

**IRT PLENARY SESSION**  
**(Brussels, December 15, 2011)**

**REPORT**

Under the business programme of the EU-Russia summit held on December 15, 2011, in Brussels, the EU-Russia Industrialists' Round Table (IRT) held a special session on the EU-Russia Partnership for Modernization, and a plenary discussion on "EU and Russia in the global game: new tools, new rules, new strategies". The two events were attended by over 100 leading representatives of Russian and European businesses, as well as academic and expert community.

At the special session, under the EU-Russia Partnership for Modernization, the keynote speakers were: **Jürgen Thumann**, President of BusinessEurope, **Igor Yurgens**, President of the Institute of Contemporary Development (INSOR), **Mikhail Abyzov**, Chairman of the Board of Directors of RU-COM, and **Kirill Dmitriev**, Director General of the Russian Direct Investments Fund.

Moderator **Alexander Shokhin**, President of the Russian Union of Industrialists and Entrepreneurs (RSPP) introduced the speakers and set the tone for the debate, pointing out the key drivers of change in the Russian economy, associated with the expected accession of Russia to the WTO and the results of parliamentary elections. He said that there had been some last-minute adjustments in the session's agenda, because due to the complicated political situation the governors of Russian regions had had to cancel their trip to Brussels. However, in his opinion, this should not affect the quality of debate. In support of this, **Mr. Thumann** outlined a number of fundamental issues to be resolved after Russia's accession to the WTO: improving the regulatory framework for economic activities, reducing red tape, facilitating the establishment of joint ventures, and lifting visa restrictions that meant very high costs on business actors. He was convinced that relations between the EU and Russia must be further strengthened: "We must be patient, but at the same time we must focus on the issues that are really important". On behalf of his organization uniting over 20 million companies throughout Europe, he expressed willingness to work towards that goal.

Next speaker **Igor Yurgens** suggested his own approach to the development of the EU-Russia Partnership for Modernization. According to him, the Ministry of Economic Development had recently presented a 700-page paper containing the "rules of how we will be modernized". Mr. Yurgens believed that such documents could be written year after year without any significant results, unless the bureaucratic process was broken by a "bottom-up movement". A promising area for "bottom-up" initiatives was provided by the implementation of several major projects - such as the multi-modal path from the Baltic to the Black Sea (including the railway and highway infrastructure, fibre optic cables, etc.), Berlin-Moscow high-speed railway, energy-saving projects (similar to those implemented by Siemens in the cities of the Urals). Such programmes could provide a breakthrough in the implementation of the Partnership for Modernization, providing a substantial investment flow and creating thousands of jobs. He felt it is essential to focus on 2 or 3 major investment projects, providing the necessary legal framework for their implementation (as it was done, for example, for the implementation of waste water treatment projects in Saint Petersburg and Kaliningrad carried out under the Northern Dimension political initiative).

**Mikhail Abyzov** did not agree with the approach suggested by Igor Yurgens. According to him, several large projects could "break through the red tape", but could not radically change the situation. Instead of two or three, "thousands and tens of thousands" of projects are needed (as an example, he cited energy use projects in with huge potential for cooperation with EU companies). The interaction between the EU and Russia should be based on common rules, and resources of either party should be considered common, rather than national. The way to achieve this goal was outlined in the recommendations of the IRT for the EU-Russia summit, which set the roadmap towards a new agreement and free trade zone between Russia and the EU. Efforts on improving legislation for establishment of an international financial centre in Moscow, as well as the activities by Skolkovo Foundation, the Russian Venture Company and Rusnano, are also steps in the right direction.

**Mr. Shokhin** invited the attendance to comment on the issues raised by Mr. Yurgens and Mr. Abyzov. What comes first: several large projects supported by the Government, or creating an environment for thousands of B2B projects? It possible to combine both priorities? Or should we move in stages - first large-scale projects, then others?

According to **Mr. Thumann**, both types of projects are needed, complemented by significant investment in projects of cooperation with research organizations and universities. It should be borne in mind that 90% of business entities in the industry are small and medium-sized companies. Their interests must be taken into account so that they could follow the big companies in implementing joint investment projects. Particularly important role in supporting investment by small and medium-sized companies is played by intellectual property rights, investment protection and avoiding protectionist measures, which have proliferated during the economic crisis.

Then **Mr Shokhin** asked a question concerning the results of parliamentary elections in Russia. Would the political priorities prevail the investment ones? Would humanitarian matters become an obstacle to EU-Russian agreements in the economic sphere?

**Igor Yurgens** expressed the view that no reasons for pessimism are present. Russia will join the WTO, an agreement on free trade with the EU is not far off. The post-Soviet integration is "on the patterns of the EU and within the WTO rules". The "transient" issues (including those related to the missile defence programme) could potentially deteriorate the political relations between the EU and Russia, but could be avoided with a balanced approach. Mikhail Abyzov also suggested that relations between Russia and the EU should not change radically. In his view, a free trade agreement could serve as a new legal platform for the cooperation between the EU and Russia. He also commented on a draft of the "Big Government", initiated by President Dmitry Medvedev. As the leader of this project, Mr. Abyzov called the "big government" a social platform for building an effective interface between the government and society. It would not replace other public institutions, and provides for the basis for their interaction with the authorities - including for identifying Russia's economic development strategy until 2020. **Mr. Shokhin** suggested that discussion of strategic issues of Russia's development up to 2020 should be included in the agenda of the IRT for further work.

At this point Kirill Dmitriev joined the discussion. According to him, the investments were the key to resolving problems in economic cooperation and development. With this in mind, he offered to use the Russian Direct Investment Fund (\$ 10 billion) to facilitate investments by European companies in Russia.

After that the special session on the EU-Russia Partnership for the Modernization, was adjourned.

After a short break, a plenary discussion was opened on "EU and Russia in the global game: new tools, new rules, new strategies ". Among the speakers were: IRT Co-Chairs **Anatoly Chubais** (CEO of Rusnano) and **Peter Löscher** (President and CEO, Siemens AG), **Zakhar Smushkin** (Chairman of the Board of Directors, Ilim Group), **Herbert Stepic** (Chairman of the Board, Raiffeisen Bank International), **Sergey Kogogin** (General Director, OAO KAMAZ) and **Frans van Houten** (President and CEO, Royal Philips Electronics).

Moderator **Staffan Jerneck**, Director, Centre for European Policy Studies, invited participants to look into the future and discuss how would relations between the EU and Russia will evolve in the coming years in view of the ongoing economic and political changes worldwide.

Mr. Chubais agreed with this wording: although in recent years, the IRT had achieved a lot, it is required to concentrate on the future, rather than the past and present. From Russia's point of view two events are of key importance. First of them is the accession to the WTO. It is not only important *per se*, but also paves the way for accession to the OECD, and for concluding a new agreement with the EU in 2012, with possible signing in 2013-2014 of a trade and investment agreements with the EU. This would complete the 20-year process of economic transformation in Russia, making it "a full member of the world civilization". On the other hand, after the parliamentary elections in Russia, a new political environment is emerging, associated with the birth of the middle class. This is particularly important because in recent years, "Russia has lost the vector towards reform". The Rally at Bolotnaya Square was a clear signal that further delays in reforms are impossible.

The situation in Europe is not very optimistic. The EU is not just going through the budgetary and fiscal constraints, but is in the middle of a structural crisis. Mr Chubais expressed his opinion that in quarters 1 and 2 of 2012 recession is inevitable in the EU. Would the configuration of the EU and Euro area be the same as it is now? The answer to that question would define a great deal today, including prospects for political and economic relations between Russia and the EU.

**Peter Löscher** stressed the importance of structural changes in the global economy. In parallel to a general enhancement of the role of emerging markets, Russia's importance as an economic partner of the EU is growing - not only in terms of energy supply, but also in terms of participation in the production chain, which was clearly illustrated by the projects implemented by Siemens. Russia's accession to the WTO opens new prospects for EU-Russia economic cooperation, primarily based on innovation and on increasing the "engineering component" of industrial development. The next step is to create a common economic space from Lisbon to Vladivostok, which is actively advocated by the IRT.

According to **Zakhar Smushkin**, it is important to distinguish between the short and long term cooperation between Russia and the EU. In the short term, much would depend on the evolution of the economic situation in the EU. The current problems of the European economy could be resolved, if the EU leaders will be bold enough to implement radical "surgical measures". With all the short-term economic problems, in the long term, the EU has strong institutional foundation for development. In Russia the situation is exactly the opposite. In his view, this was a kind of magnetism that promoted cooperation. Much could be expected from integrating education, free movement of people, protection of intellectual property rights, and humanitarian dialogue. Business is done by people, and they should not be guided only by monetary considerations.

**Herbert Stepic** also commented on the economic crisis in Europe. In his opinion, it is a structural crisis in individual EU member states that live today at the expense of future

generations, rather than a crisis of the EU as a whole. However, against this background the prospects of Russia look much more positive. Russia promptly adopted effective measures to combat the crisis and after the 2009 recession demonstrated rapid economic growth. Russian specialists are highly qualified, and Europe needs Russia as a "growth agent for Europe", which opens up great prospects for cooperation.

**Sergey Kogogin** who spoke next expressed critical attitude to the results of Russia's accession to the WTO. He suggested that Russia had "untalentedly surrendered its market" and cited an example of India, where customs tariffs for cars remained at a level exceeding 100%. The crisis in the EU could also damage the prospects of business development. KAMAZ had close ties with European companies, and it would be undesirable to see the problems in Europe affecting them negatively.

**Frans van Houten** emphasized the role of trust in economic cooperation. Russia and the EU have a talented workforce that could be relied on in the joint implementation of innovative projects. To this end, necessary conditions have to be created, including reducing trade and investment barriers, harmonizing technical standards, certification and conformity assessment procedures, promoting ties between business and leading universities.

After the interventions of the keynote speakers an open discussion began. Kirill Dmitriev again drew attention to the activities of the Russian Direct Investment Fund, which is a practical tool for co-investing in projects implemented in Russia by foreign companies. Oleg Preksin (Association of Russian Banks) proposed to recall the dispute between Igor Yurgens and Mikhail Abyzov that started at the special session under the EU-Russia Partnership for Modernization. According to him, it is not about choosing one of the two approaches ("a few big projects" or "tens of thousands of projects"), but about their integration on the basis of financial infrastructure of cooperation. In this regard, he suggested that consideration should be given to making the financial aspect of the IRT work an interdisciplinary effort, similar to how it was done in BusinessEurope.

**Yuri Vasiliev** (OEZ Zelenograd) reported on the outcomes of the IRT-led workshop of representatives of six special economic zones in Russia, which had formulated a proposal to begin, together with representatives of similar structures in the EU, to work on supporting specific cooperation projects, including with small and medium-sized businesses. The first results of such work could be presented within one year - at the next Russia-EU summit in Brussels. **Wolfgang Schüssel** (Dialogue EU-Russia) formulated three areas in which Russia and the EU could achieve greater cooperation: development of mutual trust, increased labour mobility and improved environment for small and medium-sized enterprises. **Yuri Karapachinsky** (SM Group) expressed his strong belief that only innovation could be a good basis for countering the crisis. If Russia and the EU were to develop innovation, they will have to aim at establishing a single space, where Russia could play a similar role of driver of European development, as is now played by France and Germany.

Then **Mr Jerneck** gave the floor to the keynote speakers to reply the comments. **Mr Chubais** noted the dissonance between his own disturbed vision of the economic future of Europe and the optimism of the discussion. However, he supported Mr Karapachinsky's view that the fundamental way out of the crisis is through new technologies that should be at the heart of structural reforms. According to Mr Chubais, today Russia and the EU have the potential to "overcome the crisis through new technologies", which opens up opportunities for integration on a new basis. Therefore, the IRT priorities, such as technical regulation and training, are strategically correct. **Mr. Löscher** supported the development of innovative cooperation. According to him, business, science and education should go hand in hand. At the same time, he drew attention to the fact that Russian companies invest much less in the EU compared to

what European companies invest in Russia. Eliminating this disparity is an important resource for enhancing the cooperation.

**Mr. Smushkin** was skeptical about the idea to quickly bring together the EU and Russia expressed in the discussion. The desire for unity face a powerful brake in the form of national sovereignty. On the contrary, the idea of creating a favourable environment of cooperation through integrated legislation, exchange of experience and human interaction is more realistic. One needs to be ready for walking a long path of modernizing Russian legislation on the basis of the EU's experience.

According to **Mr. Stepic**, cooperation between Russia and the EU is clearly mutually beneficial. It is based on a combination of competitive advantages of Russia (rich in raw materials, huge market) and the EU (technology and experience in key markets). The key to success is in creating an enabling environment for direct investment by improving legislation, investment protection, implementation of the "single-window" principle in dealing with investors. Now is the best time for Russian companies to purchase high-tech assets in the EU - it is important not to miss this opportunity.

**Sergey Kogogin** admitted that during the debate he had not found answers to the questions of concern to him. According to Mr. Kokogin, the joint ventures between KAMAZ and foreign partners, following the accession to the WTO, would have to cut investment plans. **Mr. Löscher** expressed surprise at this position: members of the IRT "should act as industrialists" and use the wide investment opportunities emerging in new conditions. He was supported by **Mr. van Houten**, who cited the increase in investment as the top priority. He also stressed that it is necessary to begin, as soon as possible, negotiations on a free trade agreement between the EU and Russia. Russia's accession to the WTO is important, but within the WTO the negotiations on further liberalization of trade are stopped, and progression should be initiated by the EU and Russia.

**Mr. Thumann** shared his forecasts concerning the European economy. According to him, it should avoid recession, and economic growth in 2012 should be no less than 1%. This allows to be optimistic about the future. Mr. Chubais was skeptical about such forecasts, but admitted that he would be happy if the European economy could really grow in 2012.

Summarizing the discussion, **Mr. Jerneck** listed key priorities for convergence of the European and Russian economies: structural change and creation of an enabling environment for economic growth and competitiveness, cooperation in the field of technical standards and development of new technologies, forging ties between science, education and business, supporting investment, including Russian investment in the EU, visa regime liberalization, as well as creating a free trade area from Lisbon to Vladivostok. Implementation of these priorities would help increase mutual trust, which in turn would be a prerequisite for further economic cooperation.