

*The EU-Russia Industrialists Round Table (IRT)
Eighth General Meeting, Helsinki, 23 November 2006*

JOINT CONCLUSIONS

Introduction and summary

The Eighth General meeting of the EU-Russia Industrialists' Round Table was held in Helsinki on 23 November 2006, on the eve of the autumn EU-Russia Summit, under the joint chairmanship of Jukka Härmälä, Chief Executive Officer of Stora Enso Oyj, and Anatoly Chubais, Chief Executive Officer of RAO "United Energy Systems of Russia".

A number of high-level European and Russian officials took part in the event, including German Gref, Minister for Economic Development and Trade of the Russian Federation, and the Finnish Prime Minister, Matti Vanhanen.

Business leaders at the event included Lord Browne, Group CEO of BP, Philippe de Buck, Secretary-General of the Confederation of European Business (UNICE), Alexey Mordashov, Chairman of Severstal, Jorma Ollila, Chairman of European Round Table of Industrialists, Alexander Shokin, President of the Russian Union of Industrialists and Entrepreneurs (RSPP) and Viktor Vekselberg Executive Director Gas Development of TNK-BP Management

The main theme of the event was the new framework agreement that will replace current Partnership and Cooperation Agreement (PCA), the initial 10 year period expiring in 2007, and the strategic business vision of future EU-Russia economic integration. The Round Table discussions took place on the basis of inputs from the Business Cooperation Council (BCC), a new high level advisory body composed of distinguished industrialists from both sides, and leading business organizations from the EU and Russia, including a joint statement of RSPP and UNICE and a report from the European Round Table of Industrialists on the future of EU-Russia economic relationship.

The Round Table concluded that negotiations on the new agreement provide an excellent opportunity to modernize and strengthen the legal and political base of EU-Russia relations and open the way to a new strategic partnership based on deep and comprehensive economic integration. It called upon summit leaders to make strategic decisions on the future direction of bilateral relations and an EU-Russia Common Economic Area.

The Round Table organized meetings of industry-sector Task Forces (energy, transport, information and communication technologies, forestry and paper industries, building industry, and financial services).

The Round Table also recognised that it needs to expand its scope in other directions. It committed itself to boosting the involvement of more small and medium sized enterprises (SMEs) in its work, as these are vital to the economic development of both the EU and Russia, and to develop a number of industry specific initiatives to promote a broader involvement of SMEs in EU-Russia industrial cooperation. It also undertook to seek a wider involvement of the business community, including from the new EU Member States.

Review of recent developments in EU-Russia relations

The Round Table noted progress on the topics raised by the 7th EU-Russia Industrialists' Round Table, held in London on 3 October 2005, including the implementation of the Common Economic Space Roadmap, EU-Russia Energy Dialogue and Russia's accession to the World Trade Organisation (WTO).

WTO Accession

Russia has reached the final stage in the WTO accession negotiations. The IRT welcomed the long-awaited bilateral agreement between Russia and the USA on WTO accession. It also underscored the vital importance of rapidly concluding the multilateral accord on remaining issues and accession procedures. All outstanding issues should be rapidly resolved to enable Russia to take up its responsibilities as a leading partner in the WTO.

WTO membership is a significant step for Russia to put in place the framework conditions for the predictable, stable, non-discriminatory, and rules-based system that businesses need. Russia's WTO membership is also the essential basis for closer economic relations between the EU and Russia, such as a new bilateral framework agreement, a "WTO+" agreement on trade and investment and a future EU-Russia Common Economic Area.

Implementation of the Common Economic Space roadmap

The implementation of the roadmap on the EU-Russia Common Economic Space (CES) is of paramount importance to business. At the moment it is the most practical way to further development of EU-Russian trade and economic relations. The Round Table expressed its satisfaction that the majority of the dialogues foreseen in the CES roadmap have now been put in place and that businesses on both sides are being involved in the process. There is clearly a great deal of enthusiasm and willingness on both sides to make the new mechanisms work and to achieve practical results.

However, the main outcomes of the various dialogues so far seem to be restricted to exchange of information and regulatory experience between the EU and Russian authorities. Work plans for different groups established in the CES framework are not result-oriented and constitute essentially the timetables for meetings, workshops and other events. While this is inevitable at this initial stage, it is important for the business community that the dialogues start to deliver practical results soon. As an example, business representatives highlighted the regulatory dialogue, which they expect to deliver real changes to legislation and implementation. Where the application of international standards or mutual recognition of existing standards and procedures is not possible, business expects as close as possible harmonization of technical standards, certification and conformity assessment procedures and the basic legal and administrative framework in which companies operate in the sectors covered by the dialogue.

The Round Table confirmed that it remains willing to play an active role in the CES dialogues and called on industrial unions and associations on both sides to develop a common business agenda on regulation issues.

The IRT calls on EU and Russian authorities to streamline various working and expert groups established under the CES mandate and to adopt result-oriented plans of their work with explicit dates, output products and personal responsibilities. Progress on implementing the roadmap to the Common Economic Space should continue with vigour in parallel to the post-PCA negotiations. The European Commission and Russian government should push ahead with the implementation of the roadmap and supply regular progress reports. Increased transparency throughout the implementation process will ensure maximum input by the business community.

To implement agreements and understandings reached within the CES dialogues both parties should make them legally binding by incorporating them in a new framework agreement.

Business climate and issues of concern in bilateral relations

Discussions at the Round Table and its Task Forces' sessions highlighted a number of concerns about worrying trends which were appearing in EU-Russia relations.

Many European participants voiced their concerns that the increasing role of the state in important areas of the Russian economy is leading to less competition, more political risks, a slowing pace of economic reform and deteriorating perceptions of the business climate in Russia. This is one of the reasons why despite its strong growth and macroeconomic stability, Russia is still largely unable to attract strategic industrial investment outside the oil and gas sector on the scale actually needed and relevant for a country of Russia's size.

Both sides agreed that increased investment – both foreign and domestic – is desperately needed in the Russian economy to modernize infrastructure and production facilities, to boost productivity and competitiveness in many industrial sectors to enable them to fully benefit from the opportunities offered by the global marketplace. This investment is needed and should be made now, while the macroeconomic situation is strong, and IRT participants called on the Russian government to intensify its efforts to establish a non-discriminatory, transparent and legally safe regime for all investments, domestic and foreign, in Russia.

At the same time some Russian participants pointed to political discrimination and high administrative and technical barriers to Russian investment in the EU, especially in the energy sector. They noted the rise of economic nationalism in the EU and government actions to limit foreign investment into strategically important or politically sensitive industries and companies. They insisted on full reciprocity in investment policies and on parallel reduction of technical and administrative barriers to foreign investment on both sides.

Many Russian companies also reported non-market approaches to the anti-dumping suits in the EU against Russian products, limits on commercial banks branching and substantial technical barriers to entry into the EU market related to excessive regulation, high technical requirements and costly certification procedures.

The IRT participants indicated that much more can be done on both sides to facilitate trade, improve transport connections, enhance customs procedures and reduce administrative barriers for investment.

Yet, despite these difficulties EU-Russia business cooperation has developed very rapidly in recent years. It manifested itself in a large increase in bilateral trade and investment, in a substantial expansion of trans-border commercial presence and service activities, and in improved access of Russian companies and banks to the EU capital markets. Business on both sides sees a large potential in the further development of cooperation due to complementarities in industrial structures and a good balance of comparative advantages and resource endowments. This potential can be realised if the appropriate policy decisions are taken, including a framework agreement which makes a strong commitment to agree on a WTO+ agreement on trade and investment and an EU-Russia common economic area.

Strategic business vision for the future economic relationship of the EU and Russia

The IRT welcomes and supports a political decision by the EU and Russia's leadership to start negotiations on a new framework agreement which will supplant the current Partnership and Cooperation Agreement (PCA). The PCA has served its purpose by stabilising and extending EU-Russia bonds in the turbulent 1990s, but relations have intensified significantly

since then, so that the existing PCA can no longer serve as a basis for building a more ambitious EU-Russia relationship.

Discussion at the IRT General Meeting on the post-PCA arrangements was based on a number of important contributions from leading business organizations, including the Confederation of European Business (UNICE), the Russian Union of Industrialists and Entrepreneurs (RSPP), the European Round Table of Industrialists and the newly created IRT Business Cooperation Council (BCC), as well as inputs from the IRT Task Forces.

Leading business organizations and industrialists see significant potential and large mutual benefits in the further strengthening of EU-Russia relations. Negotiations on a new agreement will offer a unique opportunity to move the EU-Russia relationship in the direction of a strategic partnership and deep economic integration. They will also help to establish a modern, well-functioning and non-discriminatory legal framework for trade, investment, economic and industrial cooperation that is vital for business activities and further progress in the EU-Russia economic relations.

The IRT calls on the EU and Russian political leadership to take a bold and forward-looking approach and to seize the opportunity to establish a new legal and political basis for a future relationship. The EU and Russia should take determined steps in that direction without delay.

The true strategic intent should be to establish such framework conditions that facilitate significant expansion of business activities across the board and lead to a convergence of long-term interests and deep economic integration of Russia and the European Union. This is the only way to form a true strategic partnership

The correct choice of a dynamic integration model and the underlying structure of a strategic economic partnership are of paramount importance for our common future. This choice should meet the following requirements:

- Facilitate the achievement of main strategic goals for each party and enhance global competitiveness for Greater Europe. This is the real foundation for a strategic partnership.

- Build on the WTO principles and rules by moving step-by-step to broader and deeper integration. Main stages will be: WTO – WTO+(CES road map) – Common Economic Area (integration agreement).

As a blueprint for the new model the IRT proposes to focus on three essential elements:

1. Broad and comprehensive free trade agreement between EU and Russia.
2. Open and reciprocal regime for mutual investment based on national treatment.
3. Approximation of economic regulations and standards.

This vision can be supplemented with the following elements:

- Strategic partnerships in key sectors and areas like energy, transport, innovation and technology, industrial cooperation.
- Institutional mechanisms of consultations at business-to-business and business-to-government levels to harmonize different interests and approaches.
- Mutual protection and promotion of cross-border investments.

A main driver of EU-Russia integration should be large-scale and broadly diversified mutual investments: EU investments in Russia, Russian investments in the EU, joint investments in both markets and in third countries. The advantages of such an approach over purely trade-based integration are numerous: It directly stimulates economic growth and job creation, enhances productivity and competitiveness due to a powerful combination of comparative advantages.

Business is committed to a deeper cooperation and integration between Russia and the EU. Russia's WTO Accession, the implementation of the Common Economic Space roadmap and the conclusion of the post-PCA framework agreement are important milestones on the road to a truly strategic economic partnership. Our vision for the post-PCA agreement is that it should prepare the terrain for future negotiations on a Common Economic Area that would promote the free movement of goods and services, capital and people, knowledge and technology, covering all aspects of our economic relationship. The agreement should also cover the EU-Russia strategic energy relationship based on the principles espoused by the G8 Statement on Energy in Saint Petersburg and based on market principles. Since the broad issues of an EU-Russia strategic economic partnership can only be partially addressed by WTO accession, the

EU and Russia should build their future economic relations, where possible, on WTO+ structures. This requires strong commitment from the EU and Russia to address a broad range of issues going beyond a free trade agreement.

Business is in favour of a new broad-based economic agreement with extensive provisions on cross-border trade, investment and closer economic integration. The new agreement should strengthen consultation procedures between relevant EU and Russian authorities and include provisions on mechanisms for the regular and thorough consultation of the business community on all business-related issues covered by the new agreement.

The agreement on trade and investment should include *inter alia* common provisions for the national treatment of cross-border investments, elimination of customs duties, dismantling of non-tariff barriers, regulatory convergence, mutual recognition of standards and conformity assessment, trade facilitation and customs, cooperation on competition, services liberalisation, public procurement, sanitary and phytosanitary regulations, intellectual property rights protection, dispute settlement and the use of international accounting standards.

The IRT calls on leading business organizations and industrial groups of EU and Russia to coordinate closely their activities on the post-PCA economic relations both on bilateral basis and within the BCC framework.

Business Cooperation Council

The Round Table welcomed the successful establishment of a new high-level Business Cooperation Council (BCC) which met for the first time in St Petersburg in July 2006, and again in the course of the IRT meeting in Helsinki. The work that had been undertaken by the BCC has allowed the business community to establish a clearer strategic view on EU and Russian business cooperation. The BCC will report the common business position on the post-PCA EU-Russia relations to the political leadership of the EU and Russia at the high-level meeting on 24 November prior to the EU-Russia Summit. The BCC's work plan for the following year will strengthen the approach further.

Proposals and initiatives of the IRT Task Forces

The Round Table participants discussed inter alia prospects for deeper cooperation and existing challenges to projects of common interest in separate sectoral Task Force sessions in the following sectors:

- Energy
- Financial services
- Forestry and forest products industry
- Building industry
- Transportation
- Information technologies, telecommunication and space

The IRT calls on the EU and Russian officials to pursue the following Task Force initiatives:

Energy

The new EU-Russia agreement should provide for the regulation of the EU-Russia energy relationship based on the principles espoused by the G-8 member states in their statement on Energy in St. Petersburg in 2006, including the following principles:

- open, transparent, efficient and competitive markets for energy production, supply, use, transmission and transit services as a key to global energy security;
- transparent, equitable, stable and effective legal and regulatory frameworks, including the obligation to uphold contracts, to generate sufficient, sustainable international investments upstream and downstream;
- dialogue and cooperation on all aspects of growing energy interdependence, including security of supply and demand, protection of energy infrastructure, consultations and joint actions in emergency situations, diversification of energy sources, markets and transportation routes, energy efficiency and impact on environment.

The main objective for this setting is to improve the overall investment climate and economic cooperation, as well as to enlarge and sustain trade between Russia and Europe, including energy. This should be based also on commercial interests encouraging business to execute investments that solidify partnership between Russia and the EU. Efforts should be made for

executing concrete energy strategic projects between Russia and Europe, underlining the mutual interest.

Financial services

The Financial Industry Task Force (FITF) supports the creation of the common economic space between the EU and Russia in the financial area (banking, insurance, securities). To this end it will search for optimal forms and directions for financial markets integration through all the necessary stages.

“Green” and “White” Papers on Common Financial Services Policy will be prepared with active support from the EBRD. These should result in an approved package of proposals from business community. They will provide for the EU and Russian financial markets quality leverage to secure fair competitiveness, and the most active use of financial and banking instruments to support commercial and investment projects and programs in priority sectors, including high tech.

Within the framework of the EU-Russian Energy Dialogue it was decided to consider additional financial instruments for implementation of comprehensive energy saving program, properly supported from private, governmental and intergovernmental financial sources.

Forestry and forest products industry

The developments since the IRT General Meeting in London 2005 have confirmed that the Russian forest industry has very good prospects. Growing demand facilitates investments both in pulp/paper and wood processing mills and necessary infrastructure (including forest roads). To enhance this development further the Task Force made following suggestions to improve the legislative and regulatory environment:

- The new Forest Code provides some basis for long-term security of wood supply, but it's vital that regulations about rational, modern and sustainable forest management is included in the regulatory framework
- Large number of “under-law” documents provided in the Forest Code need to be further developed to facilitate modern methods and technologies

- “Prioritized investment projects” giving the right to obtain forest leases without an auction should be made clear and transparent for unambiguous interpretation of the new Forest Code.
- Additionally, transparent rules and mechanisms for defining stumpage/lease fee, clear division of responsibilities between the leaseholder and the state as a forest owner, and transparent and competitive procedures for getting and renewing forest leases
- As export tariff policies have an important impact on wood availability, it is necessary to optimally align the increase of export duties’ with the development and expansion of converting capacities, and to concurrently encourage domestic and foreign investments into the wood processing industry in Russia.
- To improve the preconditions for investments it is important that federal and regional sources participate in the financing of forest road network and other infrastructure development. In addition, specific programmes which have been designed to develop external financing mechanisms for forest infrastructures could be used.
- Import procedures should be simplified and streamlined and such export and import duties to be removed which impede industry development and investment. Joint and comprehensive efforts should be taken to encourage formation of assembly lines and joint ventures in the forest industry-related machine building.
- Positive development in the forest certification has been witnessed in the last few years. It is in the interests of the forest industry to prevent any specific forest certification system from becoming monopolistic, and the choice of a system should be based on practices and preferences of individual product markets.
- The ENA FLEG process is one of the key programmes in the field of legality of the origin of wood (The Europe and North Asia Forest Law Enforcement and Governance). If ENA FLEG will be launched overregulation should be avoided and verification / checking systems already in place and implemented by the EU forest industries and the Russian industries and industry unions should be applied. Both wood suppliers and consumers/converters should take equal efforts in this area.
- Russian authorities are encouraged to promote investments into the forest industry by designing incentive schemes focusing on infrastructure development around sites of large converting mills/complexes, both existing mills and greenfield projects. Such projects could be supported also by regional policies of the EU.

Building Industry

Work will be resumed and it was proposed to reform the Building Industry Task Force focusing on the following six areas:

- Housing construction including wooden housing, low storey housing and high-rise buildings
 - Small-size power plants
 - Regulatory and legislation issues
 - Construction materials production and wholesale trade
 - Housing mortgage and other means of financing construction business
 - Industrial and transportation construction
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- It was found out that the recommendations made in the White Paper launched last year in the London meeting are noted and governments are paying bigger attention to the construction sector.
 - The Task Force was pleased to note that there is now a plan to set up a subgroup in the Regulatory Dialogue to settle these important, construction sector related issues.
 - It is recommended to develop the political, economic and respective sub-sector agreements in parallel. Task forces have to cooperate with governmental bodies in preparing those agreements at all the stages by making recommendations and suggestions.

Transport Dialogue

Some progress has taken place in the field of transport between the EU and the Russian Federation since the 7th General Meeting in London in 2005. With the closer economic integration of these two regions, the need for efficient transport capacity and capabilities is rapidly growing and transport volumes are expected to double by year 2015.

- Maritime shipping is currently the predominant mode of transport. Rail and multi-modal transport must improve quality and increase flexibility and to offer shorter and more reliable transport times from door to door
- This calls for:
 - Improved operative handling procedures and abolition of any administrative barriers to drastically cut the time required for border stops and customs clearance

- Improved management and monitoring of transport flows
- Support for improvements of interoperable terminal networks combining all modes of transport into an efficient transport and logistics system
- Ministerial Working Group introduced at the General Meeting last year in London is the link to the administrative decision makers who are responsible for the rules, regulations, norms and standards setting up the framework for what the industrial players can achieve – or not achieve.
- Recent progress (industrial, political and administrative level) included:
 - Test freight train on Corridor 2 Berlin – Moscow which operated under the conditions of commonly established procedures. The transport time was only three days, including all boarder procedures.
 - A permanent service encouraged by this success is about to be launched by a Joint Venture with an aim to design, produce, monitor and assure marketable transport services in this important EU-Russia corridor.
 - New Working Group was established to focus on the Development of Multimodality and Containerisation (“WGDMC”) to enhance best practices in:
 - multimodal terminal design and construction
 - standards and processes to increase operational efficiency

Once the problems and bottlenecks are identified, the ambition is to develop a handbook with recommendations on how to best overcome the identified deficiencies.

Follow-up actions

The Round Table Co-Chairmen will present these Joint Conclusions to the EU-Russia Summit on 24 November 2006 and call upon the political leaders to take these recommendations into account in their decision-making, as well as discuss business participation at all stages of work on the new EU-Russia Agreement and appropriate mechanisms of consultations.

The next working meeting of the IRT Co-Chairmen will be held in Russia, on the eve of the Spring 2007 EU-Russia Summit

The next General Meeting of the Round Table will be held in the EU, on the eve of the Autumn 2007 EU-Russia Summit.

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