

EU-Russia Industrialists' Round Table (IRT)

Ninth General Meeting, Lisbon, 25 October 2007

JOINT CONCLUSIONS

Introduction

The 9th General Meeting of the EU-Russia Industrialists' Round Table (IRT) took place in Lisbon on 25 October 2007, on the eve of the autumn EU-Russia Summit, under the joint chairmanship of Nils S. Andersen, Incoming Group CEO of A.P. Møller-Maersk, and Anatoly Chubais, Chief Executive Officer of RAO UES of Russia.

A number of high-level European and Russian officials took part in the event, including Manuel Pinho Portuguese Minister for the Economy and Innovation and current Chairman of the EU Economic and Financial Affairs Council; Günter Verheugen, Vice-President of the European Commission responsible for Industry and Enterprise; Sergei Naryshkin, Russian Deputy Prime Minister; Andris Piebalgs, European Commissioner for Energy; Viktor Khristenko, Russian Minister for Energy and Industry; Elvira Nabiullina, Russian Minister for Economic Development and Trade.

Business leaders at the event included Lev Khasis, CEO, X5 Retail Group N.A.; Alexander Shokhin, President, Russian Union of Industrialists and Entrepreneurs (RSPP); Anton Artemiev, CEO, Baltika Brewery and Gertjan Lankhorst, CEO, GasTerra B.V.

This year's General Meeting paid particular attention to successful businesses seizing the opportunities in Russia and the EU, and looked at practical ways of strengthening EU-Russia business relations, especially through a more intensive and regular form of cooperation designed to consolidate the EU-Russia Common Economic Space.

It engaged business and political leaders in a discussion on ways to further EU-Russia business relationships via a modern agreement meeting today's requirements. The General Meeting was split into two sessions:

The political session gathered ideas on the possibilities offered by forthcoming negotiations on a new EU-Russia agreement to replace the outdated Partnership and Cooperation Agreement (PCA).

The business session highlighted some positive experiences of businesses with successful cross-border investment. This illustrated the degree of EU-Russia economic integration that has already been reached in some sectors, based on investment and trade links.

Reflecting the progress in business relations between the EU and Russia and the confidence that the future agreement will bring cooperation to a qualitatively new level, the event's discussions were shaped by the motto "Business to seize new opportunities, Political Leadership to secure them". This is the sentiment that the business representatives addressed to the EU-Russia Summit.

The status quo of EU-Russia economic relations

The meeting highlighted a paradoxical situation in EU-Russia relations, with business ties – expressed in increasing trade and investment links – continuing to strengthen against a backdrop of stagnation in the formal EU-Russia relationship. This development could not be foreseen by the participants of the November 2006 IRT General Meeting in Helsinki.

The meeting welcomed indications that foreign direct investment (FDI) inflows into Russia have markedly increased. Overall investment inflows are reported to have doubled in the first half of 2007 compared to the figure for 2006. This demonstrates Russia's increasing attractiveness as a place to do business, as well as the potential of the Russian economy if remaining barriers to investment – domestic and foreign – are addressed.

Equally, the attractiveness of the EU market for Russian investors was highlighted, with substantial foreign direct investment in sectors including energy, steel, heavy machinery, automotive parts and telecommunications.

The participants also recognised that despite a public debate that could easily lead to a contrary impression, there are a growing number of successful EU-Russia cross-border business activities, in both directions. Some examples of this were given at the meeting. In particular, there was an impression that cross-border business activity now spans a larger number of industry sectors. This development is encouraging for the perspectives of closer EU-Russia economic integration, and can serve as a stepping stone for further developments. Yet, the public debate is characterised by the politicisation of technical issues, which risks harming efforts to strengthen EU-Russia business ties.

Regarding the global investment context, the meeting expressed concern over a growing protectionist sentiment against international investment. The EU and Russian business communities are concerned that this could lead to undue discrimination against legitimate investment, particularly if disproportionate screening mechanisms or burdensome and far-reaching strategic sector restrictions are put in place. Meeting participants agreed that strategic sector restrictions, whether they are put in place in Russia or in the EU, should be exercised only as a matter of considerable exception and after normal market safeguards have been exhausted. Aware of the scope for misinterpretation of such provisions, the discussion emphasised the positive effects of increasing interdependence through investment and noted that the respect of normal market rules would ensure non-discrimination.

The IRT Meeting noted the steps made in the development of sectoral dialogues under the Roadmap to the EU-Russia Common Economic Space (CES). The sectoral dialogues, bringing together specialised departments from both administrations, provide a good basis for the delivery of concrete business benefits through the alignment of specific regulations, standards, and improvements to the business environment. Thus, they have a strong potential to reduce the mutual barriers to trade and investment through practical improvements, often of a technical nature. However, the meeting was disappointed about the lack of tangible results from this process. There are strong hopes that the process will begin to deliver concrete outcomes shortly, including by bringing about real changes to legislation and administrative practice. The continued involvement of the business community in this process is essential to ensure that the sectoral dialogues focus on resolving the relevant practical issues.

The meeting regretted that negotiations on a successor agreement to the expiring EU-Russia Partnership and Cooperation Agreement had not yet started, and called upon EU-Russia Summit participants to do their utmost to eliminate the remaining obstacles so that constructive talks could begin as soon as possible. The absence of negotiations is perceived as an obstacle to the further deepening of mutually beneficial economic cooperation in the longer term.

An essential building block for the new agreement will be Russia's accession to the World Trade Organisation (WTO). In that context, the meeting participants also voiced hopes that the outstanding issues regarding Russia's accession to the WTO could be solved in the nearest future and the necessary implementing legislation would soon come into effect. Participants underlined that it is essential to avoid the politicisation of technical issues and standard procedural and other requirements. The meeting assumed that the EU-Russia Summit would provide a welcome opportunity to take stock of progress on implementing the outstanding commitments, made both at bilateral and at multilateral level and laid down in the relevant documents.

IRT reorganisation

The participants were satisfied with the adoption of the IRT Terms of Reference, which create new opportunities for cooperation between the EU and Russian business communities in areas of mutual interest. The meeting expressed interest in further improvement of the IRT framework, for instance by stepping up the activities of its Task Forces.

The IRT undertook to review its Task Force structure with a view to ensuring joint business contributions in as many areas as possible under the Roadmap to the EU-Russia Common Economic Space (CES). The participants supported the initiative to create new Task Forces feeding into the sectoral dialogues.

IRT Task Force discussions

In separate Task Force sessions, the Round Table participants discussed prospects for deeper EU-Russia integration in specific industry sectors, covering:

- Energy: oil, gas, power
- Finance: banks, insurance, capital markets
- Information technology, telecommunications and space
- Transport: road, sea, air and rail
- Construction and building materials

(The IRT Forest & Paper Task Force did not meet in Lisbon.)

A summary of each Task Force discussion is given here. The Task Forces' recommendations to Summit participants are listed further below.

IRT Task Force on Energy

Long-term constructive energy cooperation with the EU is an inherent precondition of the sustainable economic development of Russia for many years ahead. Today our interrelationship is obvious. The EU historically has been the key market of primary energy commodities and a major source of export-based revenues for Russia – both provide considerable financial contribution to social stability and long-term Russian economic growth. The EU is also a major external source of capital, technologies, industrial equipment, and production components for industrial upgrade of the Russian economy.

The future Russia-EU agreement should clarify and stipulate the rules and norms of energy cooperation between Russia and the EU based on the principles adopted by the 2006 G8 Summit in Saint-Petersburg, including:

- Open, transparent, effective and competitive markets for production, delivery, use, transportation and transit of energy resources as a key to ensure global energy security.
- Transparent, equal, stable and effective legal norms and regulations, including liabilities regarding contracts execution that secure a sufficient and reliable level of international investments within all elements of the energy chain – from refining to distribution.
- Dialogue and cooperation on all issues related to growing energy interdependence, including: security of supply and demand; safety of the energy infrastructure; consultations and joint actions in emergency situations; diversification of sources, markets and routes of delivery; energy efficiency and environmental impact.

The new regulatory system should be targeted at overall improvement of the investment and economic cooperation environment, as well as support and expansion of energy trade between Russia and Europe. Cooperation should be based on commercial interests encouraging for businesses to make investments enhancing the Russia-EU energy partnership.

In the context of Russia's accession to the WTO, additional efforts are required to implement specific strategic energy projects of mutual interest for Russia and Europe. These measures will produce more results if more focus is added on B2B cooperation.

IRT Task Force on Finance

The Financial Industry Task Force's (FITF) meeting participants mark the growth of cooperation between Russian and EU entities in the field of creation of the Common Space in financial area (banking, insurance, securities). In light of the recent financial turmoil in international markets caused by the US mortgage crisis, it is necessary to ensure a proper balance between international and national banking supervision and regulation, as well as self-regulation for financial market participants, taking into account the actual level of development and goals for further growth of respective markets.

The meeting participants welcome the progress in the development of legislation, supervisory and regulatory practices and infrastructures in the Russian financial market. This provides an opportunity for Moscow to become the largest international financial centre on the post-soviet space, as well as for Rouble promotion as an international currency unit. At the same time, the participants draw attention to the importance of government assistance in creation of favorable terms and conditions for establishing of such a centre, and are planning to realize a complex of necessary measures on the basis of a Public-Private Partnership for the creation of the Green and White Papers on the Common Financial Space aimed at a continued convergence of EU and Russian financial systems.

IRT Task Force on Information Technology, Telecommunications and Space

The Task Force based its discussions on the objectives set for telecommunications, aerospace and information society and e-business for the Common Economic Space.

Main cooperation areas:

- Further cooperation in the area of space communication and navigation. Further coordination of activities within the GLONASS and GALILEO programmes. Further development of cooperation in the field of satellite payload development and production, as well as end user ground devices development and manufacturing.
- EU-Russia cooperation in Information Society: e-Government, biometric and nanotechnologies personal identification, as well as telemedicine, educational and public safety systems.
- Further development of joint research and development initiatives. Establishment of effective mechanism for innovative technology exchange between EU and Russia targeted on developing state-of-the-art products and services in aerospace, IT, telecom and management and control systems

IRT Task Force on Transport

The Task Force concluded that some progress in the field of transport between EU countries and the Russian Federation had been made since the 2006 IRT General Meeting in Helsinki. In particular, it was noted that Task Force representatives were given the opportunity to articulate, within the “Ad-Hoc Group on EU-Russia Transport Logistics Problems”, their views regarding the need for improvements, including certain shortcomings experienced in the real world of doing business in the transport sector between the EU and Russia. The Ad-Hoc Group, set up by the EU and the Russian Government at a very high level, focused on improvement and speeding-up of cross border procedures for all modes of transport. Its focus included customs. The final report, tabled in June 2007 by the Ad-Hoc Group, came up with a considerable number of recommendations for improvement measures to be implemented.

The Task Force encourages the EU Commission as well as the Russian Government to keep a high profile on further improvements towards expedited cross-border procedures and the elimination of other bottlenecks which still hinder an efficient flow of traffic between the two regions.

The Task Force also heard reports on progress in the activities of the Working Group on the Development of Containerisation and Multimodality (WG DCM), which had been set up and announced during the EU-Russia Summit in Helsinki (November 2006). WG DCM held a first bilateral meeting in June under the Co-Chairmanship of Mr Granskog, President and CEO of Kalmar Industries, and Mr Baskakov, President of TransContainer. An agreement was reached that the group will work together on an industrial and commercial level with the goal of building and operating state-of-the-art reference terminals on a best-practice level. These terminals would also focus on multimodal transport beyond the shipment of sea containers. The Working Group will also discuss and explore the interest of including inland waterway transport into the range of its work.

IRT Task Force on Construction and Building Materials

The Task Force feels that this forum is highly important for the business people of both EU and Russia to meet and discuss about the issues of common interest. It is also an important forum to promote construction sector related cooperation between EU and Russia. Task Force members are highly motivated to continue the Task Force’s work but in order to do that we need a channel of communication with EU and Russian government so that the voice of industrialists is heard and taken account by the officials of EU and Russia. We therefore suggest that the Task Force Co-Chairs become Co-Chairs alongside the government officials in subgroup on construction within the regulatory dialogue between EU and Russia.

IRT recommendations to political leaders

Following detailed discussions on the basis of input from the IRT Council (Business Cooperation Council), composed of EU and Russian CEOs, presentations from business and political representatives from Russia and the EU, and in sector-specific Task Force sessions, this year's IRT General Meeting has agreed on the following recommendations:

1. Russian WTO Membership

Business in the EU and Russia is looking forward to Russia's accession to the WTO. WTO Membership will provide a good basis for further EU-Russia economic integration, and greatly facilitate the negotiation of the economic section of the new EU-Russia framework agreement. Against this background, the IRT welcomed the recent progress in the outstanding bilateral negotiations and expressed the hope that the outstanding issues regarding Russia's accession to the WTO would be solved and the necessary implementing legislation would soon come into effect. The IRT calls upon Summit participants to take the necessary measures towards Russian WTO accession as a matter of urgency and to avoid the politicisation of technical issues and standard procedural requirements. IRT points out that the commitments agreed in the multilateral and bilateral accession negotiations represent a clear and exhaustive list of the issues to be addressed.

2. A new EU-Russia framework agreement

The IRT regretted the fact that, since the IRT Meeting in Helsinki, negotiations on a new EU-Russia framework agreement to replace the outdated PCA have not yet started, and continues to welcome all efforts working in this direction. Such negotiations will offer a welcome opportunity to move the EU-Russia relationship in the direction of a strategic partnership and deeper 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 EU-Russia economic relations.

The participants shared the view that close consultations between the authorities and business during negotiations on the future agreement would be useful.

Based on Russia's future WTO Membership, the agreement should build on the structural advances made in the framework of the EU-Russia Common Economic Space, thus providing the basis for the eventual creation of an integrated Common Economic Area. This should be the strategic objective of the agreement, which should be based on the following three pillars:

1. A broad and comprehensive free trade agreement based on all participants' WTO Membership but going beyond WTO requirements ("WTO+")
2. A stimulating, open, and non-discriminatory regime for mutual investment characterised by transparency and sustainability

3. Approximation of economic regulations and standards to cut red tape for business

3. EU-Russia Common Economic Space

The IRT strongly supports the progress made in setting up sectoral dialogues under the Roadmap to the EU-Russia Common Economic Space (CES) but is disappointed at the lack of practical results so far. Now being operational, the sectoral dialogues can offer practical contributions to closer EU-Russia economic integration, and thus represent a mechanism for immediate improvements to the EU-Russia investment and trade relationship, independent from the negotiations on the new EU-Russia framework agreement.

The business communities expect the sectoral dialogues to deliver tangible outcomes that can form a solid basis for the new framework agreement. The work of the various sectoral dialogues should continue under the new agreement.

The IRT will review its Task Force structure in view of ensuring joint business contributions to the sectoral dialogues in as many areas as possible.

IRT strongly supports any additional efforts to improve the investment climate, stimulate mutual investments and eliminate any discriminatory measures.

4. Recommendations by individual IRT Task Forces

The **IRT Task Force on Energy** proposes that EU-Russia energy cooperation could include the following specific areas:

- Implementation of joint large-scale projects in new Russian oil and gas provinces (greenfields). Multi-billion dollar investments are required for these fields (groups of fields) located in the regions with no or lack of infrastructure and severe climate conditions (Siberia, Sakhalin and eventually the Arctic shelf). The development of these fields would help Russia to move to a higher level of production growth.
- Transfer of technologies that, including for sustainable production growth at brownfields.
- Investments in refining. Capital investments in the Russian oil refining facilities and product quality enhancement will guarantee high quality oil product export to the EU.
- Construction of new and upgrading of existing oil and gas pipelines. The supply of Russian hydrocarbons to the European markets (in particular, from greenfields) may become complicated unless new oil and gas pipelines are built and the existing oil and gas pipelines are upgraded. This will require large-scale investments. The construction of “East Siberia – Pacific Ocean” pipeline will accelerate the development of the East Siberian reserves. The “Burgas – Alexandroupolis” pipeline will help to de-bottleneck the overloaded

Bosphorous Straits and bring benefits to the Russian oil producing companies and the European consumers.

- Enhanced energy efficiency with a focus on associated gas utilization (as well as reduction of greenhouse gases emissions, energy issues specification, joint implementation projects within the framework of the Kyoto protocol); sharing of expertise, knowledge and technologies, consultations on the issues of legislation and regulation.
- Joint projects to develop human capital assets - investments into human resources, in education and training.
- New energy solutions (search for additional cooperation opportunities in nuclear energy and industry; bio-energy and bio-fuel; automobile gas, etc.).
- Accessible energy markets: ensure mutual access to the Russian and EU energy markets creating opportunities for the Russian enterprises to access the EU market and make direct sales to the European end-users as well as access of EU companies to participate in various sectors of the Russian energy industry.
- Trunk gas transportation, underground gas storage (international and domestic projects); issues related to gas supplies and sales to gas consumers.
- Investments in HSE (Health, Industrial Safety and Environment).
- Joined work with the Russia-EU Energy Dialogue to strengthen IRT role and interaction with government authorities of both sides (at the corporate and government levels).
- Expansion of cooperation on energy sector regulation with a strategic aim to harmonize the regulation of energy markets in Russia and the EU. It is necessary to carry out a profound joint analysis and develop agreed principles to formulate coordinated rules and procedures of regulating:
 - Export supplies of gas, access to the energy markets and gas transportation infrastructure
 - Investments into gas production, transportation and distribution
 - Tariff setting for gas transportation services.

The **IRT Transport Task Force** encourages the European Commission and the Russian Government to keep a high profile on further improvements towards expedited cross-border procedures and the elimination of other bottlenecks which still hinder an efficient flow of traffic between the two regions.

The **IRT Task Force on Information Technology, Telecommunications and Space** outlined the following recommendations:

- Harmonise legislation to achieve common basic standards and codes which determine the underlying principles for communication, IT and aerospace systems

- Reinforce mutual trust for effective cooperation in sensitive areas, such as counterterrorism, public safety, and joint space exploration
- Exchange experience and knowledge in converting and harmonizing the radio frequency resource base
- Establish a standing working group in support of aerospace and IT activities to draw up recommendations to reinforce mutual understanding and integration

The **Construction and Building Materials Task Force** suggests that the Task Force Co-Chairs become Co-Chairs alongside the government officials in subgroup on construction within the regulatory dialogue between EU and Russia.

###