



**Russian  
International  
Affairs Council**



## **WORKING PAPER**

### **INTERNATIONAL CONFERENCE MATERIALS «RUSSIA—EUROPEAN UNION: POTENTIAL FOR PARTNERSHIP»**

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**INTERNATIONAL CONFERENCE**  
**“Russia—European Union: Potential for Partnership”**  
Moscow, 21st March 2013

**GENERAL PARAMETERS OF THE RUSSIA—EU PARTNERSHIP**

**Igor IVANOV,**

*President of the Russian International Affairs Council:*

– Good afternoon, colleagues. Let us open this conference. Russia’s Prime Minister Dmitry Medvedev and President of the European Commission José Manuel Barroso have both kindly agreed to take part in it.

Mr. Prime Minister and Mr. President, guests and Conference participants, on behalf of the Russian International Affairs Council, the Russian Union of Industrialists and Entrepreneurs, and the Institute of World Economy and International Relations, I would like to welcome everyone who has gathered together here in this hall, and express my hope that the Conference will help strengthen partnership relations between Russia and the European Union. I would like to give special thanks to the Prime Minister of the Russian Federation Dmitry Medvedev, the President of the European Commission José Manuel Barroso, our guests, and respected European politicians for taking part in the Conference. Each of you has made, and continues to make, a significant contribution to expanding the partnership between Russia and the European Union. To a great extent it is due your efforts, persistence and continued faith in the idea of a Greater Europe that we have proved consistently able to overcome complex and sensitive problems, to strengthen cooperation between Russia and the European Union, and expand the areas of mutual interests.

Ten years ago, in May 2003, St. Petersburg hosted the memorable Russia—EU Summit that was attended by Russian President Vladimir Putin, heads of states and governments of the European Union and ten states that are candidates for EU membership. The slogan then was: “A United Europe for all Europeans.” Important decisions aiming to strengthen cooperation on building a common economic space, better security, science, research and education were taken. It was there, in St. Petersburg, 10 years ago, that the “visa-free dialogue” was launched, with the aim of moving gradually to a visa-free regime. During the past 10 years, a great has been achieved in relations between Russia and the European Union, but the global environment is changing fast, and new challenges are emerging that require fresh responses. We do hope that, during this Conference, leaning on the experience of the past 10 years, we will

be able to look to the future and identify the aims and tasks whose implementation will allow us to lay solid foundations for a united Europe. Mr. Medvedev, you have the floor.

**Dmitry MEDVEDEV,<sup>1</sup>**

*Prime Minister of the Russian Federation:*

– Mr Barroso (*José Manuel Durão Barroso – President of the European Commission*), colleagues, ladies and gentlemen, conference participants, welcome to Moscow and thanks for attending our conference, *Russia and the European Union: Potential for Partnership*. Mr Ivanov (*Igor Ivanov – President of the Russian International Affairs Council*) has already discussed the events of the past ten years. I will also dwell on some aspects of our relations.

Ten years ago in St Petersburg, politicians, diplomats, and other experts agreed to establish four common spaces between Russia and the European Union. The road maps that were adopted later, in 2005, were a tool for realizing that plan and determining the agenda for cooperation. Now we should understand what has changed in our relationship, and not just from a historical point of view – where we have succeeded, where we have failed, what conclusions we can draw, and how we can proceed in future. I'm happy to see participants from the 2003 St. Petersburg summit in this hall and on stage. Each of us has an assessment of what has been done. I'll talk about mine.

You must know what discussions on the relevance of the European approach for Russia's modernisation are traditionally like in this country. These discussions have become national sport by now.

We have our own euro-sceptics and euro-pessimists who suggest we think of what is more important for the country at this point: economic integration in Europe or our presence in Asia and China. I'd like to suggest that geographic location no longer determines an economy, a lifestyle or a professional future. I think countries are now divided in terms of how well they adapt to world trends and how successful they are in using their advantages in a changing world.

It is no secret that the eurozone crisis has convinced many sceptics that in the 21st century, Europe will face a decline while Asia rises, that the centre of global economic activity is moving from the Atlantic to the Pacific Ocean, that the European project turned out to be too unwieldy and Europe was not ready for globalisation. They conclude that the future of our country points to the Pacific. I believe this kind of thinking lacks sophistication and I just can't go along with it. But there is one obvious fact: Europe and Asia need each other.

<sup>1</sup> URL: <http://www.government.ru/en/news/895>

The European and Asian models will complement each other in economics, technology and culture; their interdependence will continue to grow. From this point of view, currently widespread sentiments of regional egoism are dangerous, and it is dangerous to think that one region is able to solve absolutely all of its problems by itself.

The problems are many. What is everyone concerned about now? The situation in Cyprus. I want to talk about this now because these issues need to be discussed anyway: we believe that the proposals made for settling the financial problems are, to say the least, unpredictable and inconsistent, and have been reconsidered several times already. Today, I saw plans B and C on the internet. But the promoters of these plans must understand that confiscating personal property, something that affects the interests of depositors and the Cypriots themselves, will not be popular. Regardless of the final solution, we need to look ahead and have a broader perspective.

I will remind you that the International Monetary Fund and other international organisations have said many times that the main threat to the current financial world order is lack of trust. I myself have heard the word “trust” many times at both the G8 and G20 meetings. Trust, trust and trust again! This word can be heard in the statements of every major global forum. A crisis in trust has ruined the system of financial mediation, represented in part by depositors and commercial organisations of G20 countries. The forum’s European participants have put great effort into overcoming the crisis, and we appreciate that fact.

Following the proposals of the Financial Stability Board, certain measures to develop national deposit insurance systems have been taken. In this view, the plan now being discussed concerning Cyprus doesn’t make any sense. And I believe this is something all of us should consider. I believe that in any case, the Eurogroup could invite all interested parties, including Russia, to discuss further plans for Cyprus.

What else do I want to say? Of course, it is generally possible to survive on your own, but you can’t find prosperity in the today’s world this way. Now, certain more important notes.

First. For Russia, developing further cooperation with the European Union is an absolute and long-term priority. Not only in terms of economic relations, but also because Russia has always been, and will be, a part of Europe, both geographically and, I want to emphasise this, culturally and in terms of civilisation. Russia is a European country, which stretches far to the East, to the Pacific coast, to the borders of China and Korea. We have become close in the last 20 years, unprecedentedly for the 20th century. Russia has become



a respected participant in many important European bodies, including the Council of Europe. Since the four common spaces were developed, our cooperation has seen a boost.

More opportunities appeared after we joined the WTO. The European Union provided us with serious support in this action, and we know that and appreciate it.

Of course, the Russian Government will have to implement a package of measures to adapt our economy to the WTO recommendations. But we can already say investors and Russian and European companies have become much more active in each other's markets. Our trade continues to grow and has reached a historical high of \$410 billion. The EU is maintaining its position as the main investor in the Russian economy, with a total accumulated investment of over \$260 billion. Russian businesses have invested substantial funds – nearly \$75 billion – in EU economies.

However, it must be said that most European countries still see Russia as something alien, rather than as a part of Europe. You know as well as I do that the coordination of positions within the EU is proceeding extremely slowly and with major difficulties. Honestly, it is sometimes easier for us to come to terms with individual European countries. This is not good at all, and I believe that we should try to change this.

We have our problems too. We do not always understand our partners' logic and sometimes overlook important details that are part and parcel of the European political culture, which has developed over centuries. In other words, we have a lot to learn from our partners. Otherwise the most important elements – human and business relationships – will suffer. And this definitely has a detrimental effect on business.

Take the perennial issue of the EU's Third Energy Package. I told journalists yesterday that we never said that the Third Package is a bad thing. The EU is free to regulate its energy flows as it wants. But we don't think that they should impose their unilateral decisions on other partners. Rather, they should listen to their partners' arguments.

We are working with utmost consideration on a new basic agreement between Russia and the EU. We believe that it is a very important document that should promote cooperation in various fields, especially since our relations have long outgrown the boundaries of the current agreement. I'd like to remind you that it was signed nearly 20 years ago, in 1994.

The second issue I'd like to mention is this: Can we postpone the development of our cooperation until better days, for example, until finances stabilise? I don't think that would be wise. Slowing down

is dangerous for both sides, because all countries and regions are facing the challenge of modernisation, and not only in the economy but also in all other areas.

Our starting positions were different, but we are using the same design for the engines that put our mechanisms into motion and we are moving on the same track. The competition is certainly tough, and there are many problems, but we need to find solutions for them. For Russia, being behind on this track means turning into a raw materials appendage, becoming permanently dependent on energy prices and dooming ourselves to the degradation of our science and educational system. For the European Union, the consequences may be less dramatic but no less serious: chronic stagnation in the economy, social conflict and the loss of competitive opportunities in many promising global markets. The inability to cope with the challenge of modernisation may eventually threaten the whole European project.

The third point I'd like to make is very important. What are we in this process – rivals or partners? I've already said that in Russia and other countries, commentators and analysts often say: Europe has lost the modernisation race and is slowly but steadily turning into an industrial museum and it is necessary to orient itself toward the leaders – either current (North America) or potential (East Asia). Likewise, there is an opinion in Europe that Russia is unable to offer anything substantial for modernisation.

If we follow this logic, it would be easy to predict that we will continue drifting in opposite directions. Is there an alternative to this? Of course, there is. Current modernisation processes are based not only and not so much on resources, production capacities and currency and financial positions, but on human capital. The latter is created in the relevant cultural environment, the educational system and research centres. European countries and Russia can rightfully be proud of their achievements here – they have the infrastructure and scientific schools that encourage the development of human capital. They have something to offer each other.

This is why the joint initiative – partnership for modernisation – has been made. I think this is a very good initiative. Importantly, the priorities we have announced largely coincide. We have achieved some results, but for the time being they are not so impressive. This is why all departments concerned should be more active in overcoming their inertia. They should define their priorities and focus on several major areas.

There is one more issue I am compelled to talk about. Regrettably, this is a permanent issue as well. We are unable to resolve the visa issue, and it is one of the main barriers to the development

of our human capital. This issue is impeding business activity and human contact, as well as scientific and cultural ties. Visa-free travel would be a real change now that people in the modern world are highly mobile, especially business and young people.

Fourth, economic modernisation in the modern world is inseparable from social modernisation. We are often told that in Russia, just like in the rest of Europe, the social burden on the state is too heavy; social costs are preventing the economy from being effective and social commitments must be curtailed. But this is dangerous. How can we talk about raising the efficiency of social institutions if we reduce their funding? That said, nobody has extra money, so these issues are equally topical for Russia and Europe, and we should step up our cooperation in science, education, culture, healthcare and, of course, in developing the institutes of civil society and local government and in handling migration processes. We can and should discuss any problems with each other (and we are open to this), such as the judiciary, political freedoms and human rights both in Russia and the EU countries.

The fifth point I'd like to make is that I know the agenda of the conference includes the relationship between Russia—EU cooperation and integration processes in the post-Soviet space, primarily the Customs Union. We think that Russia's successes in Europe should become an additional catalyst for Eurasian integration. We believe development of cooperation between the EU and the Eurasian Economic Union that is being set up would be a proper, farsighted and mutually beneficial step. Our tasks are similar – to remove barriers and create a transparent and comfortable business environment. This is what we are doing under the WTO regulations and on the basis of the EU's experience. Our goal is to establish the Eurasian Economic Union on universal integration principles and make it open to cooperation with other countries. I will be straight with you – we are closely watching the processes in the EU with a view to borrowing the best of your practices.

The leading positions in the world are not guaranteed by anything, be it one's wealth or challenging plans. This is true of people, countries and entire continents. Both Russia and the EU and the post-crisis international development stand to gain if we build our partnership on a stable basis and create in perspective a common economic space from the Atlantic to the Pacific. This is a super-ambitious project but we all know that without ambitious goals it is impossible to move forward.

I'm confident that this conference and our work in the Russian Government—European Commission format in general will become a new step along this road.

Thank you for your attention.

**José Manuel BARROSO,***President of the European Commission*

– Prime Minister Medvedev, Excellencies, Ladies and Gentlemen. First of all I want to thank and congratulate the Russian International Affairs Council and Igor Ivanov for organizing this conference at such a timely moment. It is a pleasure and an honor to be here with such a distinguished audience. I recognize many friends. I cannot mention all of them, but some of them with whom I have been working very closely, Javier Solana, Wolfgang Schäussel, François Fillon, Paavo Lipponen, Franco Frattini, and some others I see in the audience. Some of you have done so much over the years to build partnership and friendship between the European Union and Russia. The world is indeed changing fast. I believe we should not take old partnerships for granted; we need to nurture all our partnerships. For the strategic partnership between Europe and Russia this is a double challenge, as our relationship is simultaneously centuries old and very recent, with a fresh restart just a couple of decades ago. And some of the protagonists are here today. This relationship cannot be taken for granted, and needs constant nurturing. It is a connection that needs to be thought through, understood, recreated, and I can think of no better place to think, understand and recreate this very important partnership than here in the Russian International Affairs Council in your company and of course in the company of Prime Minister Medvedev.

Let me start with a simple premise: there is no doubt that Russia and the European Union are deeply intertwined. We share a continent, a history, a rich and diverse cultural heritage forged throughout the centuries. European and Russian intellectual and creative life, from science to philosophy, from arts to music and literature, have been enriching and influencing each other to the point of becoming one and the same. Tolstoy, Dostoyevsky, Chekhov are part of the European collective memory. Mayakovsky and Malevich were influenced and themselves influenced the European avant-garde movement. I also remember, for instance, the extraordinary correspondence between Rainer Maria Rilke, Boris Pasternak, Marina Tsvetaeva, which is now common part of our shared literary history. And on this very day we celebrate the birth of Modest Mussorgsky, 174 years ago. It is impossible to forget his strong influence on Debussy, Berg, Poulenc. His major work, *Boris Godunov*, is an illustration of our cultural melting pot, with a skillful balance between Russian musical identity and classical Western conventions, it gives new life to a story written by Pushkin while also taking inspiration from Shakespeare and Karamzin. Even more importantly, these ties are not limited to history or culture, they are strongly entrenched in

today's life. They are alive in the strong human bonds, in the hearts and minds of our people, in the warmth of many family unions, in the enthusiasm of young students, workers or tourists discovering each other's countries and ways of life; exchanging experiences, opening up to new perspectives. And even in the years when the difference of political regimes and an iron curtain kept us apart, the voices of Solzhenitsyn and Sakharov, the poetry of Anna Akhmatova, the music of Shostakovich and Stravinsky, the dance of Rudolf Nureyev, the cinema of Tarkovsky all reminded us that what unites us is much, much deeper than what separated us. In short, European history and civilization would be incomplete without Russia. Yes, Russia is a European country and Russian history and civilization cannot be dissociated from Europe and the cross-fertilization that happened over the centuries. But our close relationship is not just based on our long and solid bonds of history, culture and kinship, crucial though they are. Over the years and, in particular, after the developments in Russia in the nineties, there has been a sustained effort to build a wide-ranging partnership for the sake of greater prosperity, predictability and security for the European Union and Russia, but also for the region and the world at large. Economic bonds are often regarded, and rightly so, as one of the most important factors that bring people and nations together, lay sound foundations for broader and strengthened relations and improve stability over time. The European Union itself is indeed a case in point. And here, the European Union and Russia have a particularly impressive story to tell. Trade is really part of the heartbeat of our relationship. The European Union is by far Russia's biggest overall trade partner. And Russia is the European Union's third largest trade partner. In 2012 alone, the total volume of trade between the European Union and Russia reached 336 billion euros and around 75 percent of foreign direct investment in Russia is of European origin. In 2010 the European Union share of foreign direct investment in Russia amounted to 120 billion euros: more than China and India combined.

And we should not forget either that the European Union is the chief customer for Russia's main export: energy. 80 percent of all Russian oil exports, 70 percent of all Russian gas exports, and 50 percent of all Russian coal exports go to the European Union. This shows that history and kinship have been underpinned by a solid and structured relation that has a direct bearing in our people's prosperity and well-being.

The case for European Union—Russia engagement is overwhelming. Clearly we have a strong interest in building upon our economic interdependence and working ever closer together in so many areas from trade and investment to energy and mobility, to

good governance, human rights, humanitarian and world security issues. The core question is whether we are doing as much as we can to ensure that our partnership delivers on its full promise. I think the honest answer is: "Not yet." The fact is that we should work closer together not only because we have to, but also because we want to. Not just because we are condemned to be neighbors but because we have chosen to be partners. In other words, to realize the full potential of our relationship, we should add to our partnership of necessity a partnership of choice.

We already share a vision for such a partnership, the long-term vision, and I think it is important, even when we take concrete decisions in daily life, be it in politics or business, to have the long-term vision. The long-term vision is a common economic and human space from Lisbon to Vladivostok with free travel of people, free exchange of goods and services, very close overall cooperation. This is our long-term vision. But I think all of us agree that this genuine common objective will remain somehow conceptual unless we define together how we get there. Certainly not in one go. The gap is too broad between short-term issues and long-term consensus. So to help bridge this gap, we ought to adjust our political ambition and focus on the midterm with a set of credible and realistic objectives that we can achieve in the years to come. And indeed, the meeting that I am going to have later today, with President Putin, with Prime Minister Medvedev, and tomorrow, a meeting between the Commission and the Russian government, are part of this process. A key first step in this mid-term agenda should be to agree on a proper institutional framework. A new EU—Russia Agreement is intended to fulfill that task.

It would be highly symbolic if we could conclude negotiations on it by next year when we will celebrate the 20th anniversary of our Partnership and Cooperation Agreement (PCA) of 1994. The PCA has served us well and has given a solid legal basis for our relations, being further elaborated in 2003 with the Four Common Spaces and the respective roadmaps. But now the time has come for a modernized and upgraded agreement fit for a 21st century relationship and commensurate with our strategic partnership and having in mind this long-term vision. An ambitious and comprehensive new agreement, which includes a developed regulatory framework with common standards and norms, trade and energy provisions, would help to create wider cooperative approaches with clear win-win situations. It would also underpin our common objective of bringing our peoples even closer together in a visa-free travel regime. Secondly, if we are serious about the deepening of our strategic partnership and establishing a partnership of choice, the sine qua non is cer-

tainly mutual trust. This entails that mutual commitments, be they bilateral or multilateral, are respected. A strategic relationship needs to be underpinned with strategic trust.

Both of us share global responsibilities, Russia and the European Union, as members of the G8, the G20, and the World Trade Organization. The European Union and the Commission directly, has fully supported Russia's accession to the WTO. We see it as a truly historic step. We obviously understand that an important process, adapting internal rules, is necessary for Russia to fully comply with its WTO commitments, but this should be about moving forward not backward. This should be about applying the letter and the spirit of the commitments made, not about breaching them. This should be about a genuine and mutually beneficial level playing field. And in this regard the G20, currently under Russia's chairmanship, must certainly continue its fight against all forms of protectionism and in defense of open markets. Both of us also have binding commitments as members of the United Nations, the Council of Europe and the OSCE, commitments to respect democracy and human rights, rule of law and freedom of expression and of assembly. Respect for these values is key for a solid and trusting relationship.

Winston Churchill, in a very quoted sentence, once said that Russia is "a riddle, wrapped inside a mystery, inside an enigma." But what people are less familiar with is what he said next. He went on to say: "there is a key to understand it and that key is Russian national interest." The Russian national interest is certainly something for Russians to decide. But if we look back in history we can see that the greatest moments of this great country and the great Russian history were when it opened up to the world, when it embraced Europe, when it successfully modernized. Let's think of Peter the Great advised by the great German mathematician and philosopher Leibniz on the founding of an academy of science in Russia or Catherine the Great who corresponded with so many leading Western European intellectuals from Diderot to the English economist Arthur Young or the Swiss mathematician and physicist Leonhard Euler. Great achievements in our civilization were sparked by moments of interaction between Russia and Western Europe.

Modernization still is a strategic objective of today's Russia. And the European Union still is the first partner of choice in this process. I am therefore particularly glad to have launched, together with Dmitry Medvedev, in our 24th EU—Russia Summit some time ago, an important partnership for modernization, which was formalized the following year, 2010, at the Rostov Summit. Since then we have made progress. Our regulatory frameworks are being approximated. Russian participation in EU research and development programs

has increased. 475 Russian research organizations are involved in more than 300 projects, receiving an European Union contribution of 60 million euros. And the European Investment Bank has given a 200 million euro loan for the internationalization of SMEs, to give just a few examples. With more trade and more investment come new ideas and more innovation, leading to improvements in products and services that create jobs and economic growth. This means more opportunities for all of us to prosper together. We are indeed set to benefit significantly from a greater integration of trade, investment and technology exchange. Today's world is driven by knowledge, innovation and technology. This is why we have declared 2014 as the EU—Russia year of science, technology and innovation and we have proposed to establish a European Union-Russia Strategic Partnership in Research and Innovation. This will be a very important step forward in the deepening of our relationship because research and innovation is much more than product development. It is about how our societies change and improve. It is about our capacity to adjust together to new economic and social realities and to create the future to which we aspire.

It is about confronting together new challenges. And energy, a crucial field for both of us, is clearly one of these challenges. At the core of the European Union's energy policy are consumer choice, fairer prices, cleaner energy and security of supply. It is on this sound basis that we are developing our internal energy market, and we have moved a long way towards this aim over the last years. This is an area where there is sometimes tension in our relationship. And I still feel that our objectives were probably not sufficiently explained or not fully understood by our Russian partners. The reality is that within an open, interconnected and competitive EU energy market, Russian supplies will remain a very important component.

A fully liberalized EU market will also mean more opportunities for more Russian suppliers. We have a common interest in keeping energy supplies and markets stable and in helping to promote competition and prevent monopolies. This is also part of the modernization agenda that we are both engaged in. But an effective economic modernization process can only rely on talented, innovative and dedicated people. A thriving, sustainable economy goes hand in hand with a thriving society. This requires respect of the rule of law and ensuring citizens' rights, fighting corruption and developing a level playing field for companies. Moreover, sustainable economic prosperity and lasting social stability depend on the full implementation of such commitments. This is a question of self-interest.

Russia is a continent disguised as a country. Russia is a civilization veiled as a nation. However, in today's world even the big-



gest and the mightiest are not capable of addressing current challenges all alone. This is the biggest lesson to draw from the recent economic and financial crisis. And in Europe we are overcoming this crisis through a deepening of our regional integration project, through completing our Economic and Monetary Union and filling in the missing links of our internal market. Russia has recently embarked on a regional integration project which is leading to the formation of the Eurasian Economic Union. As a regional integration project itself, the European Union can only support regional integration elsewhere. It is, however, important that these integration projects are built in a manner that enhances our bilateral relations instead of hampering them, so that they serve the purpose of further opening up our countries to the rest of the world, instead of self-retrenchment. And that they are based on open regionalism instead of regional protectionism. That is why it is crucial that we start working to make our respective projects compatible and convergent, in terms of principles, values and regulations.

We have a wealth of expertise in this area that we can share with Russia and the Eurasian Commission, if we can be reassured on these principles. In fact, our vision for the European continent is one of openness to all partners and to the world, cooperation based on common values and principles, free and integrated economies, and respect of the free will of the people. It is on this vision that we have built our enlargement policy and our Eastern partnership. It is on this vision that we want to deepen our strategic partnership with Russia and other countries in the region. We have much to gain from it and our common neighborhood can only benefit if there is collaboration between our approaches rather than competition. We also need to continue aligning our positions on the most critical international matters. The constructiveness that guides already our joint work in the framework of the Iran talks or in the Middle East peace process, should also allow us to converge our positions on Syria. I have said many times that the situation in Syria is a stain on the world's conscience. The international community has a moral duty to address it.

Just a word on a matter that I know is of your interest: Cyprus issue. I am very concerned with the latest developments in Cyprus, namely, because of the consequences for the citizens of Cyprus. These consequences are the results of an unsustainable financial system that is basically eight times bigger than the GDP of that country – a system that certainly has to adapt. And, as you know, there was no way of implementing the agreement reached unanimously in the Eurogroup between Cyprus and the other countries in the Eurozone. The European Commission stands ready to assist finding an agreement, and, in fact, as you know, consultations

are going on between Cyprus and the other members of the Eurogroup to find a solution. We have in the past solved bigger problems; I hope that this time a solution can also be found. I am also aware of the interests of Russia in this issue. And, in fact, we as European Commission have been in consultation with Russia for some time.

I spoke about this issue with President Putin after the European Union—Russia Summit on December 22, in Brussels. Commissioner responsible, Vice-President Rehn, in the St. Petersburg G20, met the Finance Minister of Russia, and on March 7 there was a phone call conversation between the Commissioner and the Finance Minister of Russia. Regarding the conclusions of the last Eurogroup, Russia was not informed because the governments of Europe were not informed – let’s be completely open and honest about that issue. There was no pre-decision before the Eurogroup meeting. The Eurogroup meeting concluded, I think, in the very early hours of Saturday and so, and the decision was the result of a compromise between the countries in the Eurogroup. But, of course here, in Russia today I will be, of course, as always, open to listen to the concerns of our Russian partners.

My vision of world politics is not one of a zero sum game, but rather of a win-win approach. This should also apply to our relationship. I have tried to develop today very briefly the pillars and principles for what I think should be a partnership of choice between the European Union and Russia, founded on strategic trust. This is certainly a long-term process, but Leo Tolstoy reminded us in this great work, *War and Peace*, that “the two most important warriors are patience and time.” In this same spirit, I invite all our Russian partners in the government, in the business and in civil society to dedicate their time to this outstanding great project of making the European Union—Russia relations a partnership of choice, a great partnership based also on the principles of friendship between the peoples of the European Union and the people of Russia.

### **Igor IVANOV**

– I would like to thank Mr. Medvedev and Mr. Barroso for their speeches and the theses that will lay the ground for our today’s discussion on the Russia—EU partnership. I am also grateful to you for agreeing to take part in the coming debate.

Mr. Fillon, on November 23, 1959, President de Gaulle made his famous speech “Europe from the Atlantic to the Urals.” Today we are speaking about a space stretching from the Atlantic to the Pacific. France has always been a staunch supporter of relations between the Soviet Union, Russia, and Europe. And your personal contribu-

tion in advancing the partnership was indeed significant. Do you think that de Gaulle's precepts are coming true? What is needed to see that they are fully realized?

**François FILLON,**

*Prime Minister of France (2007–2012)*

– Mr. Prime Minister, Igor. President of the Commission, friends. For a long time now I have been convinced that the destinies of Russia and Europe are inseparable. During the past 20 years, we have made great progress in developing the relationship. At the same time, frankly speaking, our partnership is sometimes chaotic, often causing the sides to turn away from each other. I would say that Europeans do not seem particularly willing to take international risks. Too much energy is spent to ensure survival of the Eurozone and manage the global economic crisis. In a way, this drives the Europeans to retreat into themselves. It gives rise to populism that could isolate development inside its shell and restrict EU activities. The debate between the Europeans and Eurasians is heading in a new direction. Taking Europe's current weakness into account, the emergence of the Eurasian Union appears dangerous, even if it is connected with the dynamics of Asian development.

As far as external destabilization is concerned, it may seem that there is path other than European cooperation. In other words, there are lots of causes for friction between us, and these causes are dangerous, as they do not accommodate the reality, which is that the European Union cannot do without close links with Russia and Russia cannot give up strong ties with Europe. At the same time, neither Europe nor Russia is a position to teach the other.

And now to the problems in Cyprus' economy: I am not happy about the European decision. I do not like it, Mr. Prime Minister, because Russia's interests will suffer. Today I am in Moscow and it would seem appropriate to sound sympathetic. But I do not like the decision because it emasculates the principle laid down to save the global financial system. Let me remind you that in 2008 we, Europeans, proclaimed that the inviolability of banking deposits would be never questioned. Both Gordon Brown and the President of France said so. Jose Manuel Barroso also backed the idea. And that very decision blocked the systemic crisis that threatened the global order. Hence, we should not revisit this subject.

If we believe that the tax system of a state is too different from that of other European countries, the tax system should be altered. But the impression that accounts in other countries may be also encroached tomorrow must not be given. The global financial crisis be-

gan in the United States. A moral decision was taken, a bad one, to leave Lehman Brothers to its own devices. We cannot allow the same in Europe. We should adjust to the new European context, otherwise both Europe and Russia will be doomed to marginalization.

No one has cause for complacency. The EU is going through the most difficult period since 1929, and has just started recovering from the ongoing crisis. Russia has also faced hardships and needs structural changes and investment. In short, both Europe and Russia are facing severe problems and, as I see it, have only one choice – their relationship should deepen. The point is in interdependence, since Russia is the EU's major guarantor of energy security, provider of other raw materials and guarantor for development of trade. Russia is an important springboard to growth. The European Union is Russia's key trade and economic partner, and a worsening of the Eurozone's troubles certainly has an impact on investment, the banking sector and finance in Russia. Hence, we should jointly manage the continent's challenges, including armed conflict, terrorism, crime, chaotic migration and climate change.

Europe and Russia are united by very similar views of the global order, as they regard the multipolar world as the basis for positive development. Europe and Russia share multilateral approaches to preserving the UN's role. This proximity is even more visible against the backdrop of the United States' gradual move away from a close relationship with Russia. Hence, we should ensure stability and close ties between Russia and Europe. Russia is involved in processes to strengthen international security, and should not feel surrounded. This relates, in particular, to NATO activities. It is vital that we attain a real strategic partnership between Russia and the EU.

How should we move forward, given the situation outlined above? I believe we should move pragmatically along certain lines. First: security. Boosting security is a priority. This should drive European states to understand that Russia has very real security concerns. Thus, missile defense deployment, for one, must take Russia's opinion into account. Only a swift response to Russia's request to rebuild the European architecture can generate unity on other major issues, i.e. the Middle East peace process, counterterrorism, counternarcotics, dialog with Iran and North Korea, and advancement of interaction on other matters, for example on Syria. Let me remind you that the crisis that has now hit Syria, after other countries in the Middle East and North Africa region poses a threat to regional stability. This political crisis could lead to a massive economic and financial crisis of global proportions. We must jointly search for solutions to the Syrian predicament, and a great share of responsibility here falls on Russia.

The second point relates to economic integration. Talks on the new agreement between Russia and the European Union should, of course, go ahead. To this end, we should take advantage of the rapprochement caused by Russia's WTO accession. But we must also respect Russia's obligations and remove certain discriminatory barriers. Economic integration is related to stepping up trade in the energy market, which allows Russia to plan the required investment and revenue in key areas, in particular from hydrocarbon production. This is a sphere in which technological cooperation is likely to advance dynamically.

Cultural issues. We should promote contact between Russian and European citizens. Ongoing work must result in the signing of a new agreement to ease visa issuance. We should certainly develop sectoral programs for students, scientists and other similar categories, but primarily, we should liberalize short-term visas for travel between the EU and Russia. It seems important to return to the idea of a Greater Europe and consider the evolution of European structures. I suggested setting up a kind of French—German confederation and still believe that France and Germany are able to ensure integration in economic policy. I advocate a stronger Eurozone built around a real economic government. The Europe of 27 should push forward in organizing its market. On the one hand, the European Union should consolidate, while on the other, it needs new inspiration.

Now I am going to tackle a key question regarding the status that is to be offered to Russia. We should think about the important trend we have seen during recent years, especially after 2008. I am referring what I would call the two sides' strategic patience, the opportunity to listen to and hear each other. The Russian side needs to overcome certain fears about Europe, while the Europeans should not resolutely hold to anti-Russian paranoia, which does not offer any solutions. As I recently said: in order to unblock the Syrian dossier we must talk to our Russian partners and understand their position, even if we do not share it. This is why I believe that the European Commissioners' visit to Moscow is a significant step. Russia should find its place in Europe, of course, not as an EU member but as a country that has a status which takes account of its development potential, its power, history and culture. And I think that France has an historical opportunity to move in this direction.

Some talk about the EU's weaknesses. In fact, we sometimes feel like we are suffocated by our weaknesses, which is why we should expand our ambitions and horizons. Ladies and gentlemen, these were some of the considerations I would like to share with you. Our civilizations have always needed definite ambitions to make prog-

ress, and nowadays the future of the European continent is crossing a new frontier, a frontier that will unite the continent.

**Igor IVANOV**

– Many thanks, Mr. Fillon. Mr. Schüssel, you were at the 2003 summit, and have always been a faithful proponent of the partnership between Russia and the European Union. Prime Minister Medvedev and President Barroso have talked about the trust or credibility gap as a major problem. Do you think mistrust is a hang-over from the Cold War? And what should be done to bridge the gap?

**Wolfgang SCHÜSSEL,**

*Federal Chancellor of Austria (2000–2007)*

– Thank you, Igor, for organizing this very important conference. It is one big step to overcome distrust and to increase efforts to create more trust, especially in politics, because, I think, in the economic sphere businesspeople trust each other. If you look to the economic statistics mentioned by Dmitry Medvedev and Jose Manuel Barroso, you can see there is plenty of trust. The trade volume, the investments all show there is enormous trust. Otherwise it would not work. So the distrust is either in the media, in public opinion, in parliamentary debates, and so on. And so, after hearing these two very interesting speeches I suggest we need to lend new impetus to the European project's development. We have to augment it with substance and concrete ideas, since now there is a palpable lack of concrete ideas, projects and steps forward. For instance, you mentioned energy, science and technology. This will be our focus in 2014. However, Russia must integrate fully into the EU framework of research and development programs, which has not done to date. Israel, for instance, and Turkey, are fully integrated. Why not Russia? It's easy. Russians could have a tremendous impetus, a tremendous incentive to increase and enrich the volume in science and technologies, so why not integrate them?

Second, if we want to increase mutual trust and mutual links between think-tanks, et cetera, you should really rethink whether or not it wise to blame international think-tanks for being some kind of "foreign agents." I do not think it is necessary. Everybody has to listen to think-tanks and institutions, even critical ones. It is important. It is not always comfortable, but it is important for us, because normally politicians are in a kind of an ivory tower or glass cage, and we need critical voices in order to improve and be better.

Third point: yesterday we discussed Cyprus in an informal setting with Javier Solana. Cyprus is an interesting case. I read, I think it was in late January, a very interesting interview with Prime Minister Medvedev in *Die Handelsblatt*, a major German newspaper covering economics and business affairs. He was keenly aware that Cyprus is a problem. And he was also aware that something has to be done and, of course, on the European side we are also aware that something has to be done. Maybe the Cypriots were less well prepared. So what we are lacking is a kind of an early warning mechanism. What Jose Manuel Barroso said was very apposite: it was an early morning decision; everybody's a little sleepy, maybe not fully aware of the consequences.

He said that this is part of the European decision-making process that must change. But in any case, we need an early warning mechanism for both sides' strategic interests. And Cyprus could be an excellent example. The Palestinian—Israeli problems, reducing military expenditure (which in Greece is still very high) and Turkey – there are numerous issues we could work on together. So this is a greater and more complex affair, we need a strategic early warning mechanism, and to establish our vision of tomorrow's world. Where will we be 10 years from now? Either – and this is the brutal reality and I think the next 10 years are absolutely decisive – either both Europe and Russia will second class actors on the global scene, as the G8 or G20 will have been replaced by the G2 of America and China, or we are cooperating on what can be done, where our common interests lie and how we can act.

I think there are numerous potential areas for strategic cooperation, starting from Kosovo, which is clearly of interest to Serbia, Russia, and Europe. Now that the potentialities look brighter, why not step in? Then there is Georgia, where the new government is more moderate and more interested in establishing cooperation with Russia while also maintaining contacts with the European Union. Then there is Transnistria. So all these elements could be included in an early warning system or similar strategic mechanism. Fundamentally, I think the question is structure. We need a mechanism and we need strong leadership by individuals who are really burning to get these things done.

### **Igor IVANOV**

– Mr. Lipponen, the Russia—Finland border is one of the best organized. Millions of Russians are just happy to visit your country. As I have been told, in Helsinki one can even pay rubles. In other words, we have attained a rather high level of cooperation. Do you

believe the experience of the Russian—Finnish relations could be extended to the entire Europe?

**Paavo LIPPONEN,**

*Prime Minister of Finland (1995–2003)*

– Thank you, Minister Ivanov, Mr. Prime Minister, Mr. President of the European Commission. I am glad to be able to speak here, particularly because, for one thing, I was once director of the Finnish Institute of International Affairs and at that time had a lot of contact with IMEMO, represented here by the academician Dynkin.

Of course there is a special relationship between Finland and Russia. There were times of adversity, but if we look back over the history of the nineteenth century, it has been an overwhelmingly positive experience. The visa processing system we have established in Finland, which is very efficiently organized and produces visas for Russians, is an example of this pragmatic work. And more and more Russian tourists and visitors are coming to Finland, contributing to our economy in a significant way, to say nothing of our broader economic cooperation. In today's world, the tectonic plates are really moving in such a way that the European Union and Russia must, as European societies, make a real effort to improve their relations and take them to a higher level. It has been really interesting to listen to colleagues here today, because they all focused on this. The European Union is not in a good shape today, and this is particularly true of the Eurozone. This might tempt Russia to prefer a bilateral approach. But I was glad to hear Prime Minister Medvedev say that Russia prefers the European Union to speak with a common voice. This is where we should improve our actions within the European Union, and inevitably present developments will lead to a more integrated European Union, that speaks with a common voice. It's not going to be an easy process, because the voters are wary of transferring more power to Brussels. But the financial crisis has already generated significant steps towards a real economic union that we absolutely need.

On the international, global scene we see the United States making the Pacific theater a higher priority in security policy, and the United States expects the European Union to bear greater responsibility for its defense and security. At the same time we can observe developments in Central and Northern Africa, the Middle East. That makes it ever more necessary for the European Union to develop a better capacity for crisis management, to face tough tasks such as bringing stability to places like Mali and the broader region. So, further steps towards closer defense cooperation are on the Euro-



pean Union agenda in the near future. The first time I met then-Prime Minister Vladimir Putin was when I was chairing of the EU presidency, he explained Russia's security interests to me, and said that the biggest threat, terrorism, comes from the South. At that time we had an unfortunate situation in Chechnya, but that was what he said. Today, this is a common and real threat to both Russia and the European Union. There is a great need to cooperate, to stabilize the situation in Africa and the Middle East. Syria is a very tough test.

I was struck last November by something you said when you, Mr. Ivanov, were in Helsinki addressing the trilateral meeting. It was along the lines of – they say in the West that Russia has been useful in Afghanistan, in Iran and so on, but what Russia really wants is to be part of policy-making in these situations preferably from the beginning. And this is, I think this is the crux of the matter between the European Union and Russia. That is, it must be an equal, real partnership in every way. And we have a good example of this in the Northern Dimension cooperation between the European Union, Russia, Norway and Iceland. This is very practical and pragmatic, and it has delivered considerable results, particularly, in an environment with 3.2 billion in investment in the treatment of nuclear waste and cleaning waste-water in North-West Russia. That is the biggest pragmatic thing between the European Union and Russia, in fact. This partnership model is viable, it has served well in Baltic Sea cooperation, and covers the whole of Northern Europe. This is an example of the kind of partnership that is needed, and, of course, we should build this cooperation from the bottom up.

The European Union and Russia are natural partners, connected by a common European history and economic realities. Most importantly, of course, there is energy. And this partnership is becoming ever more important in the global power struggle. So, I would say it really would be in Russia's interests to support deeper European integration, while at the same time taking into consideration other countries' interests, such as Russia's. We cannot ask Russia just to sign on the dotted line, and the energy issue is an example of this. Of course, we will stick to the third energy package, but on the other hand, we should find a way to be flexible, so that Russia's interests can be taken into account.

Of course, the more Russia undertakes domestic reforms and develops into a functioning market economy, the better the chance for a real partnership. Recent developments towards the reform of Russia's energy markets might offer a better chance for agreement, for example, concerning gas market rules. And we need to develop regional cooperation in Northern Europe. Why not integrate electric-

ity markets? We could both benefit from that, using our capacities in a more rational way. We clearly need a more open dialogue and more innovation to improve our relationship, and good suggestions have been made today.

We also need to know each other better. I am worried about tendencies in Russia towards a kind of a spiritual isolation. It is very important for us all to respect traditions, to have a strong national identity, but if you carry nationalism too far, it means distorted information about other countries and so on. So this is worrying. We have human rights, the rule of law and protection of minorities as basic principles of the European Union: on these there can be no compromise. That said, we are not a perfect society. We should also be open to criticism as part of a real dialogue and partnership. We need more cultural, youth exchanges. Chancellor Schüssel has made some interesting proposals. Why not organize exchange programs for thousands of students, a kind of extension of the Erasmus program? Foreign Minister Lavrov proposed extending the Northern Dimension Institute to cover wider sphere of institutions, which is very pragmatic. To sum up, my closing message is: “Think big and work pragmatically.”

### **Igor IVANOV**

– Mr. Solana, you were the EU’s High Representative for Common Foreign and Security Policy for 10 years and have a nuanced view of the Russia—EU relationship, sharing with us the responsibility both for successes and failures. What do you think can be done to lend a new impetus to the Russia—EU partnership?

### **Javier SOLANA,**

*Minister of Foreign Affairs of Spain (1992–1995), EU High Representative for Common Foreign and Security Policy (1999–2009)*

– Thank you very much for the invitation, Igor. Thank you very much to Prime Minister, thank you very much to the Commission, for your presence here. A lot has been said already, I don’t want to repeat what has been said, but let me recall a couple of things. Neither the European Union nor Russia is perfect. We are both going through difficulties, although they are different in nature, magnitude and are in different areas, but we need a process of adaptation to this new reality. From 2003 to today, a great deal has taken place. For instance, today, if we take the ten most important economies in the world, you would not find seven from the European Union. You may find three and, even that is difficult to find. In 10 or 20 years

from now we may be an exception. Why? Because for us Europeans, the need for integration is fundamental if we want to continue being an important player in the world. And let me assure you, we want that. Therefore, we are going to do it. And that is the context, within the European Union, for our relationships with Russia to take on a new dimension. Pushing past the crisis, the European Union will need closer ties to Russia, and Russia will need closer relationship with the European Union.

Let me go over my analysis of the failures of the past 10 years. In these 10 years we did score some successes. A great deal has happened since the basis was set in 2003. The most important problem has been, and still is, that we do not have enough strategic trust. We have tactical trust, but we don't have strategic trust. If you were to take a 10-year period, most of the times that our relationship has been paralyzed or has not developed at the level and full potential it had, this was due to lack of trust. This has to be overcome, but we cannot seem to overcome it. What is missing between the European Union and Russia is a deep discussion of our strategic interests. Unless we have this, we will never be able to put our tactical interest in any kind of framework. And if we do not do that, it will be very difficult to turn all our fine words into reality.

We want to have a deeper relationship, but for that we need a strategic vision of the world. And that debate has to be taken seriously. This is my appeal to the President and Prime Minister of the Russian Federation and to the members of the European Union. That reflection, that thinking has to be done together. And by the time we are out of this crisis, we may have resolved some of these issues. Now, this mistrust makes it very difficult for us, whether we are talking about defense, security or economics. Unless we agree final vision of what we want to become, it will continue to be very difficult to resolve these problems. My claim and my appeal will be to the leaders of today, to really have the courage to look ahead, to want to construct a relationship on an equitable basis, as has been said by several people that have spoken before me, within a shared strategic vision.

Otherwise in today's world we face such a lack of global governance, that unless we begin with those who are closer, be it geographically or intellectually, it will be very difficult to maintain order in the world. So, this is an appeal to both Europeans and the Russian people, to leaders, to really begin to think strategically together. If we are able to achieve that, in these second decade that we have ahead of us, it will be a really fantastic success. If not, we'll be trapped periodically in minor issues and tactical problems that will prevent us from moving on together. That is my impression from

my experience of the past 10 years. So, from our side, and from my side, let me assure you that we will do as much as we can to overcome tactical mistrust and to achieve strategic trust.

I would also like to mention science. Russia has made some great contributions in this area in recent years. The Nobel Prize for Physics awarded two years ago to those who discovered graphene went to Russians. This was a fantastic discovery, and it is also one that can help you return to the mainstream of innovative research in fundamental sciences. We need to cooperate much more. And the second thing is culture. Let me tell you how moving it was for me to see the visiting exhibition from the Hermitage come to Madrid's Prado museum in 2013: it was a fantastic success, nothing can match it. And it was the same when the Prado came to St. Petersburg. So we have a lot of things we can develop further, but let's not forget that in order to achieve anything strategic trust is absolutely necessary.

### **Igor IVANOV**

– Mr. Cimoszewicz, you have been actively involved in the process of Poland's accession to the European Union. This is all fresh in your memory, and you also have great experience. What advice do you have for Russia? What steps should be taken in order to move closer to the European Union?

### **Włodzimierz CIMOSZEWICZ,**

*Prime Minister of Poland (1996–1997)*

I was responsible for bringing Poland into the European Union, first as Prime Minister, then as Foreign Minister, and I may say nine years after joining the European Union that over 80 percent of our people now believe that that was right thing to do. This was less clear before we joined the Union. There were segments of society, members of the business community who were afraid, either of losing sovereignty or of facing tougher competition. I understand that the Polish experience earned through joining the European Union is of limited significance to Russia, since our goal was different: to join. You have a different goal. However, I see a lot of similarities. If Russia really wants to upgrade its economy, to make it more competitive, to be able to export something more than just raw materials and arms, it should of course be interested in cooperation with partners who can assist, who can share interests, and understand that the European Union is one of those potential partners that can help it achieve that goal. As Javier Solana said, we are not perfect, and we are very well aware of that. The European Union can be ac-

cused of many things, of being: too bureaucratic, too slow, lacking visionary leaders, et cetera. But somehow this project has proved to be the most successful in the world. I still remember the days of propaganda in my country, let's say, 30–40 years ago, when I would watch TV, and hear news all about the collapse of West-European economic corporations. I am absolutely confident that the European Union will survive. And I would suggest that we represent all our national interests. We should also note and respect some interests, rules, and principles shared by our partners. For many Poles it was so difficult to accept the standards and rules developed and implemented by the European Union. Our farmers were afraid of competing on the common market. Today we are one of the biggest food exporters in the European Union. That shows that accepting sound rules for how you do business can be very profitable. I believe that the European Union and Russia also have a problem discussing cooperation in energy sector. What is needed is a greater understanding of the reasons why the European Union adopted particular regulations, for instance, reinforcing competition, which in the longer perspective is positive and profitable for everybody.

Let me just take this opportunity to make one more remark. Becoming closer partners and instituting closer cooperation is a difficult process. It requires a lot of very concrete work, and a great deal of effort, but it is worth it. I personally believe that we really need to think about a long list of very concrete tasks that we should set in front of us, because I strongly believe in of the need for closer and more intensive cooperation between the European Union and Russia. It is in both partners' interests. I hope that this conference may play some role in that process.

**Igor IVANOV**

– Mr. Frattini, as Vice President of the European Commission you did a great deal to strengthen the space in security terms, which is directly linked to the visa-free regime. What else in your opinion we should do to have the process completed?

**Franco FRATTINI,**

*Minister of Foreign Affairs of Italy (2002–2004, 2008–2011), Vice President of the European Commission (2004–2008)*

Well, thank you, thank you very much, Igor, for your invitation. I thank Prime Minister and President Barroso for your presence here. In fact, I would say, 10 years after this historical meeting in St. Petersburg, which I visited as Italy's Foreign Minister in 2003, much has

been said. I can recall that, over the past 10 years in Europe we have seen some negative elements emerge, such as, I would say, Euro-scepticism, financial and economic troubles, and a measure of European fatigue towards continued enlargement. This European fatigue impacts on relations with neighbors, and also with the Russian Federation. It has been said, and I agree completely, that mutual trust has been falling in recent years. And now more than ever we need to take the broader European perspective, the economic, cultural and political perspective, in which Russia is considered a strategic, trusted, equal partner with European Union, as some have said.

So we need, in my opinion, two things. The first is leadership that expresses a vision. But we need also some concrete and tangible results concerning the daily life of people, because I remember when I signed the Visa Facilitation and Readmission Agreement on behalf of the European Commission in President Barroso's first Commission in 2007, I remember how much enthusiasm there was about the possibility of going ahead with visa-free dialogue. We were ready to pave the way for a smooth negotiation of a visa-free agreement with the Russian Federation. Just look at what we have achieved in recent years in the Western Balkans as these visa-free agreements brought people from the Western Balkans very much closer to Europe. They realized that Europe is there, it's a reliable friend and partner, and this should be done with the Russian Federation as well, because tangible results that are seen in the daily life of people as important, productive.

My idea would be: "Why shouldn't we be ready to explore, on a step-by-step basis, by first of all avoiding confusion between different issues?" I understand there are ideas on how to improve flights, security; that there are discussions about espionage or issues like that. These, I think, should not be in the same basket. Keep negotiations on a visa-free agreement separate from security-related measures. They are thinking about a first step toward a visa-free regime: recognizing students and researchers as eligible for special, visa free status, that would send a tangible message of friendship and promote people-to-people contact at least in the field of cultural and research activity. Students and researchers are not, I would say, a source of any great concern. For us Europeans, on the contrary, this would represent an added value. This would be a pragmatic way to make progress on visa-free dialogue and the visa-free agreement.

Second point, it is important to recognize that we have much more in common than there are differences between us. First – security. We have been working very hard together on cybercrime and countering drug trafficking. These are still key elements of security

in the global perspective for Europe, and for Russia as well. Let's not divide our concept of global security by addressing new asymmetrical threats.

And my final point is that we have a great deal in common in foreign policy. We share a common interest in stabilizing crisis areas, and since Europe is called upon to be a stronger provider of security in the Mediterranean region, North Africa, and Africa, why should Europe as a whole be prevented from building closer cooperation with the Russian Federation on Southern dimension of security threats and related opportunities? To achieve this we need unity within Europe. This is the crucial point. Unless we will be able to achieve greater political integration, Europe will be a less reliable partner. A stronger European Union is in the interests of the Russian Federation, a stronger and united Europe will be capable to make decisions that are highly political, not merely technical ones. This is why I support a Union that is much more heavily politically integrated, not just economically integrated.

**Igor IVANOV**

– Mr. Ruehe and I have been working within a group of politicians and the military on a new initiative in Euro-Atlantic security. I hope to be able to present the initiative to the public soon. Mr. Ruehe, do you believe in the feasibility of a common and indivisible Euro-Atlantic security system?

**Volker RUEHE,**

*Federal Minister of Defence of Germany (1992–1998)*

Thanks, Igor, for the conference. A few remarks. When I recently was at a conference in St. Petersburg, a Russian friend said, if Peter the Great were Russia's leader today, he would move the capital to Vladivostok, and not to Petersburg. Well, we'll never find out because as far as I know he's not the leader of Russia today, and there are no plans of the Russian government to move the capital to Vladivostok. But let's think about why he said that.

And we hear a lot these days: "Europe is in decline, European Union is in decay." I think there is cause for caution, echoing my Polish friend. Do not underestimate the European Union. We have problems in the Eurozone, but historically this is still unique, as large countries like Germany, medium-sized and small countries share sovereignty and integrate. And nowhere else in the world will you find such an approach that is more than regional cooperation, that is regional integration. So yes, we have problems, but you are part of

the West, and I believe I have seen enough of the East-West divide. Russia is part of the West, and Russia can best look after its interests in a close relationship with the West, security-wise, with NATO.

We have heard so much talk about how the reality falls so short of the potential. We have heard all the right words. But why isn't anything, or much, happening? I think the European Union, the understanding of modernization, what modernization partnership is, is not enough to deliver a strong state and modern technology, or to modernize a country. But civil society has to play an important role in terms of checks and balances. You need civil society. And, obviously, there is a difference in the concept of modernization between the European Union and Russia. These are all things we have to talk about.

I agree with the concept of visa-free travel, and I do not believe the European Union should say it is long-term concept, as Mr. Barroso has said. It should be done fast, and I'm not very proud of the role Germany is playing, because there needs to be person-to-person contact. When it comes, it will be the biggest change inside Russia that you can imagine. Visa-free travel will create and enhance civil society in Russia, which is something you should be aware of. So if you're afraid of some NGOs in Russia now being foreign agents, you will have millions of foreign agents. Because I'm deeply convinced that after they have studied in Paris or lived in London or met friends in Berlin, they will come back changed. This will change Russia and it will bring us a lot closer together. So I'm very much in favor of it. This is not just a technical project. It will bring real change for Russia, and you should be aware of this.

There are problems in the Eurozone, and it will have to deepen in order to keep things together. But then there is also the European Union, and we have to make an effort to keep Great Britain in the European Union, from my point of view. So we may have to open up a little bit. We have to accommodate Turkey and find a way of cooperating more closely with Ukraine and Russia. Perhaps the EU is changing now, developing a new architecture of alliance within Europe. We to have strategic trust and also strategic thinking, and not moving from one summit of the European Union and Russia to the next, dealing with day-to-day concerns. We need to develop and implement a strategic policy.

Of course we will not have a common currency, it will be difficult enough achieve that among Eurozone members. Countries in the EU must join the Eurozone, unless like Britain or Denmark, special agreements have been concluded. But I think that, over time, all EU countries will adopt a common currency. I think this is inevitable,



or else the EU collapses. The more open the EU is, and the more changes happen, the more opportunities are opened up. There is a lot of untapped potential. But I am still optimistic. But never underestimate the European Union, it's a historical concept: "Forget about the day-to-day problems." This is the direction that Russia should move in, rather than thinking about moving its capital to Vladivostok, chasing the economic successes in Asia.

**Igor IVANOV**

– Thank you very much for participating in the discussion. Does anyone want to convey their wishes for the future work of our Conference?

**José Manuel BARROSO,**

*President of the European Commission*

– Just a very brief comment, along the lines of this last comment about Europe. I just want to leave you with this message about European Union. Today it is fashionable to talk about the decline of the European Union. It's what I usually call the intellectual glamour of pessimism. It comes basically from Europeans themselves, because we are always very self-critical. Don't believe this idea of Europe in decline. Look at the facts. It still is the biggest economy in the world. Yes, we have a big crisis, a crisis that was not generated in Europe, but that has, of course, in the short and medium term, had a very serious impact. Just to give you one figure, the financial crisis made European Union taxpayers contribute 1.6 trillion euros, almost 2 trillion dollars to save the financial sector in Europe. Around 12.7 percent of GDP. This was a result of the financial crisis. Not caused by Europe, by the way. The country in Europe that has to mobilize more money to beat direct capitalization, our guarantee, is not even in the eurozone. I understand that it was not euro that created the financial crisis. But still, the financial crisis did confront the euro with some specific challenges. But we are at a crucial moment of deleveraging our economy because of the high levels of public debt and also high levels of private debts including, sometimes, the very irresponsible behavior of some people in the financial sector. This is the situation we are now in. But if you look at the steps taken so far, all have been leading toward greater integration, not less. All of them: stronger economic governance, more responsibilities for the European institutions. We have adopted, for instance, single supervisory mechanisms, I will not go into the technical details, but it is possible for the European Union to have a common supervisory

authority for all eurozone banks. And what is interesting was that this was approved not only by the eurozone countries but also by all the other countries, all 27 countries. Very soon, as you know, we will number 28, as Croatia joins.

So in the reality, and this important, we are drawing lessons from the crisis for greater integration. It means greater deepening of the monetary union. At the same time we will support the single market's integrity, the European Union's integrity. And if you take a more strategic perspective when looking at the past 20 years, you will see that, globally, the winner in terms of trade is China. Since China has opened up more and implemented some reforms, they have won a great deal from globalization. Let's be honest about this, but the European Union broadly kept its share much better than Japan or the United States. Today the European Union, if it was not because of energy and natural resources that we have very-very few, we would in an extremely important position. We see a surplus in trade, services, a big surplus in merchandise and in industry, contrary to what many people think, and even now in agriculture. So the European Union is much stronger than what is today fashionable to admit.

And I believe, I really believe it is in Russia's interests to retain and reinforce this engagement, while also retaining and developing bilateral relations with all our member states, so that goes without saying. This is now my ninth year leading the European Commission. The trends are always toward integration. And if some capitals in Europe sometimes are reluctant to accept this, globalization will be the biggest driver of further integration. So 20 years from now, I think, we will have a much stronger European Union. The courageous reforms underway Europe that involve at times great sacrifices, are adapting our economies to these more challenging times, because the reality is that some of our economies were simply not competitive. There was a structural problem of lack of competitiveness, and now they are implementing reforms. Look at what is happening in Greece, Spain, Portugal, Ireland – it is all focused on adapting those economies.

During this meeting I have heard some very interesting ideas and concrete proposals. I will review them together with my colleagues from Russia. We will do this today and tomorrow. Many seem extremely interesting, and I think we can build on this under the strategic vision of creating a stronger relationship between Russia and the European Union.

**Dmitry MEDVEDEV,<sup>2</sup>***Prime Minister of the Russian Federation*

– As a representative of the host country, I'd like to say that I agree with the overwhelming majority of ideas that have been voiced by my colleagues. One of them – José Manuel Barroso (*President of the European Commission*) has just spoken about the roots, the cultural roots of our partnership. You know I was sitting, listening and thinking to myself – these are such trivial things but it is necessary to speak about them out loud – not just about the economy or how bad it is now in the Eurozone or other places. It is necessary to remember this and speak about it. What has just been said about the Euro and the economic situation in the European Union... These are very important things for us because these signals are heard by our business people and are scrutinised by us, especially considering that we have a solid reserve in Euros. In general, we are always thinking about such things, and this is why such meetings are so necessary. As Mr Barroso said, we will continue our meeting in the evening and tomorrow morning.

I think Mr Fillon (*Francois Fillon – Prime Minister of France in 2007–2012*) has very clearly determined the nature of the crisis on Cyprus, and what should not be done. I've also spoken about this and I'm very pleased that my colleague has the same opinion concerning what we agreed not to do in 2008 and 2009, and what should not be done in 2013. This is the case because nothing has changed. The problem of trust is there, as is the problem of protecting deposits if we still consider ourselves committed to the market economy and private property.

Mr Schüssel (*Wolfgang Schüssel – Federal Chancellor of Austria in 2000–2007*) has spoken about a very important subject – how we switch on our early warning system when it comes to emerging problems and current difficulties. The Cypriot case had its own dynamics. Mr Barroso has said here that there were conversations about this in December and later on. This means that the early warning system does not operate too well, either in the EU or our strategic relations. We must deal with this.

I must agree with Mr Lipponen (*Paavo Lipponen – Prime Minister of Finland in 1995–2003*), who said that nobody is ideal but we have a set of values, including democratic values, that should unite us. Our position is the same. I must support what you said about the need to be more pragmatic. This is very true.

Mr Solana (*Javier Solana – Foreign Minister of Spain in 1992–1995 and EU High Representative for the Common Foreign and Security Policy in 1999–2009*) has also spoken about confidence

<sup>2</sup> URL: <http://www.government.ru/en/news/895>

and a philosophical difference or contradiction between tactical mistrust and strategic trust. I think this is right. Even if we disagree when it comes to certain nuances or assessments, be it on political events, Syria or something else, we must be united on the main thing. Only in this case will we have a fully-fledged constructive partnership oriented toward the 21st century. In this context our joint work, about which Mr Cimoszewicz (*Włodzimierz Cimoszewicz – Prime Minister of Poland in 1996–1997*) has spoken, is very important. Mr Frattini (*Franco Frattini – Foreign Minister of Italy in 2002–2004 and 2008–2011 and Vice President of the European Commission in 2004–2008*) has spoken about the need to reach specific results, including progress on the visa issue that he mentioned. Final results are not yet there, although this discussion started 10 years ago. Yes, there is progress but we are not satisfied with it. I think many Europeans are also unhappy about this. So, we should simply move forward, overcoming the existing difficulties.

I have always sympathised with my colleagues who work in Brussels. It is difficult to manage 27 countries. This is true, and when we express our opinion, saying you are doing this or that wrong... Mr Barroso tells me: “Can you imagine running 27 projects?” This is truly difficult, but you are doing a good job. In this context, I also support what Mr Rühle (*Volker Rühle – West German Defence Minister in 1992–1998*) has said. The integration of states into the European Union was unprecedented and will certainly go into the annals of civilisation. The Euro example is inspiring no matter how much it is criticised now – in the EU countries as well.

We wish all the best to the European Union in overcoming these difficulties, both for practical reasons and because we sympathise with the road its members have chosen. Thank you.

### **Igor IVANOV**

– Prime Minister, Mr. Barroso, and discussion participants, allow me to express my gratitude for this informative, motivating and enriching discussion. Thank you very much!

## ECONOMIC PARAMETERS OF THE RUSSIA—EU PARTNERSHIP

### **What Do We Expect from the New Agreement?**

**Anatoly CHUBAIS,**

*Chairman of the RUSNANO Executive Board*

The Russia—EU Industrialists' Roundtable co-chaired by Peter Löscher, President and CEO of Siemens AG, and myself from the Russian side seems to play a vital role in strengthening Russian—European relations. Thus, in addition to our common culture, which as a factor carries great importance, and in addition to diplomacy, there is also a pragmatic component, i.e. business.

From a business perspective, Russia—EU ties seem unparalleled in scale. And the figures prove this. During the past 10 years, Russia's exports to the EU grew four-fold in monetary terms, while imports from the EU increased almost five-fold. The EU is responsible for half Russia's foreign trade, i.e. over half of exports and about 40 percent of imports. Energy accounts for over 80 percent of Russian exports to the EU, i.e. 75 percent of total oil exports, 70 percent of natural gas and 50 percent of coal.

Currently, the European Union is the most important external market for Russian energy. In turn, Russia is the EU's third largest trading partner after the United States and China. Russia's share in EU imports is approaching 12 percent, and seven percent in EU exports (2011 data). Russian supplies cover about 25 percent of the EU's oil and gas requirement, while almost 85 percent of EU exports to Russia are highly processed industrial products. The greater portion of the FDI attracted or brought to Russia (about 80 percent in the last five years) comes from the European Union.

However, this seemingly rosy picture should not eclipse the problems in our relationship. These problems really are acute. On one hand, we have the business ties that are growing pragmatically, while on the other, we are not happy about the existing contractual base that does not support these ties but which, to a great extent, forms the legal base for them. The high level of economic cooperation we currently see needs an adequate legal base if it is to expand. We want to see legal norms that would not only expand in quantitative terms, but which would also improve its structure, i.e. raise the share of manufactured goods in the exports and promote the establishment of high-tech enterprises in Russia, with help from European investment.

Our ties are still based on the Partnership and Cooperation Agreement (PCA) that has been providing the legal grounds for Russia—EU relations for over 15 years. The document was signed

in 1994 and became effective on December 1, 1997 for a 10-year term. Since 2007 the Agreement has been extended every year. To cut a long story short, it was progressive in its day, inter alia accommodating WTO rules in reciprocal trading. The PCA was a potent stimulus for development of trade and economic relations between Russia and the EU on a broad range of issues.

But the PCA is now obsolete, failing to accommodate the current realities connected with Russia's WTO accession, the priority of the four common dimensions, and the implementation of the Partnership for Modernization program. For example, the agreement all but fails to reflect technology investment cooperation. Meanwhile, the post-Soviet space saw the Customs Union develop, which binds Russia with fresh obligations. Hence, the PCA, renewed annually, is no longer able to provide Russia and the EU with a full-fledged legal base and should be replaced with a new bilateral agreement as soon as possible.

Talks are underway, but seemingly in a paradoxical manner. Everybody expected that as soon as Russia had succeeded in its bid for WTO accession, with the EU's significantly constructive role, we would be able to use it as a starting point in building the Partnership and Cooperation Agreement on fresh grounds. But the reality turned out to be quite the reverse, essentially due to the WTO accords. I am not a diplomat, I represent business, and I am going to present the entrepreneurs' case. The talks on the new Agreement are currently deadlocked. There is no agreement – even on its format. Officially, Russia insists on the basic agreement format that would only set out the key priorities for Russia—EU cooperation, whereas the European Union would like to have a comprehensive document specifying all the parties' main obligations. As far as business is concerned, we want to see the new Russia—EU agreement signed ASAP, irrespective of the format.

In our view, the following seems to have happened. After the lengthy and complicated WTO talks, at the PCA discussions negotiators on both sides have been trying to make up for their supposed losses. Clearly, the WTO agreements involved complicated compromises. Clearly, each side that made compromises is still licking its wounds. So they think that the time has come to recover the positions apparently lost during the WTO talks. And all that forces the situation into a dead-end.

Perhaps I do not quite understand it, and the specialists and experts will correct me. But I am talking about a dead-end for the following reason. It is not just harmony that the new PCA talks lack. The vectors are diverging not converging. The parties differ even on the subject of the agreement. For example, will the new agreement

incorporate the economy or not? Now seems to be the right time to pause, take a step back, look around and reflect for a while. What do we really expect from the new PCA? Even at a targeting level, both Europeans and Russians appear dazed.

Several times the goal of a *free trade area* was formulated. Many people, including myself, naively believed that with the 160-country-wide WTO agreement in hand, reaching an agreement with Europe on a free trade area should be even easier. This idea was voiced at the top level. However, today we should clearly and quietly concede that this idea is not feasible. As we see it, a free trade area primarily means zero export and import tariffs, while zero tariffs vis-à-vis Europe are beyond the bounds of today's political and economic realities.

As President Putin said, Russia's strategic target is building a free trade area stretching *from Lisbon to Vladivostok*, which meets the long-term interests of both sides. At the same time, in the short term, this goal faces two political and legal hurdles.

On the one hand, having joined the WTO, Russia's government does not appear prepared to take further steps to lower the tariff barriers protecting the market from imports. Moscow views European proposals for the further liberalization of trade as an attempt to revise Russia's WTO terms and achieve more tariff concessions.

At the same time, a full-fledged exchange of tariff concessions between Russian and the EU within an agreement on a free trade area is today out of the question due to the ongoing formation of the Customs Union and Common Economic Space (CU/CES) of Russia, Belarus and Kazakhstan. Since foreign economic policies have been transferred to CU/CES level, a free trade agreement is only feasible between the EU and the CU/CES or between the EU and each individual CU/CES country simultaneously. This second approach is out of the question because Belarus and Kazakhstan are not in the WTO, while the EU would not enter into agreements on free trade with these countries. As for the first approach, the EU leaders have repeatedly said they are not prepared to do this for political reasons, to a great extent because the CU/CES incorporates Belarus whose regime they see as undemocratic.

Thus, preserving the free trade area stretching *from Lisbon to Vladivostok* as a long-term goal, we now have to look for a more pragmatic format for a new agreement.

I am only talking about the economic portion of the agreement because I clearly understand that the political part is a subject for a separate, thoughtful, discussion. As I see it, we could suggest three simple principles as a basis for the new agreement in the economic section. First, the agreement should not contradict the WTO,

which seems quite natural and reasonable both for Russia and the European Union. Second, it should deepen the points specified by the WTO as there is room for this to be deepened. Third, it seems proper to expand the bilateral agreement beyond those issues regulated by the WTO. It also appears proper, taking account of the scale of relations between Russia and the European Union. Provided these three principles are used as its foundation, the agreement's economic section could use three main groups of issues to determine its content.

In the current environment, an economically optimal and politically acceptable format for the agreement should provide for:

- lower procedural barriers in mutual trade based on the sides' WTO obligations without affecting current tariff protection levels;
- qualitatively better conditions for investment cooperation;
- sectoral agreements in areas of mutual interest for Russian and European businesses including the establishment of the Russia—EU common technology market.

This point should appear in the version of the Partnership and Cooperation Agreement (PCA 2.0) promoting the conditions for a future *free trade area from Lisbon to Vladivostok*.

The agreement should describe reciprocal trade, mutual investment protection, and cooperation in individual sectors. All three subjects match the stated principles. What would it contain? It is common knowledge that reciprocal trade requires simpler customs administration and procedures. Take Finland, our closest neighbor famous for trade. We all know that the Vyborg area is still jammed with vehicles. Obviously, the procedures here can and must be simplified in the interests of Russia, Finland and the European Union, which should not run against the WTO rules. Sanitary and phytosanitary norms must also be eased. In other words, customs administration and procedures should be based on simpler mutual requirements regarding documents, unification of the forms and rules for authorized operators, electronic versions of documents and a move to the one-stop-shop service both for the submission of documents and customs checks.

Technical regulation is a momentous group of issues of key significance for Russia's innovative development. A lot has been done to this end, by Russian business as well. This Russian—European capacity is something to be incorporated into the text of the basic agreement. Special protective antidumping compensatory measures may as well be specified in the Mutual Trade section.

Technical regulation should encompass participation in the development and joint adoption of new regulations and standards for biotech products, in addition to environmental standards. The ap-



proach should aid the gradual unification of effective regulations, quality control procedures, and attributability of quality control marks used by the EU and CU/CES.

Within the CU/CES, most of the appropriate powers have been transferred to a supranational level, which suggests the need for two-tiered agreements. First, Russia agrees with the EU on a bilateral basis (Russia First), and then Russia ensures approval of these agreements on the CU/CES level. A similar approach was applied successfully in Russia's WTO accession. As a result, the approach appears applicable in future, given Russia's leading role in the CU/CES.

Mutual investment protection comes next. On the one hand, this is a tricky situation, while on the other, it opens up opportunities for decisions. Russia has signed agreements on mutual protection of investments with many European countries. It seems appropriate for Russia and the EU to agree on the principles for mutual investments protection, so that Russia can preserve existing accords when the powers are transferred to a higher level. Protection of intellectual property is an enormous field and one that is extremely important for modernization and the innovative economy in Russia. This, as a subject, requires clear-cut agreements with the European Union, much like support for concrete investment projects. All these points are related to the mutual protection of investments. They could be initially included in the basic agreement, and then later into a more detailed version.

Finally, cooperation in intellectual associations and sectors in transportation, telecommunications, healthcare and security. Many experts say that international cyber attacks have become a reality. This is the challenge of our times. Last November, Saudi Aramco had 20,000 computers shut down in one fell swoop, as the result of an attack from another state. Recently, computers, TV and banking services were jammed in South Korea. We have companies providing protection at the international level and would easily integrate in the European sector.

I believe that the structure suggested does not contradict WTO principles, does not affect the trading regimes regarding third countries, does not contradict our agreements under the Customs Union and does not face any insurmountable political barriers. There seems to be no clash in any of these spheres.

Why not finally reach agreement, not to prove that opponents are rivals, but in order to find consensus. The problem seems solvable. Today, when business is ahead of politics, politicians should draw the appropriate conclusions and sign the PCA 2.0.

There are certain factors in favor of concluding the new agreement in the suggested format (PCA 2.0):

- this is a mutually beneficial agreement for Russia and the EU, with all its elements (simplification and advancement of trade and investment, unification of sanitary and phytosanitary controls and technical standards, assistance in technological cooperation, *etc.*) in zones of Russia and the European Union's direct interests;
- PCA 2.0 involves hundreds of billions of euro in mutual trade and dozens of billion in investment;
- PCA 2.0. does not contradict WTO rules, rather it is based on them and specifies them in areas of the parties' interests; this is usual practice for current agreements on trade and economy in the absence of a lengthy progress within the WTO framework;
- all issues related to lower procedural barriers in foreign trade could be settled with no effect on the new trade regime toward third countries;
- drawing up and signing the PCA 2.0 would not contradict the creation and development of the CU/CES of Russia, Belarus and Kazakhstan – we are learning to combine formats and will take our partners' interests into account, bearing in mind that Russia forms the basis for the Customs Union;
- entering into the PCA 2.0 is not linked to recent years' insurmountable political hurdles (no progress on visa, energy, *etc.*, as these issues could be placed beyond the PCA 2.0 and then included after the agreement is reached).

These factors indicate that PCA 2.0 talks could be launched this year, and the signing stage reached by 2015.

### **The European Market Is Still the Priority**

**Vagit ALEKPEROV,**

*President of OAO LUKOIL*

Our Company has been investing in the European Union for some 20 years, with the total amounting to about 10 billion dollars. We have a presence of over 8,000 specialists in 25 EU countries.

Outlining the prospects for the company's development, and that of the hydrocarbon market, we cannot overlook infrastructure orientated toward Europe by the Soviet Union and developed by Russia more recently. Gas and oil pipelines, as well as port facilities are all focused on Europe. I am sure that future Arctic fields will be also geared mostly at the European market. Let us not forget that the Arctic waters are ice-free four to five months a year opening the routes for hydrocarbon deliveries to the Asian market. Trade with China has reached 70 billion dollars, with the goal set of boosting this to 100 billion by 2015.

However, trade with the EU amounts to 400 billion and will to climb to 500 billion dollars in the coming years. Hence, the EU market is, of course, of prime importance. This is the place where we must be flexible, and maybe even aggressive, but at the same time cooperative toward our partners in implementing projects that benefit EU countries and create a firm base for the development of Russia's industry.

In the coming years, the Russian Federation will upgrade its oil refineries to supply over 70 million tons of distillates to the European market. European normative acts are pushing us to modernize our enterprises, and we are successfully doing this. Of course, the market must be structured jointly with our partners. This is what Company is aiming at. We are investing in joint ventures, including clean energy, which enables us to acquire new technologies and attract new resources to the Russian market.

Looking eastward, one may see that elevating turnover to the European-level will require mammoth investments in infrastructure, port facilities, and oil and gas pipelines. Of course, the Eastern market is promising. But we should get closer to Europeans. That means consolidating the normative bases so that we can better understand each other and see our materials, technologies and equipment adapted both to the Russian Federation and EU countries.

We are definitely interested in seeing a united and prosperous Europe, in order for it to remain the primary market for innovative products, raw materials and mutual attraction of European funds and technologies for modernization of our production assets. I believe that Europe will enter recovery soon, since 2.6-percent GDP growth is an encouraging enough figure to allow us to be optimistic about the future of electricity consumption.

### **Ready for a Technology Revolution?**

**Wolfgang SCHÜSSEL,**

*Federal Chancellor of Austria (2000–2007)*

It was one of the world's leading economists, Joseph Schumpeter, who said that the 21st century will be the entrepreneurs' century. And it is true, businesspeople are always at the vanguard, are always the first to explore opportunities, possibilities, challenges and chances. Today it's all about innovation. We are looking for more growth. And the mystery behind how to get more growth is innovation. Without innovation there will be no future, neither for Russia nor for Europe.

Today, all problems and all areas of human activity are global. Trade, manufacturing, financing – are all global factors. Only politics

is a local factor. This is exceedingly interesting. In America, China, Europe, and Russia, everything related to politics is very limited and local in nature.

And I think that the time has come for business people to break this mentality. It is imperative we broaden our horizons, in order to explore better the world around us. Innovation in all areas, not just in business but also in politics and governance, is a key element.

I anticipate that, in the next decade, we will see some sensational new technological developments. For example, in communication. This area is just beginning to develop: mobile phones, tablet computers. The next 10 years will see a technological revolution that is all-encompassing: civil society, politics, business, et cetera. There will be new technological developments in transport, including cargo delivery. Within the next 10 years the driverless car will become a reality on our roads. Think about cargo development, cargo transportation. I mean this is just the same railway, the same technology like one hundred years ago. There will be a technological revolution during the coming 10–15 years. In medicine today we see robotics help people who are incapacitated through illness deal with day-to-day tasks. Robotics supports elderly people, prosthetics help those who have problems with specific parts of their body, there are pharmaceuticals, and so on. There will be a revolution that extends life expectancy. I think there will be a technological revolution in food production, agriculture, logistics. New production capacities will be created.

Are we ready for this? No, we're not ready, neither psychologically nor politically. Our legal system is not ready for the technological revolution. What could Russia do with all these brilliant scientists and people, innovators, inventors? What can Europe do? This could be a brilliant example for cooperation!

Let us not forget that human resources are playing a principle role in any technological advance. There is one thing which is always underestimated and which is behind the German, Swiss and in some parts also the Austrian success story. This is the so called professional education, the dual apprentice system. The "duale Ausbildung System" is difficult to translate, but it is the professional education that produces skilled workers. Russia needs to attract younger generation to this area, giving them the right impetus to get an education and broaden their opportunities.

And the second point is migration. Europe and Russia face the same problems: a large number of legal and illegal migrants. We are not applying an effective solution to this problem. We have yet to exploit their real potential, so let's work together to

train them and teach them our language. And finally, there is the visa regime. People in Eastern part of Russia can travel easily to Hainan, China, but have great difficulty coming to Europe. The political approach is narrow and limited, and this is something Ministries of Internal Affairs must solve. So innovation in bureaucracy and political affairs is important. If you really know how public procurement is carried out, and it's the same in Russia as in Europe, there's no innovation at all, this is just the same status quo as 10 years ago, 20 years ago. So today we have a lot of innovative approaches, and if we want to tackle these problems we need innovation.

**Standards: Do Not Try to Reinvent the Wheel**  
**Isaac SHEPS,**

*Senior Vice President Eastern Europe and CEO in Russia, Carlsberg Breweries A/S President of OAO Baltika Breweries*

Carlsberg Group is the biggest brewery in Europe and is number 4 in the world. Our company, Baltika, is number one in Russia, has invested 12 billion dollars in this country. At the end of last year we decided to make a voluntary offer to our small shareholders to invest an additional 1 billion dollars.

This business is the real proof that we have confidence and trust in Russia, otherwise we would not invest so heavily. We have 10,000 employees in Russia, and the same number in the countries of the former Soviet Union. The main issue we are looking at is ensuring stability and predictability of procedures, laws. We really believe that if Russia sticks to WTO and EU Commission agreements, this will only improve the situation, as all these agreements are based on a common understanding that there are some procedures, legislation, rules that do not change overnight, and are usually formed in consultation with industrialists and business people. The situation is improving in Russia, but we are lagging behind. Sometimes the consultations we expected simply do not take place.

There is still a lack of trust between government and members of the business community. And this lack of trust emanates from government and from other participants in this process. Carlsberg, coming from Denmark, is a very responsible, professional, high-integrity, law-abiding company. If you were to ask people in Russia, I am sorry to say that we would have an answer that we are here a foreign company, all we come here is to take the money, we produce bad beer, we don't do it the same way here as at home, and we palm off low-quality products onto them just to take the money

and leave. This trust needs to be won. Believe it or not, the quality of our products in Russia is sometimes much higher than it is in some other countries. And we make Carlsberg in Russia exactly the same beer as it is in Denmark. We need to gain the trust. At the same time, we have these government bodies, we go to them and say "Please, consult us, we have experience, we have some knowledge, we work in 150 countries" and we get the answer "No, we know better."

We import Corona. It is now labeled a "beer-based beverage". It is not, technically, a beer. Hoegaarden is not a beer in Russia. Now, we look at this kind of definition and just do not understand. It is innovative legislation, in a sense. And these are the things that industry finds very hard to work with.

We implement ad campaigns, and see that that the government has decided to ban advertisements for beer and other alcoholic beverages, or to ban beer-drinking at certain sports events. I mean we understand the logic. But there are cases where logic does not help.

There is a research saying that if you produce beer containing less than 80 percent barley malt, it causes cancer. This is totally non-professional, it was the research that was carried out on the orders of people who have the deciding voice.

Russia for me is the country of science. St. Petersburg is the home of Mendeleev. If Russia really would like to have an open economic environment, you must be willing to sacrifice some local interests, some local phenomenon and you must start to think globally. Why not just copy-paste the standards from Europe? Why bother reinventing the wheel?

As for customs and tariffs, first we need to get rid of all the non-tariff barriers, such as regulations, paperwork. WTO accession is very important in this context, because it opens up a path for people to sit down together at the negotiating table and say OK, let's discuss our differences and work together. And let's talk about trust. We export our beer. Baltika is the number one brand in Europe, and Russia is part of Europe, isn't it? We are the biggest brand. We exported to 74 countries in the world. Would they buy it if it were poor-quality? No way. It passes all the health tests in the world. We come here, we believe in Russia, we are sure we can do it, and I am sure that if we work together, the situation will only improve.

## **Russia Is Our Reliable Partner**

**Reiner HARTMANN,**

*Chairman of the Executive Board, Association of European Business in Russia*

Innovative legislation is something we often face, of course, with our investors from the European Union and we represent almost 80 percent of foreign direct investment (FDI) in European business, and this is continuing to grow.

We have, certainly, quite a number of issues on our to-do list, but what I always like to say is “a lot of things have already been done”, concerning the famous investment climate in Russia and concerning the “country risk” for Russia, which, in our opinion, and survey has proved this, is overestimated. The country risk in the country I come from, Germany, is somewhat higher than that of Russia, because we shut down all our nuclear power plants virtually overnight. What is that, if not a country risk? I represent the E.ON group in Russia in addition to my position as Chairman of the Association of European Business. If somebody had told me 10 years ago that our company, the E.ON group would today, in 2013, be the largest foreign power producer in the Russian Federation, I would not have believed them. But it is a fact. Those who have participated in this process, Western investors plus Russian investors, have done extremely well. My most important task was to convince my own Board to enter the Russian power sector and take on the “country risk” for Russia.

Today we have 11.8, almost 12 GW of capacity already here, in Russia today. Russia’s reliability, not only as investor, but also as a supplier, is unprecedented. We have been dealing with Gazprom for almost 14 years, and in all this time there was not a single interruption in supply under our contracts. Not one. The interruptions that we experienced in 2008 and 2009 were not linked with Russia, but with the transit country – Ukraine. We are not only the largest buyer of Russian gas to date, we are also the largest buyer of Russian coal for our power plants in Europe which are in part coal-powered. So here in terms of country risk, it is the same story: there was not a single interruption in supply and no security problems.

As an investor, you can only deal with the state, with the government. Here, we have had issues concerning the liberalization of the power sector, some interruptions to our joint work, to the implementation of our shareholder agreements. We discussed this with the government in 2008, during the crisis. The government listened to us, and offered us ways to compensate for this unforeseen interruption in the liberalization process.

Trust, strategic trust is the most important factor. But in order to gain trust you have to be in constant dialogue with the Russian partner. The EU—Russia energy dialogue was established 11 years ago, it is still delivering success. It makes progress step by step. A year or two ago we saw the Gas Advisory Council created in order to deal with issues that arose in relation to the third energy package. In Russia this was dubbed an “anti-Gazprom” package. During work with the Gas Advisory Council, which includes Russian and European industry representatives and scientists, we have been able to convince them to view the third energy package in a different light. We are confident it will be positive for Gazprom, as they have now access, direct access to the “end users,” which is what they want. Of course, the third energy package has complex rules, and I don’t want to go into details about that now. I just want to stress the importance of dialogue in building an atmosphere of trust.

Of course, corruption has a negative impact on this atmosphere. Corruption issues are exaggerated by the Anglo-American press. I am not trying to paint a rosy picture for European investors here in this country. As I said, the Russian business environment has its peculiarities as does the Chinese, Saudi Arabian, or South African business environments – although they are all very different from one another. But the Russian business environment, as is proved by a lot of investors which chose sitting here in his room or being investors which we represent in our association, this business environment is not worse than that in the UK or Germany. It is just a different environment.

As a representative of the Association of European Business I have to say that we have seen progress in the tax regime, we have seen progress in the legislative base, remarkably, we have seen progress in the customs clearance regime. So, in all, these things added together reduce the Russian country risk considerably. Ownership structures are also gradually changing. What is needed now is a boost for small and medium-sized business. This is the backbone of a lot of economies. We have to open the investment opportunities for small and medium-sized European companies coming to Russia. It may sound like fancy rhetoric, but real modernization takes place through investment.

The Eurasian economic union also offers investment and business opportunities. The first part of it is, of course the Customs Union – which has reached out to us as the Association of European Business. We have taken part in a series of meetings, discussed potential customs rules and regulations. It is inspiring to see how quickly and methodically this process is evolving. It is difficult to unite three separate entities, to harmonize regulations and laws.



The next step is creating a Eurasian economic union. In the context of EU—Russian relations we should note a growing awareness of these shared responsibilities. Russia has played an important role in setting the rules for economic integration, and has established a solid, reliable institutional basis.

And this is important, ensuring the institutional basis for economic integration. As such, it means that a viable form of advanced economic integration has emerged in the post-Soviet space. A viable form of advanced economic integration has emerged in direct competition to what is offered by the EU and has moreover moved Russia into a certain rivalry with the EU in a domain in which the EU has not yet been challenged on the European continent. And this is very significant. But we only welcome such challenges. I am very glad that members of the European Parliament have confirmed that they view these processes positively. After all, just three years ago, when we were discussing these issues in Brussels, the situation was very different.

I must note that the creation of a Eurasian economic space is a logical step, since the USSR was the largest integrated common market under different rules yet, but it was the largest integrated common market. Yes it applied other rules. But why not exploit this experience? You have common language, you have common institutions, *et cetera*. So why not use this in business? As far as business is concerned, we see an advantage for investors. Some European companies that are already established in Russia, already take advantage of this integration: within the Customs Union there is the free flow of goods, services, human resources, and capital. We can benefit from this. Our own company, the one I representing here, are currently engaging in a project in Kazakhstan, which a couple of years we would have been able to implement.

However, stereotypes remain in Europe and across the Atlantic, left over from the Perestroika era. One paints a picture of Russia's imperial ambition. The Customs Union breaks this stereotype. It has clear rules and regulations, and every country will testify to the fact that Russia is not seeking to dominate it. Having had this experience in negotiations and discussions with Russian entrepreneurs and with the Russian customs union authorities, we can only underline that this development is positive.

We also have great hope for work in Belarus. I discussed this with my board members two years ago, Belarus was a no-go zone for political reasons, but I said, fine, that's one thing, but we want to do business. Again, the situation has changed now. So, and I see also some very slight movement in the attitudes in Brussels towards

Belarus. Off the record, there are movements and they are positive. And I think the European Parliament sees this as well.

The European Union and the Russian Federation are on the right track to developing this joint common space. How it will go on to develop, integrating other countries, remains a secondary question. Let us not repeat those mistakes that we have made, let us keep up the pace we've achieved, and move forward.

## EURASIAN INTEGRATION IN THE FRAMEWORK OF THE RUSSIA—EU PARTNERSHIP

### **The Customs Union Is a Natural Step Forward**

**Andrey SLEPNEV,**

*Trade Minister, Eurasian Economic Commission*

We are working hard to bring down customs, administrative, technical and other barriers, which form the foundations of WTO activities and have largely defined the global economic order since World War II. During the past 10–15 years, we have supported the Doha Round, although it seems clear that its chances are close to zero. The most we could expect is the signing of a trade promotion agreement and associate agreements at the WTO Ministerial Conference in Bali.

What is a trade agreement? Generally speaking, it is a summary of the free-trade bilateral experiences accumulated during the Round. During the Round's 10-plus years, hundreds of free trade accords must have been reached to cover not just duties and other traditional issues but also such novel aspects as standards and e-commerce. Cooperation and unified standards in competitive policies, the environment and labor are coming into the foreground. And these processes de facto materialize independently out of the multilateral system of international trade. The WTO is losing its role as the global regulator, while the rules are being established within integrated associations and free trade agreements.

The U.S.—EU initiative to build the Transatlantic Free Trade Area by 2015 seems of great significance for experts and practical operators. Achieving this would be a clear indication that the development of regulatory standards in trade is moving to integrated associations. In fact, it is something we are doing in the post-Soviet space by creating the Eurasian Economic Union and the Customs Union, reflecting the timely and natural status of relations between our countries.

The idea of the Customs Union emerged back in 1995, after which a lengthy development period followed, and it received a powerful impetus in 2008–2009. In the initial year of its existence, growth rates for mutual trade exceeded those for international trade. According to data for 2012, mutual trade growth was three times faster, i.e. 8.7 percent in mutual trade compared to a little over two percent in international trade. And this trend is continuing, as mutual trade was also leading last January.

Against this backdrop, we see lower trade figures vis-à-vis other CIS states. Reciprocal trade is visibly diversifying, with Belarus demonstrating the highest rates. Russian figures are also on the rise, while Kazakhstan seems to be in decline, with exports of coal, ores

and oil products down by 26 percent. At the same time, Kazakhstan has seen sales of machines and equipment rise by 73 percent. Here we see substitution – the commodities still go to the foreign market, while trade has improved from the point of view of the economy.

Hence, I do not agree with those who say the Customs Union is a political scheme. This is a natural project for economic recovery, although there is a political aspect. Taking the regional integration trend into account, we should do our best to make Russia—EU and Customs Union—European Union relations more competitive within three to five years. If we are slow to remove barriers to unifying regulation and standards, our relations will lack relative competitiveness and cooperation will become complicated. In this scenario, companies would gear themselves at the external space and turn their backs on each other, generating political friction. To this end, we believe it important to find solutions to the complex problems of trade, technical and competitive regulation, *etc.* Dialogue must preserve and boost competitiveness in our relations.

Our aim is to establish a full-fledged Eurasian Economic Union by January 1, 2015. This involves the accomplishment of several tasks. One is opening up the potential of the agreement on the Common Economic Space. Two is establishing a consistent international integrated group complete with proper legal standing. Three is building the CES-plus, i.e. taking additional integration steps to rise to the next stage. Today we have built a common market for goods that works passably, although with some issues. By 2020, we should advance to forming a common financial market and mutual recognition of licenses for financial operations. Other elements relating to the services markets should also be established, i.e. the harmonization of macroeconomic, industrial, farming and infrastructural policies.

Therefore, the regularly raised issue of new members appears marginal. Since time is limited and the tasks facing us are huge, the priority remains: deepening integration. Of course, within the Eurasian Economic Space we have certain obligations to Kyrgyzstan and Tajikistan that will join the process as soon as they are ready.

### **For Us, Integration Is a Matter of Survival**

**Andrey DENISOV,**

*First Deputy Minister of Foreign Affairs of the Russian Federation*

There seem to be two views of Eurasian integration. One may regard it merely as a project and assess it based on success and failure. If things go wrong, you get up and switch to another venture. But this approach appears mistaken. The other approach is more appealing – viewing it not as a project but rather a national impera-

tive that excludes a *success-failure* binary opposition. Collapse is out of the question. We see it, to a great extent, as a matter of survival in this turbulent world.

This turbulence emanates comes from governance shifting to a regional level, and also from a stronger regional aspect in global politics and the global economy, with the financial and economic crisis forming the background for all these global processes. Hence, economic integration is the imperative of today, and our choice is by no means different from choices faced in other parts of the world – from Asia Pacific via Eurasia and Europe to Latin America. In other words, our choice is quite consistent. So, when we are criticized and accused of *imperial intentions*, naturally, we wonder why anyone has a right to deprive us of the historic opportunity currently being exploited by virtually all our partners.

Is integration underpinned by politics? Of course it is, which is only sensible. Do not forget that 22 years ago, Belarus, Kazakhstan, and Russia had a common economy. Their populations, including the workforce, speak the same language and do not require interpreters. And it is only reasonable that we rebuild and institutionalize economic ties.

How should this trio build relations with the world outside and within the group? Any great project is complicated, but we are determined to move forward and overcome the obstacles in our path. As for relations with the world outside or, as we sometimes put it, the *international positioning of Eurasian integration and its institutions*, things are not that straightforward.

First, we are no longer the same country as far as trade, customs, tariff and technical regulation are concerned. We are three separate states. Like it or not, but you have to deal with three states and with a supranational institution. Characterizing the scope and nature of our relationships with the European Union, we are positioned far from the national platform. We do say that the EU is the key trade and economic partner for our three countries – half of our exports and 40 percent of our imports. For all three, I will say it again. And we are important for the EU as well, i.e. the third largest trading partner, a medals place, if I can put it like that. Only the United States (14 percent) and China (13 percent) have better figures, while our three countries take up 11 percent of the EU turnover.

In negotiating the new basic agreement with the European Union, we seem to have convinced our partners that dialog is becoming largely academic and impractical if it leaves out this trio, since we are, after all three countries, not one. The good news is that the EU appears to understand the need for direct expert consultations with the Customs Union. And I emphasize the word *expert* because, for

now, like our partners, we are only ready for this format, in the hope that this is the starting point for progress upward and onward.

Quite significant to this end is the point that Russia is the only WTO member within the trio, and quite a new member at that. Of course, there is an agreement that trade relations between the Customs Union and the European Union should be largely based on WTO terms for Russia. Of course, there are certain nuances and details but such an understanding exists, both on our side and in the EU. To this end, we are satisfied that Kazakhstan's talks on joining the World Trade Organization are nearing completion. We appeal to our partners to treat Belarus pragmatically as an economic partner and hope that Belarussian talks on WTO entry will start soon.

Here comes the question about linking the two integration processes, i.e. in Europe and in Eurasia. We are working hard on this problem in the national bodies of Belarus, Kazakhstan and Russia. Why are we so concerned? The EU is using the principle "either with us or without us" to engineer relations with the countries that separate us geographically. We are less concerned by the fact our partners are being presented with a dilemma and more concerned by the artificial creation of conditions for countries that are connected with both Eurasian and European integration processes. The intentional drawing of *red lines* is an attempt to erect predominantly artificial barriers that would complicate interaction between the two integration processes.

Take technical regulation. In the not too distant future, we seem to be in for a set of technical regulation norms and standards common for Europe and Eurasia. So far, there is no complete conformity, meaning that there is a great deal to be done. Hence, the countries that are building relations with the Eurasian Union, Customs Union and European Union should be prepared to switch over to an appropriate technical regulation base. It does not seem quite right to artificially accelerate the process. For example, we have no official information as to the terms of the EU's interaction with Ukraine, our neighbor, within the emerging Free Trade Association. The terms have been described only by documents published by a Kiev-based website. The draft agreement is more than 900-pages long, 845 of them on trade. As far as I recall, the transition period to the EU technical norms is just six months. The issue seems to be purely technical, not politicized, but it generates a major barrier for multi-vector economic interaction.

There are many such examples. Our European partners seem to follow the principle creatively formulated by Mao Zedong: "First bend, and then straighten." They may be pressing too hard in order to make things right later because the near future may see a situa-

tion like that arise: it is easier to tighten the terms now, and later it will be helpful to offer concessions, implementing de Gaulle's concept stretching *from the Atlantic to the Urals*. President Putin formulated it as *from Lisbon to Vladivostok*. This is a formula from which we could proceed. If current trends in global and regional trade continue – which seems inevitable – we shall have to create one expansive free trade area uniting all the regional blocs. And then we will attain the desired quality we all are hopefully seeking despite all political limitations.

### **People Must Have a Choice**

**Libor ROUCEK,**

*Vice President of the Socialist and Democratic Group in the European Parliament*

We live in a globalized world; today the population is at 7 billion, in 20 years' time it will be 9 billion. Europeans once made up about 20 percent of the global population, now Europeans make up about 7 percent. Even though the number of EU member-states continues to rise, the EU's population will continue to fall. I think the same applies to Russia. So, looking at the demographics, the future does not look all that rosy. This is one of the many reasons why we need to work together and integrate.

The discussion as to what Russia's place is in this has been going on for many years. Are Russians Western Europeans or more Asian? Whatever the case, Russia has a strategic advantage: it covers both the European and Asian parts of the continent. In cultural, economic, and historical terms this is a great advantage in Asia. And that is why Russia is part of APEC, for instance. It is also why the new Chinese leader's first visit was to Moscow. This is good for Russia, it is good for China, and it is good for Europe, because we in the EU and America also want to build good relations with Asia. Again, people, 60 percent of the world's population live in Asia.

When it comes to the customs union or the Eurasian Union, there is some concern that Russia might be harboring post-Imperial ambitions. Are there any grounds for this? Almaty was built in nineteenth century by the Russian settlers. So the history goes beyond the Soviet era. The same goes for Russian interests in Tajikistan or Kyrgyzstan. I think that Russia is reinforcing security, developing economic and cultural ties, not only in these countries' interests, not only in its own interests. It is working to integrate the Central Asian countries, to ensure they are not left isolated, to ensure they are not sucked into a black hole developing in the south. Russia is acting here in Europe's interests.

Now, it has certain degree of experience of integration within the former Eastern Bloc, and that is very valuable. Of course, in this case, issues of human rights, civil rights, democracy, freedom of choice arise. So let the people of Kazakhstan, Uzbekistan, Ukraine, Moldova, Georgia, Belarus, themselves choose where they want to be. It would be a mistake not to put this question to the people. The role of parliament is another important aspect of the equation. Whether it is the Russian Duma, the European parliament or the American Congress, the parliament is the heart of the democratic system. Whether it's the parliamentary democracy we have in Central and Western Europe, or even the presidential democracy in the United States. Without it nothing makes any progress. And the same applies to the European states. And now, especially since the Lisbon treaty, the same applies to the European Parliament. No treaty, including the free trade agreements, can be formed, created, signed, or implemented without the European Parliament's consent. And it is right.

But there are problems, from the perspective of our relations. Essentially, the European Parliament is a counterparty to the Duma, although many of our political groups have no equivalent in the Duma. I represent the only political group that has a partner in Duma, we in the social-democrats work with Russian political parties. But the Christian democrats, liberals, greens and others, they don't have any kind of partner in the Duma. And I think this is a part of the problem. The problem is related to criticism of human rights and civil society. If our liberals or "greens" were to have partners in Russia, they would view the situation in a more constructive way and not focus so exclusively only on human rights, instead seeing more opportunities in a broader overall picture of our relations.

We are neighbors not only in geographic terms, but in cultural and economic terms, and we want to see cooperation be as close as it can be, because this is in our mutual interests. Not only for strategic or security reasons, but also because we want to improve the economic component of life and raise the standard of living for our population.

I know it is not easy, it cannot be achieved instantly, but let us develop relations between the Duma and the European Parliament. However, I don't see this aspect there, in relation to the Customs Union or European integration. I think if you want to build that integration, it needs to happen not only from the top-down, because the ministries and the bureaucrats and the business, they clearly see the advantages to be gained through major economic integration. But in the longer term, if this integration has to be sustainable, there has to be also some sort of support from below. And it cannot be



done by anybody else but by the parliaments, because the parliaments represent the broad spectrum of the social partners and civil society.

The people should have the choice; they should freely decide what type of integration they want. In the case of Ukraine, we have clear statements by the leadership, we have also resolution by Ukraine's parliament, the Verkhovna Rada, which clearly speaks about European integration, in spite of the fact that the Verkhovna Rada can barely function – they cannot agree on anything, but they agreed on this, they agreed on this resolution. So Ukraine has chosen its path and I think we should both respect that.

Most people represented in the Verkhovna Rada back a free trade zone and integration with the EU. But we shouldn't forget that 12 million out of the 46 million people living in Ukraine are Russian speakers, especially in Crimea. They look at Russia as their historic homeland. Their interests must be taken into account.

Russia told the people of Ukraine: You have to choose, it's either EU integration or integration with us. We met people in Kiev to discuss energy policies. Many Ukrainians, including Russians, are disturbed by how Russia insists on gas prices, as Ukrainians pay more for Russian gas than Germans do.

We want a common energy space. We in the European Parliament also want a space where people can travel freely, be they businessmen, students, or society at large. It is the European Parliament that was pushing for visa-free regimes with the Western Balkan countries. It is in our interests and above all interests of normal people to travel and move freely. There are about 4 or 5 million Russians living inside the EU. These people are active, they travel constantly between the two places, so it's good for the economy, it's good for cultural understanding. These people are sort of breaking the dam, exploding inherited stereotypes.

In the EU, with the exception of several members of the European Parliament, the Baltic States and Poland, no one is talking about Ukraine's EU membership, but we do discuss the free trade agreement. Some in the EU feel we have expanded too fast, and many countries are not ready to welcome this expansion. So let's make a decision together, not isolating the Ukrainians or anyone else, as this would lead to tragedy. We have lived through times when the European countries were divided by the Iron curtain, but today we risk creating a new, albeit softer, barrier. Let us put all our energies into the positive – destroying all barriers!

## **Do Not Seek Pretexts to Hamper Russia**

**Rachida DATI,**

*Member of the European Parliament (European People's Party)*

I share this enthusiasm for Eurasian integration. Representing the European Parliament and the People's Party, a rightwing party, I believe that this kind of integration should not scare Europe. We should not look for pretexts to hinder Russia's joining because Russia's presence is also important for the EU. However, the Eurasian Union is a most ambitious project, politically ambitious, since it encompasses both geopolitical and geographical aspects, by which I mean Russia's advantageous location vis-à-vis both Europe and Asia. This is something we cannot ignore.

How should we view this expansion? The European Union means political success and successful enterprise. It is a power of a sort, a potent organization. At times, the EU has expanded faster than it integrated, which added problems. Now it seems that integration should have come first, before expansion. And we are now trying to review our tactics.

Despite the crises that still haunt Europe, ten more states joined us recently, bringing with them both political and economic problems. These need to be solved, and the European Union has the necessary experience. Clearly, Eurasian integration cannot occur without the EU's participation. And please do not think that our political debate is based on counterbalancing the two blocs. We are not planning the separate development of our economies. More than that, we regard them as a potentially common space. It could be extremely beneficial for both sides, and we are ready to support integration along these lines.

As for Russia's accession to the WTO, we are only happy that Russia supports the project. We hope that Russia, and other countries of the Common Economic Space, will make progress in advancing our trade partnership. There still are many stages to go through together before we achieve total harmony, such as mention energy, security investments and the free trade area. I am sure that any common space means primarily a space for human communication. Next comes communication between parliaments. There are many EU Parliament members who support this process. We back interaction.

Millions of Russians live in the European space and I support a simpler visa regime. There seem to be no technical barriers for dropping visas. This decision should be purely political. Besides, we cannot ignore the young people, i.e. their education, training and cultural exchanges. We want Russian students to obtain a priority opportunity to come to us and study in our institutions.

I advocate the idea of setting up a Russia-oriented parliamentary fraction. The European Parliament could obtain representation from the numerous Russians residing in the European space, so that they could protect their interests. All that this requires is the will. There are some barriers but they could be easily removed, as you wish. Unfortunately, European politicians seem to be reluctant to do so.

I am dwelling on this issue because I have my personal immigration and integration experiences. According to recent research, the French increasingly mistrust Islam and Muslims. This mistrust is caused by security concerns, by terrorism. This is a political issue but politicians should not act as transponders of public opinion. They must openly explain the need for such measures.

For a long time, many politicians have been neglecting immigration because the subject is very sensitive. But the radical rightists were more overt: "Let us close our borders." The radical leftists countered: "Let us be welcoming and open our borders." At the same time the center kept silent. But I think that a politician must have a stance, a definite attitude clear for the electorate.

In recent years, I was in the government and we discussed the matter: immigration must not be a scarecrow. We do not support closing borders but insist on controlling the process and do so analytically. Things should be sorted out – what kind of agreements are available and whether these are balanced to suit both countries' interests. Today Europe has adopted an evenhanded pact on immigration, unanimously. If we want to convince someone, we get there – eventually. I am proud to have promoted the pact and of the fact that immigration is longer a taboo subject.

President Putin said: "If we concentrate only on protecting borders, in particular Russia's, political but not technical difficulties may emerge for obtaining visas to the European Union." I agree we should sway public opinion. We must oppose the populist sentiments that have surfaced during the crisis. Speaking of migration, even of visas, people get the impression that they are about to be deprived of jobs and see their living standards fall. Europe began its unification journey as six states, which then turned to twelve. Now the EU has 27 countries, and far from all of them meet integration standards. Some said: "Integration of countries with standards lower than those of the founding states will push down EU's overall living standards and boost unemployment." Nothing of the kind. The European Union has created thousands of jobs. It was very profitable and produced prosperity.

Our party is quite conservative, which does not mean it is stuck in a backwater. It is founded on fundamental human values. Today,

our mission is to explain why a simpler visa regime would be a “win” for Russia, for the European Union, and for the entire world in crisis. Apart from the economic crisis we are all embroiled in now, Europe is facing a political crisis. You can see that at the polls, as people just skip elections. And if they do vote, their choices are extremist. We should shun grotesque excesses in the integration debate and support Russia, giving up our search for pretexts such as references to a “neo-imperialist syndrome.” We must support the mutual interests of Russia and the European Union.

### **Energy Bridges Work for the Future**

**Andrey KAZACHENKOV,**

*Member and Deputy Chairman of the Federal Grid Company's Management Board*

The Unified Energy System Federal Grid Company is the owner and operator of the Russian Federation's high-voltage electricity transmission grid system. Company assets include 120,000 kilometers of high-voltage transmission lines, over 800 substations located right across Russia from Vladivostok to Kaliningrad. We happen to possess a solid integration base both in Eurasia and European Union. We receive and transmit electric power in 11 countries along 140 inter-state transborder lines, encompassing Belarus, Kazakhstan, Ukraine, Mongolia, Georgia, Azerbaijan, Estonia, Lithuania, Latvia, Finland and China. Integration ties with neighboring states generate competitive advantages. We believe that integration is a strategic competitive advantage of the 21st century. We have no right to leave future generations with closed doors and have a duty to build a dialogue that benefits all participants.

Jointly, together with our partners, we are developing the concept of high-voltage energy bridges. Russia holds enormous mineral reserves including natural gas, oil and coal. Hence, the delivery of these energy carriers forms a key export potential. But advanced technologies are already suitable for exporting power. Ultrahigh-voltage transmission lines (over 1,000 KW) are cost-efficient and feature acceptable losses that open up very real possibilities for practical business projects.

We have had fruitful talks with the State Grid Corporation of China, a major global company that is also engaged in ultra-high voltage technologies. We propose to use Russian regions rich in resources for the construction of generation stations and lay energy bridges in Eurasia, and also to Europe, China and possibly Korea. These projects are truly promising, making the power sector believe that integration is also a bridge to the future.

## **Doing Business in Russia Has Never Been Easy**

**Rene NYBERG,**

*CEO of the East Office of Finnish Industries, Ambassador Extraordinary and Plenipotentiary of Finland to Russia (2000–2004)*

Finland is a traditional neighbor of Russia, and, if I may say, the only neighbor that enjoys a relaxed relationship with Russia. Finland welcomes Eurasian integration and all steps toward eliminating barriers, promoting trade and avoiding new forms of protectionism. Russia's decision to join the WTO was a strategic choice long overdue. It marks a milestone in Russian integration with the rest of the world. Eurasian integration introduces a system of rules that are harmonized with international norms and the WTO regime. For the European business community, including Finnish business, all efforts to remove trade barriers are viewed as positive. Building a strong law-based community is critical. Investors seek locations where the attractive production factors are present in a predictable investment environment at a decent price.

Doing business with Russia has never been easy, but it is possible, and, as we all know, can be very profitable. Two of the biggest impediments to doing business are: excessive red tape and the omnipresent Soviet GOST technical standards. These two problems also afflict other members of the Eurasian Economic Union. Outdated GOST norms hamper the introduction of modern equipment, as well as more efficient methods of construction and production.

I vividly remember that, in 2002, German Gref, then Minister of Economic Development, speaking to an audience of EU Ambassadors mused: "I understand that we have to certify certain products. But I do not understand why we certify Swiss watches." It is important that the Eurasian Economic Union recognizes the rule-making power of the European Union concerning norms and regulations.

For obvious reasons, Russia is a major trading partner for Finland. In all respects, the Russian market has turned out to be a major growth market for Finnish industry, which otherwise is suffering from lackluster European demand at the moment.

Finland in 2012 rated as number three in the global Logistics Performance Index after Singapore and Hong Kong. Over 40 percent of all imports from the EU to Russia transit Finland. The Russian border with Finland is, in all respects, the best equipped and best functioning border that Russia has. At the Finnish border, Russia interfaces with Finland's sophisticated, world-class customs and border services.

Transit shipping of goods from third countries remains important, although it has changed in character and content with the development of the Russian economy and Russia's expanded port capacity.

On the down side, Finland has lost its position as a major exporter of bananas to Russia. Even if it retains its place as a preferred operator for bonded warehouses and a reputation for the safe and swift delivery of high-value goods to Moscow, which has one of the world's fastest growing consumer markets, as well as cities to the east – all the way to the Urals!

It is only natural for neighbors to visit each other. But the dramatic growth of Russian tourism to Finland has surpassed all expectations: 12 million people crossed the Finnish—Russian border last year. Finland is the number-one Schengen country issuing visas to Russian citizens. The staggering figure last year was 1.3 million visas issued, out of which over 80 percent were multiple entry visas.

### **End Result Is the Aim**

**Adrian van den HOVEN,**

*Deputy Director General of BUSINESSEUROPE*

Boosting economic cooperation between the European Union and the Eurasian Economic Union will require a lot of energy. And I don't mean gas, oil, electricity. I mean political energy. Because Europeans and Russians share a European culture, meaning that we are both extremely complicated. We are the opposite of the Americans who do things the simple way and get things done quickly and efficiently. We always take the complicated road. It may be more interesting, perhaps, but it is always more complicated. And if you look at the European integration project, which is the focus of my job, it's a very complicated process. Before I came to Moscow, I thought it was the most complicated process. But then I got to Moscow and realized that it is also very complicated here, politically. And now that you have the Eurasian Economic Union, you're making your life even more complicated, but, probably, for the right reasons. And that is why, to move things forward, you need a huge amount of political commitment from the top. And I'm going to explain at three levels how the Eurasian Economic Union and the European Union can cooperate economically for mutual benefit. But if we want to succeed, there will have to be the will at the very top in Europe. This means from President Barroso, President van Rompuy, plus several prime ministers of member states, and here, in Russia, probably, pressure from President Putin and Prime Minister Medvedev, as well as their counterparts in Belarus and Kazakhstan, to get things done. Otherwise, we will only succeed in complicating everything and getting nothing done.

Russia is a new member of the WTO, it's facing some challenges regarding implementation. But Russia is also the president of the

G20. And everyone must recognize that the WTO, as a negotiating mechanism for new agreements, is in serious trouble. No new WTO agreements have been negotiated, not just for the last 10 years, but for the last 15 years. This is a very big problem. And here we need the Russian President as the president of the G20 to push for agreements to be negotiated within the WTO, such as a WTO trade facilitation or customs agreement. This is important for business, and it would be great for Russia to show its leadership in the WTO and in the G20 to make this move forward.

A second level of cooperation is with the Eurasian Economic Union. It is complicated because you are in the process of integrating your three countries; it is complicated for the Europeans because we also face a challenge, a political challenge, with Belarus. Kazakhstan is not yet a WTO member.

But a lot can be achieved provided there is the political will. It's not just trade, there are also social problems. For instance, there is a problem with the Eurasian customs union regarding the import of counterfeit goods and the illegal trade: illegal cigarettes, on which people are avoiding taxes, and unsafe counterfeit goods. This harms business in Russia and the European Union, and therefore, the European Union and the Eurasian Economic Union should work together to combat counterfeiting and illicit trade in order to help business and to help consumers.

In conclusion, we need bilateral cooperation between the EU and Russia. We've heard about the new agreement. Of course, business supports negotiations over this new agreement, but it is an extremely slow, protracted and complex process. Perhaps we should focus on a couple of core issues that need to be solved quickly. For example, your investments in Europe are not as protected as they should be. We also have similar problems in Russia with some of our investments. If we both have problems and we both feel we want to welcome your investments into Europe, and you want to welcome our investments into Russia, why should we have an investment treaty between Russia and the EU? We can set the rules as to where you can invest, where you can't, where you are protected, where you are not, make everything clear for the investors and giving some good guarantees for people.

Visa regime issue has been discussed for many years. We need a road map to say what we will do in 2013, what we will do in 2014, and how we will achieve this maybe by 2015. I think this is the area where we need to set out clear deadlines. Otherwise, the bureaucrats will keep on negotiating forever.

But with the right leadership and the right vision and concerted political pressure we can achieve many things that will deliver the growth that both of our economies need.

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# **Russian International Affairs Council**