

*The EU-Russia Industrialists Round Table (IRT)
Seventh General Meeting, London 3 October 2005*

JOINT CONCLUSIONS

Introduction and summary

The Seventh General meeting of the EU-Russia Industrialists' Round Table was held in London on 3 October 2005, under the joint chairmanship of **Anatoly Chubais**, Chief Executive Officer of RAO "United Energy Systems of Russia", and **Jukka Härmälä**, Chief Executive Officer of Stora Enso Oyj.

The meeting was attended by more than 600 participants, representing a broad cross-section of different business sectors and official bodies of the EU and Russia. This represents a substantial increase in participation relative to recent years and reflects the growing interest and significance attached to the IRT by respective business communities. A number of high-level European and Russian officials took part in the Forums activities and events, including **Günter Verheugen**, Vice-President of the European Commission, **Victor Khristenko**, Minister for Energy and Industry of the Russian Federation, **Andris Piebalgs**, European Commissioner for Energy, **Peter Mandelson**, European Commissioner for Trade, the Right Honourable **Alan Johnson**, MP, Secretary of State for Trade and Industry, U.K., and **Jean Lemierre**, President, EBRD.

The representatives of the Russian Union of Industrialists and Entrepreneurs (RSPP), the Union of Industrial Confederations of Europe (UNICE) and the European Round Table of Industrialists (ERT) played an active role in the forum's deliberations.

The main theme for discussion was the role that business can play in helping to create the proposed **Common Economic Space** between Russia and the EU. The Round Table has strongly supported the concept of a Common Economic Space since its inception, and at its present meeting called on all interested parties to move towards concrete and more detailed implementation plans. The forum's participants welcomed the signing of Joint Statement and the **Memorandum of Understanding** between the UNICE and the Steering Committee of Entrepreneurs Unions of Russia directed, inter alia, at the development of business dialogue on the Common Economic Space and the support of the IRT activities in this and other areas. The IRT also noted the official opening of the Russian Business Mission to the EU in Brussels and called on the EU authorities and business organizations to support its activities as an liaison point.

Following the established pattern the Round Table held dedicated sessions of industry-sector Task Forces (energy, transport, telecommunications, information and space technologies, forestry and paper industry, building industry, and financial services). This structure enables the Round Table to discuss current industry-sector issues and future plans for co-operation, and in order to strengthen it the IRT General Meeting adopted **Terms of Reference** for its Task Forces that will guide their operational activities.

Recognising the need to enhance the business dialogue between EU and Russia and its impact on bilateral cooperation, the Round Table decided to establish a new high-level **Business Cooperation Council** composed of distinguished industrialists and senior executives of leading business organizations from both sides. The Council will act as a high level advisory and coordination body and will focus on strategic issues of the EU-Russia business cooperation and development of the Common Economic Space.

Recent developments in EU-Russia relations

The Round Table noted progress on the topics raised by the 6th EU-Russia Industrialists' Round Table, on 10 November 2004, including a bilateral agreement on the terms of Russia's accession to the WTO, the approval of roadmaps on the four Common Spaces by the May 2005 EU-Russia Summit and the establishment within the structure of the EU-Russia Energy Dialogue of thematic working groups on investment, infrastructure, trade and energy efficiency with business involvement.

At the same time the forum's participants discussed mutual concerns with negative trends that surfaced recently in the EU-Russia relations. The speakers from the Russian side underlined growing costs and barriers created by the EU enlargement for Russian trade and economic interests in the Eastern Europe, as well as for connections between the mainland Russia and its Kaliningrad region. The EU participants pointed out that enlargement had also brought many benefits by establishing an even larger integrated market to Russia. The Russian side emphasized the substantially increased political and economic diversity within the European Union after the enlargement and welcomed the trend towards natural differentiation of economic relations with the EU Member States within the common CPA framework depending on national interests, comparative advantages and economic capabilities.

The EU participants indicated their major concerns about the increasing uncertainty in foreign investment policies of the Russian Government with respect to natural resources development and limitations for strategic industries and national security areas. They emphasized the need for more clear, transparent and universal rules and regulations in this area. They also pointed to

recent surveys of foreign investment in Russia, which have identified legal uncertainties and corruption as important deterrents to investment. Both sides voiced their concerns with respect to persistent technical and administrative barriers for cross-border trade and investment, based on import duties, incompatible technical standards and regulations, conformity assessment and customs procedures, infrastructure access, tender mechanisms, business establishment and assets acquisition rules, and indicated that these issues should be tackled within the dialogue on the Common Economic Space.

Dialogue on the Common Economic Space

The business communities on both sides are ready to support the implementation of the roadmap on the Common Economic Space as a vehicle for systemic development and diversification of EU-Russian trade and economic relations. Nevertheless, there are important conditions for this process to become productive and operational:

- The Common Economic Space (CES) can and should be built on the basis of universal WTO rules of world trading system. In this connection the Round Table urges all sides to complete the negotiations on Russia's accession to the WTO as soon as possible and calls on the EU authorities to support Russia's entry in the framework of multilateral negotiations. The Round Table recommends Russia to speed up efforts to bring its legislative and structural frameworks in line with standard WTO requirements and objects to unwarranted and one-sided demands that block the process.
- A coherent and realistic programme of implementation of the CES roadmap, containing specific objectives, timetables and interlocutors should be put in place. The Round Table welcomes the agreement between the EU and Russia authorities on the detailed work plan with regard to the regulation dialogue within the CES roadmap framework and urges to speed up the planning on economic (industrial) policy dialogues and cooperation projects on specific sectors and industries.
- The business should play the essential role in the implementation of the CES roadmap, as its main aim is to create favourable conditions for economic actors and open markets between the EU and Russia. Specific mechanisms for participation of major business organizations in this process should be established on an institutional basis.

The following areas of joint work envisaged in the CES roadmap are of special interest to business communities:

- Harmonization of legal and regulatory conditions for business in the EU and Russia;
- Reduction of technical, administrative and customs barriers to mutual trade, investment and industrial cooperation;

- Industry and sector-based dialogues to identify prospects for industrial cooperation and compatible industrial and enterprise policies.

The Round Table considers it vital for business from both the EU and Russia to be consulted and to be invited to the meetings of the various working groups and sub-groups that will take place under the dialogues. Round Table calls on the EU and Russian officials in charge of organizing industry specific dialogues to use the IRT as the first point of contact in seeking appropriate business representation. The natural division of responsibilities between business organizations will give the IRT the authority for all recommendations on sector and industry level issues relevant for the business including sector related systemic issues. The Unions of industry associations of the EU and Russia are expected to give a major contribution in developing and advising on overall regulatory, trade and legal issues, including corporate governance and accounting and prospects for a free trade area between the EU and Russia. The

The Round Table discussed its own structure in relation to its new role as the key business forum for implementation of the CES roadmap. Most of the current Task Forces are ideally placed to contribute to some of the sectoral dialogues and co-operation projects. In other cases where dedicated Task Forces do not exist the IRT is open for suggestions from the industrial actors on both sides to establish new focal groups. Nevertheless, it was agreed that the Round Table will not match exactly its structure or restrict activities of its Task Forces by the scope of industrial dialogues in the CES roadmap.

The establishment of the EU-Russia Business Cooperation Council will add a strategic dimension to these activities, improve the coordination of business organizations in this area and strengthen the common business voice in the dialogue with political leadership of the EU and Russia.

The EU-Russia Energy Dialogue

Structural changes in the world energy markets, rising energy prices and instability in important oil-producing regions urge substantial changes in the EU-Russia Energy Dialogue with regard to its scope, content, political arrangements and practical results. It is high time to move from general dialogue to real cooperation and large-scale projects. Agreement on the North European Gas Pipeline is a right and timely step in this direction. Many other practical steps and decisions are to follow from both sides to transform Energy Dialogue into Energy Partnership of the EU and Russia.

The IRT welcomed the establishment of thematic working groups with broad business participation in the framework of the EU-Russia Energy Dialogue and discussed the first results of their work. It considers this arrangement to be

potentially productive and calls on the EU-Russia Summit to extend the mandate of these groups for the next year and to review regularly the results of their work. At the same time, the IRT participants proposed some changes in the organization and *mode operandi* of these groups, namely:

- to concentrate their work on a few high-priority issues in each area with a view of attaining rapid practical results in the next year;
- to set up focused expert subgroups on these issues with participation of business and government experts from both sides;
- to develop the system for coordination of business participation in this process on a permanent and responsible basis;
- to establish a clear and transparent procedure for review and selection of expert proposals for high-level reporting and decision-making.

To make its participation in this work more effective the IRT decided to merge its Energy Task Force and the Energy Steering Group, formed last year under the IRT umbrella, into a single entity with the overall responsibility for business participation in the Energy Dialogue. This group composed of major energy companies from the EU and Russia suggested a number of high-priority actions to be taken:

- The new sub-soil law of the Russian Federation should support cooperation between foreign and Russian companies. Oil, gas and power production licenses for such partnerships should be given on an equal basis with respect to rights and obligations. This will facilitate the EIB and the EBRD programs to facilitate investment in the Russian energy sector.
- The EU and Russia should focus on enhancing the security of transportation systems for oil, gas and power. This requires the master-plan for back-up and alternative routes between the EU and Russia, improvements in trunk pipelines legislation and non-discriminatory access to energy infrastructure.
- A list of high-priority public-private projects (PPP), focused on physical interconnections between the EU and Russia's energy systems was proposed. A need for a comprehensive legal framework for the PPPs, providing a non-discriminatory setting for energy players in the RF and the EU, was emphasized.
- Consultations and cooperation on optimal patterns of reforming and developing energy markets in the EU and Russia, based on shared experience, is proposed as an integral part of the Energy Dialogue.

Other important proposals and initiatives

The Round Table participants discussed prospects for cooperation and existing obstacles to projects of common interest in other sectors including :

- railroad, automobile, air and sea transport;
- information technologies, telecommunication and space;

- building industry, equipment and materials, construction and real estate development;
- financial sector, including banking, insurance and stock market;
- forest products industry, including forestry, wood processing and trade, pulp and paper and printing industries.

Detailed conclusions and recommendations of Task Forces on developing cooperation in these areas, as well as other results of their discussions, will be summed up in a separate document and distributed to all interested parties later to be followed by targeted meetings with EU and Russian officials to discuss these recommendations. The Round Table attaches a great significance to the following new business initiatives in the area of bilateral economic cooperation:

- Proposal of Transport Task Force to enhance the EU-Russia Transport Dialogue by laying the ground for the establishment of the European transportation working groups consisting of representatives of all branches of the transport industry. These working groups will work on harmonization of regulation, increased interoperability and integration, modernization of transport infrastructure and development of transcontinental multimode transport corridors.
- An initiative presented in a White Paper by Building Industry Task Force to remove bureaucratic obstacles to the EU and Russian companies cooperation in this area, to develop consistent regulation framework for construction and to transfer some certification and standardization functions to professional industry associations.
- Proposal of the Financial industry Task Force to start a comprehensive dialogue on cooperation in financial services within the framework of the CES roadmap and to work together with regulatory bodies a package of measures aimed at the leveling of qualitative characteristics of EU and Russian financial markets.
- Proposals on finding new ways to enhance the dialogue in R&D and technological innovations area.
- Proposals to broaden the scope of industries targeted for economic policy dialogues in the CES roadmap in order to include in the list other industries, which opt for broad production and technological cooperation

Follow-up actions

The Round Table Co-Chairmen will present the IRT Joint Conclusions to the EU-Russia Summit on 4 October 2005 through established channels, and will call upon the political leaders to take into account these business

recommendations in their decision-making and to support steps to broaden the role of business in the EU-Russia dialogue on economic cooperation and Common Economic Space.

The extended working meeting of the IRT Co-Chairmen will be held in May of 2006 in Moscow to take stock of preliminary results and new business initiatives with regard to the implementation of the CES roadmap and the establishment of new industry-based Task Forces under the IRT umbrella. The conclusions and recommendations will be presented to the EU-Russia authorities and to the Spring 2006 Summit.

The first meeting of the new Business Cooperation Council will be held December this year to discuss and assess the critical issues in the EU-Russia economic cooperation, contribution of different actors in the economic dialogue and to review its mission, modus operandi and work plan for the next year.

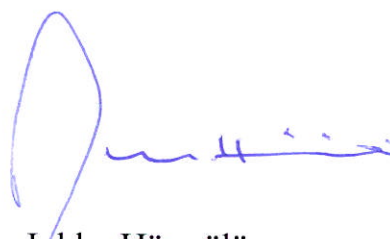
Task Forces will conduct their own studies, surveys, consultations and meetings to determine specific business interests and operational arrangements for the participation in industry-based dialogues in the CES framework.

The next General Meeting of the Round Table will be held in the EU in the Fall of 2006 on the eve and in close connection with the next year Autumn EU-Russia Summit.



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