduction

The Fifth General Meeting of the EU-Russia Industrialists' Round Table was held in Moscow, Russia, on December 1-2, 2003 under the joint chairmanship of *Anatoli Chubais*, Chairman of the Board of the RAO "UES of Russia", and *Matti Vuoria*, Executive Chairman of the Board, Fortum Corporation. The forum attracted more than 250 participants, who represented a broad cross-section of both business communities and of the EU and Russia official bodies. They discussed the most essential issues of bilateral cooperation, including the Russia's accession to the WTO, impact of the EU enlargement on bilateral relations, challenges to direct foreign investments in Russia, new directions in the EU and Russia industrial policies, prospects for cooperation in priority sectors, including energy, transport, telecommunications and information technologies and some other industries. A special attention was given to the project of creation of a EU-Russia Common European Economic Space (CEES) and to the role of business in this process.

The forum was attended by high-level officials of the European Commission and the Russian Government, including:

Mr. *E. Liikanen*, Member of the European Commission, Mr. *D. White*, Director, DG Enterprise, Mr. *C. Cleutinx*, Director DG Energy and Transport, Mr. *S. Niinisto*, Vice President of the European Investment Bank (EIB), Mr. *H. Pandza*, EBRD Business Group Director on Russia and Central Asia – *from the EU side*; and

Mr. *A. Kudrin*, Deputy Chairman of the Russian Government and the Minister of Finance, Mr. *V. Khristenko*, Deputy Chairman of the Russian Government, Mr. *B. Alyoshin*, Deputy Chairman of the Russian Government, Mr. *G. Greff*, Minister of Economic Development and Trade, Mr. *I. Yuzhanov*, Minister of Anti-Monopoly Policy, Mr. *A. Fursenko*, acting Minister of Industry, Science and Technology, Mr. *A. Kozlov*, First Deputy Chairman of the Central Bank – *from the Russian side*.

An active role in the Forum's deliberations took the high-level delegation of the European Round Table of Industrialists (ERT), top officials of the Russian Union of Industrialists and Entrepreneurs (RSPP) and of the Union of Industrial Confederations of Europe (UNICE).

A delegation of prominent European industrial leaders had informative and useful meetings with Mr. *V. Putin*, the President of the Russian Federation, and Mr. *M. Kasyanov*, the Chairman of the Russian Government.

The wide representation and high level of participants, together with an open and informal pattern of discussions stimulated the frank exchange of views on important current issues in bilateral trade and economic relations and made possible the direct presentation of opinions and proposals of the business community to political leaders and important decision-makers of the EU and Russia. The Fifth Round Table demonstrated the growing interest of European and Russian industrialists to direct contacts and dialogue, as well as to the joint business projects of 'common interest'. These constructive and positive attitudes allowed to discuss a number of important initiatives, broadly supported by business on both sides.

Section 2. The EU enlargement and bilateral cooperation

The impact of the EU Enlargement on bilateral EU-Russia relations was extensively discussed by Government and industry representatives from both sides.

Russian participants expressed concerns with regard to the possible negative impact of the Central and Eastern European countries accession to the EU on the trade flows between them and Russia. Specifically they have referred to three main concerns:

- (1) application of the EU internal market rules and common commercial policy by the acceding countries may hurt traditional trade interests of Russian industry in these countries;
- (2) the transition of the acceding states to the EU standards, technical regulations and conformity assessment procedures may cause difficulties for existing contracts and will require a large-scale re-certification of Russian products;
- (3) subordination of the national legislation of acceding states to the EU law will invalidate a large number of bilateral agreements, that now provide a legal base for their trade and economic relations with Russia.

European participants underlined the advantages of Russia's access to the enlarged single EU market with uniform rules and standards. They have also pointed out that the alignment of the acceding countries with the EU internal market rules and the trade diversion to the EU were a gradual process started with the Europe Agreements. They indicated that specific provisions have been negotiated, and are still being negotiated, in areas of Russian interest, to avoid or to reduce punctual problems. Both European and Russian participants invited the EU and Russia authorities to strengthen this process and to find balanced solutions acceptable to both sides.

Notwithstanding these difficulties, the Round Table participants expressed a general hope that the expansion of the EU-Russia common borders and interests will increase the interdependence between the two sides and will give a new impetus for closer EU-Russia co-operation, aimed at the Europe without dividing lines.

The Round Table recognized these opportunities and called upon political leaders to ensure that the EU enlargement will proceed without major legal uncertainty in relations of new members with Russia. The Partnership and Cooperation Agreement is the legal basis for economic and trade relations between the EU and Russia and it should be properly extended to cover the acceding EU Member States. The practical way for both parties to make the most of the opportunities of the enlargement is to promote a much broader integration of the Russian and European economies. In this context, the CEES will serve as an important tool to facilitate further efforts to bring the EU and Russia closer together.

Section 3. Accession of Russia to the World Trade Organization

Russia's accession to the WTO was one of the major themes of the IRT discussions in Moscow. Both the European and Russian participants declared that they attach great importance to Russia's accession to the WTO. Industrial leaders underlined how much the investors and traders on both sides need a predictable, stable, non-discriminatory, rules-based system of business relations. This is a pre-condition and the only firm basis for trust. Business representatives underlined that the reliance on the exclusive bilateral relations of EU and Russia should be avoided. The application of the general rules of the multilateral WTO system prevents trade conflicts and allows the development of more flexible, diversified and efficient patterns of

international trade, investment and production. The full participation of Russia in the rules-based trading system of the WTO would be a right step in this direction.

The business leaders recognize that in trade negotiations with important partners long lead-times are usually needed to ensure a balanced agreement, clarity in commitments and a common understanding about the implications of final agreements reached. In attempts to maximize their tactical advantages both sides need to understand that there are no perfect agreements and that the obfuscation of the interests of one of the parties will lead to no agreement at all or to trade disputes in the future. In the end, the reasonable compromise based on long-term interests of both parties should be reached.

The EU and Russian members of the Round Table are very supportive of an early accession of Russia to the WTO. They welcome the call for intensification of the negotiations by the recent EU-Russia Summit and take the view that Russia's accession to the WTO by the end of 2004 is both desirable and possible. The WTO decision should be viewed as a part of a more general process of Russia's institutional integration into the world trade and economic system.

The business welcomed enormous efforts already undertaken by Russia to align its rules and regulations to those of the WTO and to enlarge market access for industrial products. In fact, over the last years considerable progress in this direction has been made. To successfully complete the bilateral negotiations it is necessary to continue work on market access for goods and services, and on non-tariff barriers. The Round Table invited the negotiators to keep the objective of overcoming non-tariff barriers to trade and business activity high in the market access agenda. It also noted that some difficult issues have emerged in the negotiations, notably in areas of energy prices and market regulation, and urged negotiators to resolve them by finding mutually beneficial and commercially viable solutions.

Both sides agree on a fundamental need to continue market reforms and to introduce market pricing mechanisms in the energy sector as soon as it is possible. It might be useful for both sides to agree on a common blueprint for deregulation and integration of their energy markets. Accelerated transition of energy-intensive producers to a market-based prices for natural gas and electricity is an essential element of this approach. At the same time, inherent risks and social costs of this transformation should be taken into account.

The Round Table highlighted a number of services sectors, notably insurance, banking and other financial sectors, which are of great common interest to both sides. Different speakers underlined that restructuring and development of these sectors is an important condition for sustainable economic growth in Russia and that there is a considerable potential for trade, investment and other forms of cooperation there. The representatives of the Russian Government and the Central Bank described some of the on-going reforms in this sector. Participants of the Round Table agreed that a mutually acceptable set of commitments in the GATS framework would facilitate the progress of these reforms.

The deregulation of telecommunications was also discussed in the WTO accession framework. The Round Table recognized the importance of this sector as a striving innovative industry and as an information infrastructure for other industries. The Russian participants underlined that the continued liberalization of the national telecom market is a complex process, involving many structural, social and administrative problems that need to be addressed in appropriate manner. In this context, Russia's accession to the WTO was recognized by industrialists as a practical way for both sides to make their legal, regulatory and trade mechanisms in this sector compatible and conducive to fair competition and cooperation in the long run.

The Round Table participants believe that the early accession of Russia to the WTO on mutually acceptable and commercially viable terms, with reliable guarantees of implementation and a reasonable period to adapt its economy to the WTO rules meets the interests of both parties. It will not only ensure the liberalization of mutual trade and investment but will also promote the complete modernization of the Russia's regulatory system and will improve internal conditions for sustainable market-based economic growth in Russia.

Section 4. Development of the Common European Economic Space

The Round table welcomes the Joint Statement of the 12th EU-Russia Summit, which endorsed the CEES concept and confirmed the commitment to progressive integration of social and economic structures of Russia and the EU. The IRT stresses the importance of achieving concrete results in a foreseeable future. The work on the implementation of the CEES, as well as on the other common spaces¹, through expedite adoption of detailed working plans will become an important core of the EU-Russia cooperation and the Round Table is ready to actively collaborate on all issues. It calls upon the EU and Russia's business communities to find appropriate forms to associate themselves with this historic effort.

Participants agreed that the establishment of the CEES meets the interests of both sides. The geographical proximity and the complementarity of economic structures give a clear incentive for both sides to enhance and intensify their cooperation, to reduce trade and investment barriers and to establish compatible, predictable and transparent rules for transnational business.

The IRT welcomes the final objective of the CEES, namely, open and integrated markets as a basis for realization of synergies and economies of scale effects associated with a higher degree of competition in bigger markets.

From this point of view, the formation of the CEES is a long-term process that has three major dimensions:

- (1) *regulatory convergence* aimed at the harmonization of Russia's legal and economic systems, as well as its technical, corporate and financial standards with international and European practice;
- (2) *liberalization* of trade and investment, reciprocal opening of the markets and elimination of trade and investment barriers with the final perspective of establishing a Free Trade Area;
- (3) *integration* of the EU and Russia's infrastructure systems in energy, transport, telecommunications and other relevant areas.

The IRT is positive that the CEES, based on well-functioning market economies, compatible business rules and integrated infrastructure networks, will contribute to national economic development and to the expansion of trade and investment between the EU and Russia. The participants underlined the need for stable and efficient institutions and for the effective enforcement of laws and regulations as a precondition for the CEES establishment.

Industry representatives discussed the elements of the CEES concept and expressed the intention to react positively to the invitation from the EU-Russia Summit to contribute actively to the process. The organizational aspects of possible business contributions were debated in detail and the Russian side advanced specific proposals on starting the 'strategic' Business Dialog on the CEES.

The Round Table calls upon the EU and Russia to ensure that the views of business communities are taken into account in the further development of the CEES. The IRT decided to discuss this

¹ Freedom, Security and Justice; External Security; Research and Education

issue in further detail and will come up with tangible proposals on it in time to be taken into account by the High Level Group on the CEES.

Section 5. The EU-Russia Energy Dialogue

The energy sector is a top priority on the EU-Russia co-operation agenda. This is the area of the greatest conjunction of economic and strategic interests of both sides and the basis for the development of all other aspects of the EU-Russia economic relations. This is also the test ground for new approaches, institutional forms and financial arrangements in bilateral cooperation.

The participants of the Fifth IRT General Meeting welcome the progress achieved in the framework of the EU-Russia Energy Dialogue. It conducted serious discussions and consultations that helped to identify the broad agenda of bilateral cooperation in this area, to clarify critical issues and to find ways to resolve major problems. The most obvious positive results are reflected in the emerging consensus on the long-term gas contracts and their role in the future EU-Russia energy cooperation, on security of supply and demand and safety of energy transportation systems, on synchronization and integration of electric power systems, on trade in nuclear materials, equipment and services, on energy saving and demand control, on exchange of information and reconciliation of national energy strategies and on the list of high priority projects of 'mutual interest'. In fact, there is the solid analytical and political foundation for a major breakthrough in our energy relations that can result in massive joint and reciprocal investments in oil, gas and electricity sectors.

In order for this to happen both sides should undertake the decisive and concerted actions in the following directions:

- (1) to work out a common blueprint for the development of energy markets, reforms of natural monopolies and convergence of regulation systems, and to establish a joint consultative mechanism for exchange of information and coordination of new developments in the energy markets. Europe and Russia should also set the framework for level playing field to enable direct investments in both regions;
- (2) it is time to move the EU-Russia Energy Partnership to a new qualitative level as stressed in the Fourth Progress report on the Energy Dialog tabled during the recent EU-Russia Summit. In this framework, issues of nuclear trade, security of demand and supply, energy conservation and advanced forms of cooperation in the energy sector should be tackled in a most practical way.
- (3) work on the Transit Protocol and other legal documents of the Energy Charter Conference as well as the preparations for the ratification of the Energy Charter Treaty by Russia on conditions, corresponding to its national interests, will contribute to the process.

Actions should be taken to move the Energy Dialogue from conceptual to practical stage. The first priority is to establish mechanisms for consistent work on major projects of common interest. They will have to deal with selection of participants, design of appropriate financial schemes and legal forms for these projects, establishment of management systems and so on. The role of business and its organizations should be substantially increased at this stage. The first step in this direction is the establishment in the IRT framework of the 'Energy Steering Group', composed from the eminent leaders of the EU and Russia energy industries. This group should become the nucleus and the central coordination body of a broader system of business participation in the EU-Russia Energy Dialogue.

Section 6. Creating favorable conditions for investment in Russia

Notwithstanding evident successes in economic growth, financial stability and institutional reforms in recent years, the systemic risks of investing into the Russian economy remain high. The major structural, legal and institutional reforms are not yet completed. There is an excessive government regulation of business activities coupled with low government efficiency in vitally important public functions. This situation imposes large administrative burden and transaction costs on productive activities, especially for small and medium-size business, and holds down the productivity and international competitiveness of the Russian economy. Lack of coherence in economic policy, national legislation and law enforcement also undermine the investors' confidence. The situation is aggravated by the progressing obsolescence of economic infrastructure and by the underdevelopment of banking system and financial markets.

All these factors have a negative impact on outside estimates of investment climate in Russia and hold off large-scale investments into the Russian economy. Despite improvement of investment ratings, the total volume of foreign direct investment is still rather small comparative to the size of the Russian economy and its potential.

In last two decades the country essentially did not expand its productive capital assets. Although the recovery of gross domestic investment from the abnormally low levels of the 90-s is clearly under way since year 2000, this is not enough to resolve accumulated problems. The modernization of the Russian industry and the reconstruction of its vast infrastructure requires enormous investments, which can not be fully financed from domestic sources. The investment climate and related issues of institutional and structural reforms remain the key to high and sustainable rates of long-term economic growth in Russia. They require a continuous attention and a pointed dialog between business and public authorities.

The important thing for the successful development of Russia is the administrative reform, based on tested international experiences. It is the only way to modernize the state administrative structures, to increase the government efficiency, to curb corruption and to establish normal legal and administrative conditions for business activities.

Equally important is the corporate sector reform and the restructuring of industrial establishments. Participants of the Round Table emphasized the need for transition to international accounting and audit standards as a major condition for improvement in corporate governance and international competitiveness of the Russian business. The establishment of the 'National Organization on Accounting and Audit Standards' (NOAAS) at the initiative of Russian business and professional associations is an important practical step in this direction that will help to address multiple intellectual, technical and organizational problems of this transition. The 'managerial revolution' and the observance of fair competition rules also remain a high priority for those companies who want to tap foreign financial markets and to attract foreign direct investment.

Consolidation of financial capital and development of banking system and financial markets are essential for mobilization of domestic savings and successful financial intermediation which are vitally needed to channel investment resources into the reformed real sector. Particularly important for business are structural reforms of natural monopolies because of large cost effects and investment risks of their cost-price policies for the rest of the business. Reforms are also needed in education, healthcare, social services, public utilities and housing in order to improve the efficiency of public spending, to reduce fiscal press on business and to open the way for more efficient private operations in these areas.

A more persistent implementation of institutional and structural reforms will substantially increase the chances for the successful modernization of the Russian economy and for the much stronger international support of these efforts.

Substantial differences in business law and practice create the mutual problem for European and Russian business communities. Harmonization of legal and regulatory systems is a strategic task for closer bilateral cooperation and will require a persistent long-term effort. The Round Table calls the Russian government to provide for the timely implementation of scheduled programs of law development, including the harmonization of existing product conformity rules and certification procedures with international standards.

Russia should be also more active in its interaction with international financial institutions and development banks, as well as with Export Credit Agencies in the EU member-states. It can receive a valuable advice and technical assistance on structuring financial services and investment mechanisms for the real sector. The weakness of financial infrastructure is one of the reasons why Russia is unable to convert growing domestic savings into productive investments, to prevent national capital outflow and to attract more foreign capital.

In the transition period, marked by structural reforms and associated risks and uncertainties, it is important to develop business-government partnerships, to protect investments from non-commercial risks and to develop financial technologies for risk-sharing and investment guarantees, especially needed to support long-term, large-scale and low-return investments in economic and social infrastructure.

European and Russian industrialists expressed substantial interest in the co-financing schemes with the participation of the EBRD and in the prospects for the expanded role of the EIB in Russia. The EU-Russia Industrialists Round Table is strongly in favor of expanding the EIB mandate and operations to Russia which corresponds closely to the IRT recommendations of 2000 in Moscow and of 2002 in Turin. The information on the decision of EIB to increase the financing limit of the infrastructure and other projects in Russia and the EU New Eastern Neighbours to 500 M€ was noted with satisfaction.

Section 7. Forest Industry Cluster Group (FICG)

The FICG reiterated at its meeting the importance of the Russian forest resources for the country's future economic development and for the EU-Russia cooperation. Specific projects in FDI, joint ventures, and other forms of partnership in this area were examined.

In the upcoming legislation the key question of ownership and management of national forest resources must be dealt with in a market-based way. This is the only way to provide for productive use and timely replenishment of these renewable resources and for a dynamic development of this sector in Russia on the basis of a large-scale investments and transfers of modern technologies.

European and Russian representatives from the forest sector decided to jointly publish guidelines on an advanced risk sharing and incentive model for the development of saw-mills in Russia. Finally, the launching of an internship program for young high potential Russian specialists and managers in the forest sector was agreed upon by the interested parties.

Section 8. Cooperation in telecommunications and information technologies

The EU and Russia's representatives of telecommunications and information business noted recent favorable developments in this area of cooperation which are being reflected in more transparent regulation policies, cost-based tariff schedules and the development of a pro-competitive legal framework. They confirmed their interest in further discussion and cooperation in such areas as:

- (1) Trade and operational problems for EU ICT industry in the context of Russia's accession to the WTO and the EU-Russia Dialogue on future telecom standards and regulations, including mobile communications networks.
- (2) Linkage of European and Russian multimedia networks and European interests in using Europe-Asia 'information bridge' and projects of telecom cooperation in Kaliningrad region.
- (3) Cooperation in space communications and navigation aimed at the provision of compatibility and interoperability of GALILEO and GLONASS systems, as well as special application projects based on integration of EGNOS program and Russian technologies.
- (4) Joint projects in ITC R&D, including TV and multimedia, Internet, telemedicine and offshore programming.
- (5) EU-Russia cooperation in Information Society: eGovernment, telemedicine, Internet security and other issues.

At the same time the participants identified a number of obstacles to a wider cooperation in these areas. Since Russia was not earlier participating in international standardization, a great number of applicable standards are national GOSTs, which deviate significantly from international ones. Therefore it is essential to reinforce the standardization policy oriented towards international standards that has been recently adopted by Russia.

The main common priority for ICT industry today is to accelerate the process of 'Content Meeting Telecom' with major emphasis on content rich, interactive multimedia services and broadband capabilities. Active education campaign and high-level support are required to encourage and widen the dialogue between all stakeholders in the dynamic development of the ICT Industry.

In recent years Russian Government institutions, business and public paid special attention to the development of software and Internet technologies for the business sector. The meeting confirmed it as a high priority and suggested that special attention be devoted to projects involving small and medium-sized enterprises on both sides and to support of direct contacts between them.

The formation of the Pan-European knowledge society is considered a common goal and a critical factor for the international competitiveness and sustained economic growth both of the EU and Russia.

Section 9. Task Force on Industrial and Scientific Cooperation

The open and informal pattern of discussions, presentation, opinions and proposals, made during the Task Force meeting, clearly demonstrated the growing interest of industrialists in direct contacts and dialogue.

Research and development is one of the main pillars in the industrial dialogue between the EU and Russia as it offers high opportunity and low risk cooperation to industry. However, in order to achieve direct results a framework that provides for a fair, equitable and predictable intellectual property management needs to be established. Functional structures fostering innovation and joint undertakings, as well as a special tax regime exempting R&D from taxes, including customs duties and VAT, must be introduced. The IRT meeting identified key industrial and technological sectors, such as energy (including renewable energy sources), environment protection, transport, biotechnologies, IT, aerospace materials science, which will benefit from joint R&D efforts and scientific and technological cooperation.

In each of these areas there is a strong need for a coherent, mutually recognized regulatory framework, for example, to share standards in order to avoid undue re-certification. To achieve rapid progress and concrete results, the TF intends to invite broader participation of industrialists, to organize work in inter-session groups and to make better use of existing instruments, such as the International Science and Technology Centre.

Section 10. The EU-Russia Transport Business Dialogue

Structural and institutional changes in the transport sector are underway both in the EU and Russia. In the EU, they are focused on restructuring and integration of the overall transport system, stricter environmental controls over vehicles and management of transport globalization. In Russia, reforms have been carried out in the rail transport and are underway in the maritime and air transport. The Transport Strategy of Russia is being developed up to 2025.

An increasing number of challenges in transport relations have emerged in recent years, including the situation around the Kaliningrad region after the EU enlargement and the widening gap in standards and operational rules. These issues should be reflected in the development of the 'transport dimension' of the Common European Economic Space.

Under these circumstances, the EU-Russia transport dialogue, aimed at resolving these problems, becomes a matter of high priority. The 5th IRT hosted the business initiative, put forward by the International Road Transport Union (IRU) and the European Business Club (EBC), on launching the bilateral Business Transport Dialogue. The participants of the workshop identified four priority areas for the first stage of this dialogue:

1. Convergence and harmonization of legal norms, operational rules, technical standards and regulation instruments and procedures in the transport sector. Special attention is required with respect to custom duties, freight registration and clearance procedures, to visa problems and to legislation on the leasing of vehicles.
2. Transport insurance and safety, including harmonization of insurance norms and safety rules, use of modern transportation technologies for dangerous and perishable freights, standardization of safety equipment.
3. Investment in the upgrading of the Russian transport system and its integration with Pan-European networks and the use of PPPs, concessions, joint management companies and private investment consortiums for these purposes.

4. Development and transfer of new technologies, including multi-mode transportation, 'intelligent' transport systems based on integrated satellite and aerial navigation facilities, computerized floor control and logistics centers, environment impact control stations.

The IRT recognizes transport co-operation issues to be of a high priority in the future EU-Russia relations, especially in the framework of the CEES, and undertakes to establish in 2004 a permanent IRT Task Force on Transport, where the broad cross-section of European and Russian transport industry interests will be represented.

Section 11. Follow-up actions

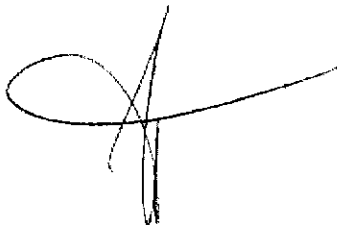
The Round Table Co-Chairmen will undertake without delay the necessary steps to inform the EU and Russian governmental authorities about the conclusions and recommendations of the 5th Industrialists Round Table and to obtain the appropriate official positions with regard to their implementation.

The IRT Co-chairmen will continue their consultations with the aim to expand direct contacts of leading European and Russian business associations and to activate the work of joint commissions, contact and expert groups on interaction of specific industries and implementation of selected joint projects.

The IRT Co-Chairmen will also call a working meeting with the participation of the Task Forces' Co-Chairs to discuss the future organizational structure of the IRT and the ways and means to develop and to improve its activities.

The next General Meeting of the Round Table will be held in the EU in October 2004.

THE RUSSIAN CO-CHAIRMAN



Anatoli Chubais
Chairman of the Board and CEO
RAO "UES of Russia"

THE EUROPEAN CO-CHAIRMAN



Matti Vuoria
Executive Chairman of the Board
Fortum Corporation