

November 13, 2008

Cannes, France

Speech by President of Russia Dmitry Medvedev at EU-Russia Industrialists' Round Table

PRESIDENT OF RUSSIA DMITRY MEDVEDEV: Good afternoon, ladies and gentlemen, Good afternoon, colleagues,

First of all, I want to say that it gives me great pleasure to have this chance to speak here today, and I want to thank you for your invitation. I am happy to be able to take part in this tenth jubilee meeting of Russian and European Union business leaders.

To say something that is self evident, the dialogue between our continent's leading businesses is a vital resource for reinforcing our ties and cooperation and bolstering the partnership – a partnership that we now see as strategic – between the Russian Federation and the European Union.

I also want to say that I find it exceptionally useful and interesting to have this chance to discuss matters with you just before the Russia-EU summit takes place. This gives me at the very least the chance to hear your views and concerns and get a better understanding of the issues of concern in general to businesspeople in Russia and the European Union. I think there is a lot of practical benefit to be gained from this meeting. Furthermore, you know that tomorrow the leaders of the world's biggest economies will hold their first meeting in Washington. The reasons for this meeting are clear. I will be flying to Washington tomorrow, and I would be grateful to you if you could perhaps take a broader look at the problems before us and go beyond the context of Russian-European cooperation. This would give me the possibility of speaking in Washington on the basis of a common mandate, a common mandate accorded to me by our Russian businesspeople and the European colleagues.

I want to note your positive contribution to building up cooperation between Russia and the European Union. Over this time thousands of projects have been carried out and trade turnover is growing. Figures have already been quoted here and I must say that they really are very good. We are talking about figures in the billions of euros now. As far as I recall, trade turnover increased by 26 percent over the first half of this year. I do not know what result the second half will bring, because we all face the same difficulties – the global crisis has not spared anyone – but I think the results for the year overall will be really quite good.

Of course, we want to continue increasing our trade and making our cooperation more effective. But what is clear is that, as I just said, the outlook for our cooperation depends a lot on what response our countries make to the global challenge that we all face today. And it should be said too that this is the first time that we have encountered a crisis of quite this kind. No comparison is entirely fitting. Comparing the current situation to the crises in the 1970s, 1980s and even the Great Depression is not entirely accurate because today's crisis is different in nature.

The total losses caused by all of the problems the crisis has brought have already mounted up and, according to the figures I have, now come to around \$1.5 trillion. These are only the losses that have been actually calculated so far. The real problems and real losses are even greater. It is not easy and is certainly not a pleasant task to calculate them, but it is a necessary task.

That the crisis has had such serious consequences forces us all to raise the issue of reforming the world financial system and its main institutions such as the International Monetary Fund and the World Bank. Russia is ready for this and would like to work together directly with the European Union countries and our other partners on creating a new financial architecture.

I want to outline our views on what needs to be done. We have already put forward these views before. What we have now, you could say, is a position that has crystallised. Essentially, what I want to say now is the same as what I will say tomorrow and the day after tomorrow to my colleagues in the G-20.

What do we need? First, we need to systematise and bring order to the national and international financial regulation institutions.

Second, we need to eliminate the imbalance between the amount of various financial instruments issued and the real investment yields they bring.

Third, we need to increase the transparency of all types of public companies.

Fourth, we need to tighten supervisory requirements.

Fifth, we need to make ratings agencies and auditing companies more responsible. I would add here that we also need to introduce a new universal and mutually acceptable accounting system.

Sixth, all players on the market need to share responsibility for risk management.

Seventh, we need to ensure that everyone can profit from and gain access to the benefits of removing the barriers and obstacles to international trade and free movement of capital.

Finally, we put forward the initiative of establishing a system for early warning of and rapid response to approaching crises.

The biggest problem in the current crisis is that everyone saw what was going on in the United States, saw the bubbles that were growing and the liquidity problems, and everyone heard what our American friends were saying, but no measures were taken either in individual countries or in the global economy as a whole. This is why a global reaction system is needed to change this situation.

We are impressed in general by the carefully considered position of the business community, which sees harmonisation of laws as a two-way process. I am referring here to the specific case of harmonising Russian laws with European laws and the laws of individual EU member states. This is a reciprocal process and it involves giving recognition and priority to international standards. This is particularly relevant in the context of Russia's accession to the World Trade Organisation.

We could spend a long time discussing the reasons for the delays in this process. One of the reasons is clear: the organisation itself, its work methods and its rules and regulations are not sufficiently well adapted to the accession of new members.

We now find ourselves once again confronted by the dilemma of whether or not to join the WTO. My position is straightforward: we will join the WTO. We want to join, but we want to do so under normal and non-humiliating conditions. There have been enough negotiations now. It is time for decisions.

Another point I want to make, another factor for stability that should be part of this new financial architecture we need to build, is the existence of new financial centres and new regional currencies. This has already happened with the euro.

If this crisis had arisen before the euro became the main currency circulating in the EU countries I think the consequences, the monetary consequences at least, would have been a lot more serious.

We want to develop our own currency, the Russian rouble, and we are working now on making use of our possibilities to develop our country as one of the world financial centres and turn it into one of the global financial players.

With time, we hope to be working on the markets of the CIS countries and the countries of Central and Eastern Europe. But we will not restrict ourselves to the Eurasian area. Regardless of the crisis and the current difficulties, including in our country, a package of laws will be passed by the end of the year for developing a financial centre of this kind in our country. Not only will we not abandon this idea, we think that now is the best time for putting it into practice.

I want to say a few words now about the situation in Russia and the steps we are taking (I am referring here to the Russian leadership, the Central Bank and the Government). We have taken urgent measures to stabilise the key economic sectors. In order to inject more funds into the economy we have decided to accord subordinated loans for a period of ten years. We are doing this because we all know that the biggest problem we face right now is a shortage of 'long' money, a shortage of long-term liquidity on the market. We hope that this measure will make it possible to increase banks' capital and offset the liquidity shortage on the market.

As a result, the banks should end up with more funds available for according loans and supporting the real sector of the economy. We are looking at total figures of somewhere around \$200 billion.

This year we will manage to maintain overall macroeconomic stability. We expect GDP growth of around 7 percent for the year overall. This growth is driven above all by an increase in domestic demand.

But it is clear that next year will be more difficult. It will be more difficult for all of us and for Russia too. We will probably see a slowdown in the growth rate and a difficult situation with inflation. We will of course address all of these issues.

The Government has put together a support plan for the real sector of the economy. This is a three-part plan. The first component concerns laws and regulations. We are now working rapidly to make changes to the laws. As the situation requires, we have reached agreements with the parliament and are working very swiftly to pass the necessary laws and presidential or government orders and regulations. The second component of the plan is support for big business, support for the large companies that employ a huge number of people. And the third component is support for small and medium businesses.

I would like to say a few more words about the crisis. Any crisis has destructive effects of course, but at the same time, it also creates new opportunities. There is a certain contradictory nature in development. Crises are dangerous, sometimes mortally so for ineffective companies, but they also give the chance to make a business more effective and optimise human resources. Finally, there are also new opportunities to introduce cutting-edge technology and work on energy conservation. Russia is an energy-rich country but in this area, unfortunately, we have done very little and have been very ineffective. This is something we need to work on, and the crisis gives us a unique opportunity to do something about addressing and resolving these problems.

But most importantly of all, the crisis should not stop us from carrying out our plans for upgrading and modernising our production enterprises and technology. We will continue working on tackling the problems in our economy, including the bureaucratic problems. We will work on removing the administrative barriers. We know full well that they are still a problem in Russia. We will improve our tax laws and customs procedures. Finally, we will fight corruption. I spoke about this just recently in my Address to our parliament. Not only will we not scale down our efforts in this area, but this task remains one of vital importance. No matter what the circumstances, no matter what the problems and costs involved, we will continue to carry out our plans in this area. The aim is clear: we want to make our economy more attractive for investors and improve the business climate in the country as a whole.

What else do I want to say? The crisis has created a situation when big economies, completely deregulated economies, are forced to transfer blocks of shares to state ownership. We do not intend to carry out nationalisation, and the transfer of shares to state ownership would be only a temporary measure taken to save this or that company of strategic importance for the country's development. In any event, in the case of private companies, these shares would not remain in state ownership and would have to be privatised once again. I think that other countries will take the same steps.

We have no intention of closing our market. We intend to take part in the global processes, take part in the international division of labour, but of course we will also try to make maximum use of our country's competitive advantages.

I will conclude by returning to what I said at the beginning.

I am confident that the European Union will continue to be a strategic key partner for Russia. We want to develop the broadest range of contacts with business in the European Union, with the regions, the different countries, and the civil society of the European Union. We see a similar desire among most of the EU countries. After all, we are all pursuing one and the same objectives today. Russia has set out these objectives in its national development programme for the period through to 2020. The European Union has set out these objectives in its Lisbon Strategy.

Our cooperation has such scale and substance that it would be best not to let it become hostage to private problems as has sometimes been the case. This is sometimes linked to the specific interests of this or that country. I think we need to do our utmost to free our dialogue from this kind of problem. The goal of our work together is to create a safe and comfortable modern environment for the citizens of a united Europe. I am sure that we can achieve this goal. I am confident that we can overcome the crisis that has hit most of the developed economies, and ultimately we can build up their potential.

Thank you very much.

QUESTION: I am a representative of Shell, and also Nokia.

Mr President, I would like to go beyond the crisis taking place in the world at the moment. I think many of us have seen the International Energy Agency's report that was released yesterday and appeared in the papers today. The report said that the economic crisis will have an impact on demand and on GDP growth. But as soon as the crisis ends, we will soon find ourselves facing an oil crisis because supply of oil and gas will not be able to keep up with demand. We think that this will happen in 2015.

Mr President, it would be interesting to know your view of how Russia's energy policy is likely to evolve, especially in the oil and gas sector. In light of the International Energy Agency's report, do you think that expanded cooperation between Russia and the EU could resolve the current crisis in the terms that the agency describes it?

DMITRY MEDVEDEV: Thank you for drawing attention to issues that are not perhaps so obviously related to the current situation. Everything is closely interlinked and interwoven. Back at the G8 summit in Toyako in Japan, we discussed the existence of three crises: the financial crisis, the food crisis, and the energy crisis. But events subsequently developed very rapidly and have been most dramatic of all in the financial sector. This does not mean, however, that we should not pay attention to the situation in the energy sector.

Russia is indeed a big player in the energy sector. Energy is not an abstract issue for us. It is a very concrete part of our life, our politics and our current economic policy. We are very much aware of Russia's status as one of the main players in the sector.

It was for this reason that we made energy security the main issue when Russia held the presidency of the G8. Our views have not changed since then. We want transparent and modern relations with all countries that consume the energy resources we produce. This concerns our partners in Europe above all, because Europe is our biggest customer for gas and oil supplies. It is our biggest market, and we will continue to develop our supplies to this market.

The question of whether Russia and other countries have enough resources and possibilities is rhetorical. There are all kinds of scenarios put forward, from the worst-case prospect of a world suffocating from lack of energy resources to much calmer scenarios in which new fields are discovered, new opportunities open up, and alternative energy sources are developed. I am not a supporter of apocalyptic scenarios. The

world is sufficiently well developed and prepared today so that, for all the dramatic nature of this crisis, countries are able to develop, carry on their current work and find solutions to even the most complicated problems. If this happened 50 years ago, the situation would have been completely different. We know from the history books what things were like back then.

When it comes to energy supplies, Russia will behave as responsibly – I insist on this term – and consistently as it has over all these last years. We have always fulfilled all of our commitments, despite the fact that certain of our actions have been given various interpretations. But when dealing with cases of say, a country not paying for the energy supplies it receives, of course we are forced to take some restrictive measures. This has not affected supplies to Europe in any way, however.

We will continue to behave in this same way, despite our desire to put relations with other countries, with the CIS countries for example, on a market footing finally. We cannot keep subsidising other countries' economies. This goes against economic logic. We will continue to fulfil all of our obligations, and in cases where growth is needed, we will make decisions on investing money in additional sources. We will develop new deposits and bring them on line and deliver gas and oil to Europe and to Asia, because diversification of supplies makes sense from an economic point of view. You can rest assured that we follow a balanced and predictable policy, and it is in our interest to develop cooperation with our European partners in this area.

I do not think that the world will be confronted with a total shortage of energy resources in the next decade. First, no matter what people say, there are still a lot of fossil fuels in the world, and still a lot in Russia. Second, there are alternative energy sources that will develop of course. That is the response I can give to your question.

QUESTION (Viktor Vekselberg, Renova Group of Companies): Dmitry Anatolyevich, during this tenth conference we have had a lot of discussions and, though there are some differences of opinion, we have seen once again that business can reach agreements and speak a common language. But in the background the whole time was this idea that the politicians are not keeping up, not keeping up with today's demands for swift response to events taking place in the world economy. I want to thank you for the fact that in your speech you set out clearly the Russian Federation's position regarding the urgent measures we need to take.

In this respect I have a question: how do you rate the chances that after your talks with Mr Sarkozy tomorrow you will be able to go to Washington with a more or less common position on the main issues?

DMITRY MEDVEDEV: Thank you. You said that the politicians often fail to keep up, and this is indeed the case. I can tell you quite frankly that businesspeople are a lot quicker at coming to agreements. But the nature of politicians' work is somewhat different and in some cases it is better not to act hastily, while other cases require immediate action. In today's situation what is at stake is companies' survival, jobs, budget revenue and plans for the future in general, and so the politicians simply have to act as rapidly as possible.

Looking at Russia's politicians, I think that we no doubt have not been working ideally, but we have been trying of late to act fast and respond to the challenges our country faces. In any event, our action has managed to stop the situation from reaching extremes.

As for our talks tomorrow, I am sure they will be productive talks, full-fledged and positive talks. I have already had some preliminary discussions with my colleague Nicholas Sarkozy and other European partners in the run-up to this Russia-EU summit. Of course, we paid a lot of attention to the situation on the financial markets and the crisis that has arisen. I already sent our proposals to all of our partners. They are more extensive than what I outlined just before, but they follow the general line of the points I just set out. We agreed to exchange information. Earlier, we discussed ways out of this situation. Furthermore, I began discussing this issue with my colleague Nicholas Sarkozy at the time of the conference in Evian here in France. It was then that this idea was born of holding a summit of the world's biggest economies. The idea initially was to gather the G8 countries plus the 'outreach' group of countries, but ultimately this idea transformed into a G-20 summit. So, Russia was at the origins of this idea. I am pleased that despite the various problems, despite the election campaign in the United States and other difficulties, we have succeeded in organising this G-20 summit in very quick time.

Our views on what shape the future world financial architecture should take are practically the same, sometimes even in the nuances. We discussed for example, specific aspects such the current system of accounting standards. It is a one-sided and inconvenient system. It is clearer to some countries, while other countries have difficulties with it. Russia is one of the countries of continental Europe and we want the accounting and reporting standards to be acceptable for us too. These are nuances, but I bring this up because it is even in these nuances that our common point of view comes through. I am therefore confident that tomorrow evening, when we meet over dinner in Washington, and the day after tomorrow at the G-20 summit, we will be able to speak a common language. I think this is absolutely clear.

I want to say too that our partners and others share the same understanding of the situation in principle and are making similar proposals. Over these last days, I have spoken on the telephone with Nicholas Sarkozy, with [German Chancellor] Angela Merkel and with [British Prime Minister] Gordon Brown, and [Italian Prime Minister] Silvio Berlusconi visited Russia. So, I have already discussed these matters with

the main European leaders. The main question is what areas we can reach agreements on. This is where the biggest difficulties likely await. I do not think we should have excessive expectations of the G-20 summit in Washington. The main merit of this meeting is that it will take place and give us the chance to examine the most difficult and painful issues concerning the current state of the financial system and present proposals on various mechanisms for building a new financial architecture. Much work will need to follow at government level, between the finance ministries, economic advisers, and in the business communities. It is crucial to send the right signals. But this work is already starting to get underway and overall this makes me moderately optimistic about our ability to overcome the consequences of the current crisis and prevent similar crises in the future.

I specially glanced through the recommendations that you have drawn up. In the financial industry for example (I thought that Anatoly Borisovich (Chubais) had decided to pay me a compliment by saying that we are in complete accord), but it is indeed the case that what you propose corresponds completely to what I will say tomorrow and the next day. This includes the establishment of common principles for issuing policies, developing common approaches to reforming the supervisory system (I spoke about this), strengthening cooperation in supervision of the activities of trans-national financial institutions, improving accounting rules (a point I just made), and tightening regulations for the ratings agencies. We share a common position on all of these issues.

QUESTION (Oleg Vyugin, MDM Bank): Mr President, from the contacts and meetings at this conference and some of the things said by European politicians of late, it seems that Europe is now seriously set on concluding a new cooperation agreement with Russia. But the question is, is Russia ready for this? After all, reaching an agreement means going through a negotiating process, and this usually means making compromises.

DMITRY MEDVEDEV: Russia is more than ready. We have always said to our European friends and partners that we are ready to discuss every possible option. We did not support the idea of temporarily suspending talks with the EU on a new partnership agreement, but there was a suspension due to the political events we all know about. I hope that this period is fully behind us now. We are ready for maximum cooperation with our European partners on discussing the content and future of this agreement. It is very good that we have a current agreement still in force. This is something you also spoke about today. But we need to look to the future. Of course we need to improve the legal foundation – quite a few years have gone by now – this is an important issue. There will be no problems as far as Russia is concerned. In the past too we did not waver from our position, and now too we remain open to discussing any matters. I hope that tomorrow we will give the impetus for more intensive talks. Strictly speaking, from a legal point of view, the talks were never frozen but were simply halted for a time to give Europe the chance to collect its thoughts. This has been done now and we are ready to continue the talks straight away, right from tomorrow.

QUESTION: I am a lawyer. I hold American and German citizenship, work in Moscow, and over these last seven years have almost become Russian. My question regards the election of the new American President last week. Like you, he is young, very clever, and a well-educated lawyer.

DMITRY MEDVEDEV: Thank you on my own behalf and on behalf of Barack Obama.

QUESTION: I just wanted to ask, what are your expectations? Do you think he will have a positive impact on relations between America and Russia, and what specific proposals will you present to him at your meeting in Washington?

DMITRY MEDVEDEV: Thank you, colleague, in the sense that I too was a lawyer until not so long ago. I'm not sure there is such a thing as a former lawyer. In any case, I do still feel that I am a part of this profession. Sometimes it is a hindrance, to be honest, and sometimes it is helpful.

I hope that, first of all, the President-Elect of the United States will have luck in this respect, and I wished him so when I spoke to him on the telephone. I say this because the United States now faces a huge number of political and economic problems. We need to be honest in recognising that much of what happens in the world, in politics and the economy depends on how successful the U.S. Administration is in resolving these problems. This also has an impact on Russian-American relations of course. And whether we want it or not, Russian-American relations are a factor in global politics. I was very pleased that the new American President, as I understand it, also considers Russian-American relations to be a top political priority. We see relations with America as a foreign policy priority, given our countries' mission, role on the UN Security Council, nuclear potential, and influence on regional problems. This is why we seek to develop the fullest and warmest partnership with America. We have always said this, but have not succeeded in making it entirely reality over these years. In some areas, relations have taken a downturn of late, and in other areas they have grown and continue to develop.

The new administration will have the chance if not to start anew then at least to take a fresh and unbiased look at things. For a modern politician and someone who wants the best for their country it is most important to be able to do this and be ready to look the truth in the eyes. I hope very much that my colleague will succeed in achieving these results, and for my part, I am ready to discuss all matters in all different formats.

We agreed to meet and this meeting will take place very soon. But there are political traditions and the current U.S. Administration is still in office. But as I have understood it, neither I nor my colleague, the American President, want to postpone this meeting. This would not be to our advantage. We need to meet and discuss all the most complex issues, including the issues on which our views differ. Differences of opinion are no tragedy. We have always succeeded in reaching agreements even in the most difficult situations, even in crisis situations. Today, we do not face the kind of difficulties and crises we did in the past when there was direct rivalry between the United States and the Soviet Union. Everything has changed. Russia has changed too. Russia is not the Soviet Union. And so we have good chances of building a full-fledged partnership.

Colleagues, members of the business community from the European Union countries and the Russian Federation, I want to thank you and say that you have worked well. I have only had time to glance through your proposals, but I see that you are making fully concrete recommendations in a wide variety of areas: in transport, the financial industry, information and communications technology, the construction sector and forestry. I will definitely instruct our Government to go through all of your recommendations. You can be assured that this is the practical result that will follow on from this meeting.

I wish you success and good luck in this difficult time for your businesses and for our country. I am sure that everything will work out well.