

## Modernization Given €2 Billion Credit

### Loans to be granted for Dmitry Medvedev's European programme

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Nizhny Novgorod is hosting the EU-Russia Summit, which opens today and may become a breakthrough in terms of implementation of the Partnership for Modernization. As the *Kommersant* could find out, Russia and the EU are very close to start the actual funding of the programme – VEB (Vnesheconombank), Sberbank, the EBRD and the European Investment Bank (EIB) are willing to extend credits up to €2 billion for the programme's business projects. It remains unknown, however, to what extent Russia is willing to return to the 2005 EU-Russia roadmaps that were ultimately aiming to build an "EU-Russia common economic area", although it is already made clear what Russia would expect from the EU in return for its loyalty – Moscow is going to raise explicitly the issue of its WTO accession as early as in 2011 and insist on the EU agreeing, by the end of June 2011, upon a Joint Action Plan towards a visa-free regime.

The previous EU-Russia Summit in Brussels proved so successful that Moscow laid high hopes on this meeting, as well. Back in December, the sides signed a Memorandum of Understanding stipulating the terms of Russia's accession to the WTO, after which President Dmitry Medvedev victoriously noted that "upon signing agreements with the US and EU, Russia's accession to the WTO is practically becoming reality". The breakthrough on the visa issue seemed even more promising – Russia and the EU agreed to promptly develop and adopt a step-by-step Action Plan towards a visa-free regime. As early as in spring, the *Kommersant* was repeatedly told by its sources in agencies involved in the preparation of this Summit that "the Summit would be a fitting conclusion to the efforts of the last four years, which have marked a real breakthrough in relations with the EU".

As the *Kommersant* was able to find out, the hopes of the Russian negotiators would come true, but only to a certain extent. "The Summit will hear next report on the implementation of the EU-Russia Partnership for Modernization. We have reached the point where we can translate this document from the language of politics into that of business", a source familiar with the report (from the Russian side, the report is being prepared by the Ministry of Economic Development) told the *Kommersant*.

The document will, the source says, for the first time stipulate a financing mechanism for bilateral projects. "From our side, VEB and Sberbank agreed to extend loans and provide bank guarantees, and we have the EIB and the EBRD on the other side", the source adds. A key role is to be played by VEB and EIB. According to the source, the draft project stipulates an overall amount of loans the participants are ready to provide – €2 billion. It is possible, however, that this amount will be reduced to €1 billion by the time the document is approved. "So far, they've agreed upon €1 billion for the first stage of the programme; a larger amount is a matter of the future", a source in the Russian Government told the *Kommersant*.

A source in Russia's Foreign Ministry said that there are also concrete ideas on how to fill the Partnership for Modernization with real substance, explaining that "active assistance in finding concrete projects was offered by the EU-Russia Industrialists' Round Table. We expect it to suggest joint projects, and the banks will provide financing". That information was confirmed by a source in the Secretariat of the EU-

Russia Industrialists' Round Table (IRT). According to that source, the IRT has already suggested a number of projects and put forward an initiative to create a roster of unified criteria for selecting such projects. "We need a clear-cut set of criteria that would be comprehensible and not excessive. First of all, projects should be joint, meaning that they should be carried out by companies from Russia and the EU, and second, they should be break-through both for us and the Europeans", the source says.

*The EU-Russia Industrialists' Round Table was established in 1997 upon suggestion of the EU-Russia Summit. The IRT Council is co-chaired by Anatoly Chubais (Director General, Russian Corporation of Nanotechnologies - Rusnano) and Peter Löscher (President and CEO, Siemens). From the Russian side, it also includes Viktor Vekselberg (Chairman, Renova Group), Vladimir Evtushenkov (Chairman, AFK "Sistema"), Andrey Kostin (President & CEO, VTB Bank), Dmitry Pumpiansky (Chairman, TMK Group), Alexander Shokhin (President, RSPP), Vladimir Yakunin (President, Joint Stock Company "Russian Railways") and Alexey Mordashov (Director General, Severstal). From the EU side, the Council includes Heads and CEOs of Deutsche Bahn, Raiffeisen Bank, Carlsberg, BP and Nokia.*

It should be noted that the uncertainty about the amount of funds for "modernization projects" under the EU-Russia programme could be easily explained – until now it remains unclear what exactly the Partnership for Modernization is supposed to be about. As you might recall, the programme stems from the 2005 EU-Russia roadmaps that yielded little success. Back then, Russian President Vladimir Putin, Prime Minister of Luxembourg Jean-Claude Juncker, President of the European Commission Jose Manuel Barroso and High Representative of the Union for Foreign Affairs and Security Policy Javier Solana agreed at the St. Petersburg International Economic Forum to adapt the EU-Russia cooperation to the programme on development of the European economic space (which has been built by the EU following the 2003 Rome Summit). That was supposed to ultimately lead to a so-called "EU-Russia common economic area".

The roadmaps were implemented rather poorly, and the current Partnership for Modernization reduplicates, in essence, some of their provisions, reduced by a number of parameters. The roadmaps, which are formally still effective, could be logically divided into three segments. The first one is related to creating infrastructure for interaction among state and social institutions of the EU and Russia – the sides planned waging permanent and ad hoc consultations on key issues, as well as forums, technical conferences and the like. The second segment concerns harmonization of the regulatory and legal norms, aiming to develop and implement programmes on alignment of the Russian practices for standardization and technical regulation with the EU standards. In 2005, the EU was primarily interested in harmonizing such standards in the automotive, textile, chemical, mining and aerospace industries, as well as in the energy sector. Finally, the third segment is related to implementation of joint "break-through" business projects of Russian and European companies, which would be, among other things, "ideologically-driven" – the projects are to be selected by the Round Table. The EU, first of all, was interested in such projects in the field of energy, energy efficiency, and in particular green energy. Besides, the EU was interested in getting access to the Russian markets of public utilities, public transport, as well as joint cross-sectoral telecommunication and outer space projects.

So, the Summit in Nizhny Novgorod is to make it clear which elements of the 2005 roadmaps will remain intact in the Partnership for Modernization. Since 2005, Russia has de facto managed to make a rather long journey, largely on its own, in most of the fields discussed six years ago. For instance, some targets set in the roadmaps with regard to harmonization of legal norms and customs regulations have been already achieved, while some projects were set aside for an indefinite period due to establishment of the Customs Union of Russia, Belarus and Kazakhstan - it's no longer purely Russia's business. While reforming its technical regulations system, Russia is currently importing some of the EU standards,

although it had to avoid "imported standards" in some areas, for example, the European construction codes, due to the resistance by Russian lobby groups.

The measures on harmonizing the automotive industry regulations have also got outdated – since 2005, Russia has developed its own strategy of interaction with automotive concerns. So, it's unlikely that the Partnership for Modernization can now dramatically change the status quo of the Russian automotive market; rather, we could talk about the EU institutions and Russian state-owned banks financing projects for automotive components manufacturing.

On the other hand, some of the topics that looked rather utopian in 2005 are now quite relevant. Plausible, for instance, are appearing programmes funded jointly by Russia and the EU to support development of civil society, especially socially-oriented projects. Today, even more than six years ago, the EU is interested in joint programmes in the green energy sector, although the focus here has shifted. Back in 2005, the EU insisted on granting European companies access to Russia's projects in "large power generation"; today, after a lot of conflicts with the EU over the European Energy Charter and Gazprom, as well as the halt of Russia's reform of its power sector, we are probably just talking about local projects on green energy and energy efficiency by small and medium-sized businesses. Besides, one should keep in mind that in this segment the EU will be competing with China, which is also showing great interest in participation in such regional projects in Russia.

Yesterday, VEB's spokesman told the Kommersant that this state-owned corporation, which together with the EBRD will limit their loans under the Partnership for Modernization to the amount of \$500 million, is considering financing projects related to energy efficiency, transportation, innovation infrastructure (business incubators, hi-tech parks, business technology centres, and infrastructure for small business financial services), pharmaceutical industry and environment protection. The spokesman also said that VEB intends to sign a similar Memorandum with the EIB soon. The EBRD confirmed to the Kommersant that the bank is willing to invest, together with VEB, in modernization of Russia; Sberbank and the EIB gave no answer to that question.

It is yet to be seen in what way the Partnership for Modernization will retain the elements of the roadmaps concerning the EU's assistance in the reform of Russian judicial system, as well as the anti-corruption projects; since 2005, the EU has redefined its focus in this sphere, although the Russian priorities have changed, too. At the Summit Russia is going to continue pressuring the EU into implementing a visa-free regime, as well as take advantage of Europe's enthusiasm in order to address the issues impeding Russia's accession to the World Trade Organization.

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