

**Speech by Mr Günter Verheugen
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"EU-Russia: Competitors or partners in a changing world?"

**10th EU-Russia Industrialists' Round Table
Cannes, 13 November 2008**

Ladies and Gentlemen,

Thank you for inviting me here today to open this year's EU-Russia Industrialists' Round Table. I would like to thank our hosts: Mr Andersen and Mr Chubais and their teams, who have together ensured an impressive participation from across the EU and Russia, and an excellent organisation.

This is the 3rd time I have come to the IRT, and I notice that each time you have selected a theme for the event which is very suitable for the moment. This year's theme is "*EU-Russia: competitors or partners in a changing world*". I think this is a suitable topic for my own intervention today. The world is changing rapidly in an era of globalisation, and both the EU and Russia are searching for their place in it. The big question – as you have identified – is whether it is in our interests to work together, or to compete against each other.

Global Financial Crisis

The number one topic on everyone's lips right now is the global financial crisis. It has provided proof – if we needed it – that the world's economies are now so tightly interlinked that a crisis in one country or region can have

repercussions across the globe. All of us are affected by this crisis, which is on a scale that few of us have ever experienced in our lifetimes. There are no “safe havens” anywhere. Emerging economies as well as developed market economies are experiencing an economic downturn.

Within the EU we have recognised that we need to work together. Europe’s strength is its solidarity and its ability to act together. Co-ordinated action at EU level by all 27 Member States has been effective in stabilising Europe’s banking system. We have needed to act rapidly to put liquidity back into the financial system. But the crisis is not yet over and we expect to feel the shocks of the downturn in the EU economy during 2009 and 2010, with consequences for economic growth and jobs. The European Commission is working on a more detailed recovery programme, under the Lisbon Strategy, which will bring together a series of targeted short term initiatives designed to counter the effects of the crisis on the wider economy.

Our recovery programme will be presented formally on 26 November, but the key elements are already clear:

- A new financial market architecture is needed at EU level to help steer the European financial sector out of crisis. This should include reinforced regulation and supervision of the banking sector to provide more security for businesses and individuals while maintaining healthy competition;
- The impact of the crisis on the real economy needs to be tackled by intensifying structural reforms that were already underway: increasing investment in innovation; freeing up businesses – especially SMEs – to win new markets and sustain growth; enhancing

EU competitiveness by boosting energy efficiency and green technologies; and by taking labour market measures to minimise the impact on jobs;

- **Thirdly, a global response to the crisis is needed. The current situation raises issues of global governance which go beyond the financial sector. We need to improve global coordination, review the role of international institutions in financial market surveillance and find an effective framework for addressing investment issues at global level. Two days from now – on 15 November – the US will host the first international summit on the financial crisis. The EU plans to play an active role in designing the new global architecture and making it work effectively.**

To return to my theme – your theme: the world is changing rapidly. The financial crisis has demonstrated that no country is immune from the demands of globalisation and it has shown that economic problems are best tackled jointly, at regional or global level. And following the events in Georgia last summer, Russia and Europe again find ourselves in a situation of increased tension and mistrust, which is the last thing we need in a time of economic crisis.

Partners not competitors

Conflict and competition are not the way forward. The EU and Russia are neighbours and we have to face the same problems. Our economies complement each other. The EU is by far Russia's most important trade partner. In turn, Russia is the EU's third most important trading partner in goods. In terms of investment, I note that 80% of all foreign investment

(FDI) in Russia comes from the EU and 80% of all Russian foreign investment is into the EU. And our interdependence is increasing: in 2007 EU-Russia trade grew by over 9%. Businesses in the EU and Russia have benefitted from this relationship.

Now you might say that in the light of the economic downturn this positive picture will change. And it is true that the benefits of our current interdependence could decline if we do nothing. But my view is that it is precisely now, during difficult economic times, that we should deepen our economic relationship. Closer cooperation and integration between our economies can help to provide more benefits for our businesses and our economies which can help them to survive the economic crisis. Together, Russia and the EU can have a very powerful influence on the global stage.

Since I have been involved with the IRT, I have noticed one clear and consistent message sent by the joint business communities. Each year the IRT has met, it has called for the creation of an ambitious, deep and lasting economic partnership between the EU and Russia; a more integrated EU-Russia market in which we share common rules and standards.

I strongly support this ambition. And I believe that the majority in the Russian government can also see that a closer economic relationship benefits both sides.

Examples of good EU-Russia business cooperation

Let me give you a few examples from my perspective of how the EU and Russia are already working together to achieve closer integration of our economies.

I understand that you have already just heard at this conference some successful examples of Russian-EU business projects. I had the good fortune to visit an example of good cooperation between EU and Russian business earlier this year, when I was invited by Minister Khristenko to the Sukhoi aircraft factory in the far east of Siberia. I was impressed with the way that EU know-how and investment and Russian manufacturing excellence have combined to produce an innovative new product: the Superjet. We need more projects of this sort.

In a few weeks time, I will be taking Minister Khristenko to my own country, Germany, to show him an example of innovation in the pharmaceuticals sector. This is a very important sector for the EU economy and I welcome the Russian interest in developing the sector in Russia. Together EU and Russian business can produce results which are good for both of us.

Government-to-government cooperation to improve the business environment (regulatory and industrial dialogues)

In order to allow such projects as the Superjet to develop and flourish, governments need to take action to improve the business environment in which companies operate. We need to ease regulatory burdens and seek harmonisation of our rules and standards wherever possible to break down technical barriers to trade and investment.

Minister Khristenko and I have set up two government-to-government dialogues which aim to tackle these issues. We review their progress whenever we meet and we are both determined that they produce some concrete outcomes. In the area of harmonised legislation and standards,

Russia has stated on several occasions its intention to reform its technical regulations on the basis of the EU model. We are therefore hopeful that through our dialogues and Russia's ongoing reforms, we will soon see some real convergence of our regulatory systems. Ultimately our common objective is to have a common framework for economic co-operation and dismantling of regulatory barriers. These things take time, but some concrete projects are already underway.

In the automobile sector, we can already see that both the EU and Russia have developed very similar legislation based on international rules. We are now working together on a project which should mean that EC certificates for automobiles are accepted in Russia.

In the textiles sector, a project is underway to give accreditation to Russian laboratories to undertake tests for the EU carpet industry on the basis of international standards.

And in many other sectors - electrical equipment, machinery for example - Russian legislation and standards are being drafted which would bring the Russian and EU systems closer together.

WTO Accession

All of this is positive, but in my view not fast enough and not systematic enough. First and foremost, we need to ensure that the EU and Russia are working according to the same basic legal framework. The WTO provides a set of trading rules that are globally accepted. Russia's accession to the WTO would therefore be an important first step to bring our economies closer together. The disciplines imposed by membership of the WTO would

form the basis for our future economic relationship and pave the way for discussions on deeper integration via a Free Trade Agreement.

It has been disappointing to hear voices from Russia over the past few months which have questioned the value of Russia joining the WTO. But I strongly believe that WTO accession is good for Russia and good for Russian business. Despite Russia's current good economic performance, it cannot remain isolated from the world economy and is not immune to globalisation. It is particularly important now – at a time of economic crisis - for Russia to play its part in the world's economic system and institutions. It cannot play an effective role if remains outside WTO.

The EU is still strongly committed to Russia's WTO entry. Progress on Russia's accession is now one of our top priorities and we are working intensively with Russia on the outstanding issues. Let me be clear: WTO accession will not happen unless Russia fulfils its outstanding commitments; and there can be no exceptions to WTO rules. But the remaining issues are not insurmountable; and I can be tackled quickly if there is sufficient political will to do so.

I very much welcome the IRT's consistent support for Russia's WTO accession. It is again a central feature of your Joint Recommendations.

Conclusion

To conclude, Ladies and Gentlemen,

I think that I have made my view clear on the central question that you are asking at today's conference. The EU and Russia have far more to gain

from being partners than competitors. Closer economic integration between Russia and the EU can benefit both sides in a rapidly globalising world and at a time of economic downturn. To achieve the vision of a closer economic partnership, Russia needs to join the WTO as soon as possible, as a priority. And we need to work together on practical projects both at the level of business and government which can improve the business environment and promote investment in the EU and Russia.

The IRT can assist us by giving a clear and consistent message that we need to work together as partners in this changing world.

Thank you for your attention.