

**THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM – 2009**

**4–6 JUNE 2009, ST. PETERSBURG**

**OPENING DAY**

**SESSION:**

**RUSSIA – EU BUSINESS DIALOGUE**

**June 4, 2009**

**(15:00-16.30, Pavilion 4, Hall 4.2)**

**St. Petersburg, Russia**

**2009**

**Description:**

The European Union and Russia are obvious strategic partners, and their business, therefore, tends to intensify interaction based on trade diversification, new forms of cooperation and free cross-border flow of capital. Much time has been wasted agreeing on common principles of an integrated economic space between the EU and Russia. The ongoing crisis, however, does not allow for lengthy discussions, but requires practical steps. What joint efforts should be made by the business sector and authorities to speed up real integration, while taking account of the experience gained in complex political negotiations? How can the global nature of the present economic crisis be reconciled with national interests while elaborating anti-crisis roadmaps? What are today's most dangerous protectionist measures, and how can they be countered?

Moderator:

**Sergey Karaganov**, Dean of the Faculty of World Economy and Policy, State Graduate School of Economy.

Participants:

- **Catherine Ashton**, European Commissioner for Trade
- **Anatoly Chubais**, Co-Chairman of KSP, General Director, ROSNANO SC
- **Nils S. Andersen**, Co-Chairman of KSP; CEO, A.P. Moller-Maersk
- **Tony Hayward**, Group Chief Executive, BP plc.
- **Vladimir Yakunin**, President, Russian railways JSC
- **Karl Johansson**, Managing Partner, Ernst&Young CIS
- **Thomas Gomart**, Director, Centre for Russia and CIS, IFRI
- **Victor Vekselberg**, President, Renova Group of companies
- **Andrey Kostin**, President and CEO, Bank BTB
- **Lev Kharis**, Chairman of the Board, CEO, X5 Retail Group N.V.
- **Jouko Karvinen**, CEO, Stora Enso Oy
- **Jorgen Rasmussen**, CEO, Carlsberg
- **Alexey Mordashov**, General Director, Executive Director, Severstal
- **Vladimir Evtushenkov**, Chairman of the Board of Directors, Sistema JSFC
- **Andrey Slepnev**, Deputy Minister for Economic Development of the Russian Federation

## **Transcript:**

### **S. Karaganov:**

Let us begin our round table discussion. My name is Sergey Karaganov. I am the Dean of the Faculty of World Economy, but I think that the most probable reason why I lead this Round Table on business relations between Russia and the European Union is that I am also a co-founder of the Institute of Europe of the Russian Academy of Sciences and have been extensively studying the Russian-European relations for 25 years. Today we are lucky to have large and highly concerned audience. I am glad to welcome these great people. Let me introduce them all. Here, to my right is Elvira Nabiullina, the Minister for Economic Development of the Russian Federation. Baroness Catherine Ashton – European Commissioner for Trade. Next to her sits Nils Andersen, a major businessman and Co-Chairman of the EU – Russia Industrialists Round Table; Anatoly Chubais; Victor Vekselberg; and, finally, Tony Hayward, Group Chief Executive, British Petroleum. I have a well developed scenario for our today's discussion, but, as you know, you can't build your life based on a scenario; Mrs. Minister was called for the negotiations and left these negotiations to make her speech for us, and just after her speech she will have to leave. Mr. Slepnev, who has been recently appointed to act as the Deputy Minister for international economic issues, is present here today and will answer your questions which might be addressed to the Minister, so I will not make my introductory statement now, and will give her the floor, and afterwards we will start our regularly discussion. You have the floor, please.

### **E. Nabiullina:**

Good afternoon, dear colleagues! I am very glad to see such respectable people here, at one of our first forum events, I am very pleased you could attend this Forum, it is very nice to see familiar faces and new faces, and I am most happy that Russia – EU business dialogue exists and continues to exist. I remember one of such business dialogues where business leaders of both the EU and Russia complained that they were intended to move toward each other looking for constructive solutions while we, in politics, always fell behind slowing down the process and did not meet (and it seemed to sound quite strong) the demands of business. It is very good for us to have such an impulse all the time. Well, one of the matters of concern to be discussed by us are the negotiations on the accession to the WTO. I would like to say that this morning we with Mrs. Ashton had quite constructive discussions in the course of which we agreed upon many things, agreed upon a certain schedule, how we move. In any case, I am satisfied with the results of those discussions and indeed I can say that this is the progress that we haven't seen for months.

As you probably know, we had an anniversary yesterday, it is 16 years that Russia has been accessing the WTO. The process has dragged on, and the 17th year of our WTO accession has started. In any case, Mrs. Ashton and I have agreed that we do not want to celebrate the next anniversary, and we want the process to finish. I would like to say that we do not consider the lack of progress to be due to the Russian trade policy. We are now switching our negotiations onto a normal track, and our discussions today give us a good reason for optimism as we scheduled certain meetings this month and we also agreed to meet at the end of the month. That is to say we work and we will keep working on the issue you raised at previous business forums. And we clearly understand that Russia's accession to the WTO is just one of the steps toward further advance in building relations between Russia and the European Union. We keep looking forward in order to create the most favorable trade and investment environment for companies of our countries. We also discuss those bilateral issues as were discussed today that are raised by companies in our countries. We have also found the way to approach them but I will not list them all. I will point out two issues that have become especially acute now, amid the global economic crisis. First, there is an issue related to protectionism, forms of protectionism, and limits of protectionism. I think it is our common opinion shared between us and businesses that are interested in having less protectionism that we should maintain and develop an open and continuous dialogue and mutual trust. However we live in a real world, and we understand that countries still use protectionist measures and protectionism takes different forms that are not always obvious, such as higher import taxes. There are also different forms of subsidies and so on and so forth. I think we have also found a mutually acceptable solution to create a certain mechanism that would allow us to discuss measures being prepared which could have effect on mutual trade and mutual investment. And I think we need to consider how we involve representatives of our businesses that feel the impact of such protectionist measures. We certainly discussed the investment trend. We have proclaimed the policy of supporting mutual investment a long time ago and we are going to pursue it in the future. I think that it is mutual investment, mutual exchange of assets, and mutual interest that contribute to the stability of our relations. Some of our companies say, and I hope it is a matter of suspicion to some extent, we do not want to have it in practice, that Russians are unwelcome in some countries and have no access to some assets. We should analyse all such cases and actually build relations for mutual investment and new projects. And there is the third and very important thing I would like to mention. When taking anti-crisis measures in response to what is happening in finance and real economy we still want, despite the crisis, to keep speeding up the modernisation policy and taking it to innovative development. So we provide as much support as possible to projects aimed at such modernisation of Russian economy, and we believe that our efforts complement each other. And potential projects in many high-tech

industries... Here, Anatoly Borisovich, for example, who is one of the organisers and leaders of the Russia-EU dialogue, also deals with that and manages the largest state corporation which is focused on innovation development. Nanotechnology is one example of innovation. I think we will continue to pursue this policy and it is very important for us to find particular projects and particular mechanisms to help drive Russia and the EU's co-projects toward the innovation.

That is all I wanted to say in my opening speech, as words of welcome. We and our Ministry are always open for, and interested in, a continuous dialogue. We are ready to address problems as they arise. We will continue to maintain favorable environment for investment as well as favorable business environment. We do not diminish, but in fact give higher priority to what is known as the institutional development, to setting up institutions that would be provide investor protection and a good corporate practice, since it is crucial for us, and we should even speed-up and strengthen our efforts amid the crisis – deal with everything related to administrative barriers and procedures that business has to face every day. That is why we need to know your response to the situation, problems that arise, and we are always open here. I hope today's business dialogue will be successful and we will be able to provide our government and business with common ways to address what is going on in the world and establish effective relations. Thank you very much.

**S. Karaganov:**

Thank you, Elvira Sakhipzadovna. Now let us pass on our regular round table discussion. Let me remind you the rules: Anatoly Borisovich Chubais and Nils Anderson, Co-Chairmen of the EU-Russia Industrialists Round Table, will speak first to outline their ideas, and then we will give the floor to Baroness Ashton, Tony Hayward, and Victor Vekselberg, each of them will have ten minutes. I have a special label that I will show each time that a speaker goes beyond this time limit. Later on I will give the floor to some speakers who have already registered. I will give three minutes to each of them except for Thomas Gomart, a notable expert in Russia-EU relations from France. He will have four minutes, I was asked to give him three minutes, but I added one more because of my amicable attitude, anyway he asked for five. Later on the audience will have an opportunity to make a short speech of one or two or three minutes maximum, and to ask questions. At the end of our discussion, I will give the floor to our respectable speakers in reverse order.

So, let us start our discussion. I will say just a few words about the relationship between Russia and the EU. The relations develop very well as economic ties grow, the human dialogue becomes more profound, and we have better understanding of each other, but, from the official point of view, they are not so smooth, at least they do not appear to be. I think this is due to the fact that neither Russia, nor the

EU knows what type of relations they should be looking for. We have our dialogue but we do not know its final goal. This is the first thing and another thing is that, as you know, the negotiations we are engaged in are very difficult, not only because we do not have the final goal, but also because the concepts of such negotiations are still extremely different and, in many respects, even opposite. I mean the concepts of the document that we should reach. So the negotiations will be difficult, but I, personally, consider this a good sign. We need a break; we need time to understand where we want to be in the end. First of all, through a serious and sincere dialogue rather than simply exchanging kind words, which was actually the predominant tone in our relations in the 1990s and even in the early 2000s. We would say kind words to each other while often holding back our true interests or being unaware of them. Therefore, I consider our dialogue today a step to move forward, and I encourage all participants of our dialogue to be as provocative as and open as possible without holding back your true thoughts or intentions. This will help us understand each other and become closer, and we have to become closer, we are bound to. If we don't, the new world of the future will be dominated by the USA and China while Europe and Russia are doomed to be marginalised gradually. This will certainly be in a far future, and I hope I won't be alive to see that, but this is an absolute and obvious tendency. Now, I would like to open today's business dialogue and give the floor to Anatoly Chubais.

#### **A. Chubais:**

Thank you very much. Thank you, Mr. Karaganov. Dear colleagues, first off all I would like to thank all of you who came to our meeting today, thank you for finding time to come here. As you know, our round table has been making efforts to organise such open discussions for many years, and it is our priority to be absolutely open in raising issues, absolutely open in discussing them, and absolutely clear in defining the business attitude towards the politics. As a matter of fact, Mrs. Nabiullina has already mentioned that in her opening speech. We have held a short private session. Now we are starting an open session, and I have been thinking that we are likely to have formed a certain classical set of eternal questions that we discuss almost each time we have a session. There are two eternal questions. The first one is Russia's accession to the WTO. The second one is about a new partnership and cooperation agreement with Europe. I feel some kind of hopelessness. I said "hopelessness" meaning that political leaders have been telling us about a big progress for many years and that this year we seem to complete these negotiations. We heard the words "this year" in 2002, 2003, 2004, and 2005 and so on. I will make one, probably, personal remark. Mrs. Nabiulinna mentioned that Russia began to access the WTO 16 years ago, and she also said in the beginning that the first government commission for the WTO accession was set up by your faithful servant. And the point of our appeal to respectable

politicians is that we do not want the seventeenth anniversary, sixteen years is quite enough. Let's try to do our best to make this year a real turning point in terms of Russia's WTO accession, which will otherwise become never-ending. And it is not only my emotions that make me speak so, but we all understand that there is another process that has gained speed over the last months – development of a customs treaty, a customs union between Russia, Belarus, and Kazakhstan. And it is not impossible that these two processes may once become an alternative to each other. It is obvious that if there is a customs union Russia will legally cease to be a WTO negotiator, and a new negotiator will appear instead. Nobody can say how far this would move or even throw back Russia's WTO accession. This is another negative point in Russia-WTO negotiations and it is clear to us. However, I would also like to mention that, according to the information the politicians shared with us today, there seem to have been real positive signs of progress in the accession including the last days. Europe has the key role in this issue, as we know Europe is trade partner number one for Russia, with over 50% of Russian foreign trade concentrated here. That is why we address both Russian leaders and Mrs. Ashton with an appeal I started with. We do not want the seventeenth anniversary of Russia's WTO accession, the sixteenth anniversary that has already been noted is enough to finish this process. Along with these traditional issues, we, at the private session of our round table, also discussed new issues. I will mention one of them. It concerns a business initiative to ... It is about opening a new dialogue concerning Russia-EU relations, and it has been officially sent to President Medvedev and Mr. Barroso, the President of the European Union. This is an innovative dialogue. We know that the President of Russia has recently claimed that this issue is so significant that he will deal with it personally. An appropriate authority has been established with the President of Russia at the head. We believe that innovative components which are of paramount importance for the development strategy of our country should be introduced into Russia-EU relations along with traditional oil and gas issues. We have discussed this issue today, and hopefully it will find a solution at a political level. These are the central points in our round table discussions. I would like to wish everyone a substantive discussion today, because we have interesting speakers here. This is all I wanted to say. Thank you for your attention.

**S. Karaganov:**

Thank you very much. Now I give the floor to Nils Anderson, Co-Chairman of the EU-Russia Industrialists Round Table. Mr. Anderson, you have the floor, please.

**S. Karaganov:**

Nils Andersen, please, you have the floor.

**N. Andersen:**

I would also like to welcome you all here today. It is a great pleasure for me to be here and I think the timing of this event is very, very important. We in business have asked for progress in the political negotiations both on Russia's accession to the WTO, as well as for bilateral agreements between the European Union and Russia. For quite some years, as business leaders, we have long ago moved our businesses forward, stepped up economic activity between the two important zones and therefore we are, of course, very, very pleased to hear that there now seems to be progress in the negotiations or at least that we can hope for progress during this year. It's a time of crisis for business: I think we all experience extreme strain in our businesses, in our community and the environment. But these are, in relation to closer cooperation between our two economic zones, maybe ideal times to move forward because we all are facing the same global crisis and we all appreciate that the way forward is not to work toward protectionism or nationalism, it is towards integrating our economic cooperation so that we can build solutions together. The accession to the WTO is a very, very important first step and personally I think that we should not lose sight of this even for a moment. This is necessary for the next phase in our cooperation to begin, which is a greater cooperation between the European Union and Russia, but without WTO accession this is not practically possible and therefore accession to the WTO is a very important first step. Once we have accomplished that, I think we all share the vision that this should develop into much more. The opportunity of creating close economic, social and political links between Russia and the European Union is a once-in-a-lifetime opportunity for both countries or the Union to create something greater and together become an important factor in global trade and the global economic world and therefore this crisis should be used to progress very decisively on this path to greater economic cooperation. Thank you and, once again, welcome. I hope we'll have a great day and a great conference.

**S. Karaganov:**

<inaudible> ...she has recently become the European Commissioner for Trade, succeeding the former Commissioner Peter Mandelson whom we know very well. I don't know whether the change for the better in the tone of our dialogue in trade and economy has become noticeable after the Baroness took office, or just "the time has come", but we are very happy to see that the tone in our discussions has significantly changed over the last year. You have the floor, please.

**C. Asthon:**

I was just listening to the translation to see whether you were actually equating my arrival with the economic downturn!... but I think that instead you perhaps gave me credit for the tone with which we have approached our discussions. I've really come here to listen, so I'm going to make only a few remarks that I hope will position my views. But I have the opportunity to listen to your questions and your responses, and hopefully have that conversation, so I'm very deliberately going to speak sparingly. I recognise that when you all met last year the economic climate was different. The climate outside in terms of the rain, was probably different as well! I think the elements that I've seen countries and the European Union put in place are very significant to get us beyond this economic downturn and back into economic growth. First of all, we've seen extraordinary fiscal stimulus being applied throughout our economies and the beginnings of a possible change for the good that is necessary for us to move forward. I think that there is no doubt in my mind that that stimulus has been necessary for governments to go forward, supporting their economies, and especially supporting business through this downturn. Within the European Union we have also focused quite heavily on the regulatory framework that is necessary if we are going to make sure, not that we solve the crisis of the past, but that we have the kind of framework that is necessary for the future. I describe it as "smart regulation." It means being very clear that we can recognise systemic risk and deal with it before the risk turns into the reality of a crisis. A lot of effort has gone on in the European Union, and of course in the discussions of the G20 as well, about how we address those problems to make sure that we have solutions for the future.

The next element that I think is so critical to solving the problems of the past and of the future, is of course trade. Trade is where you end up when you consider what we have to do to support our economies out of this downturn and into economic growth. It means that the responsibility on the Trade Commissioner in my case, on ministers across the European Union, but I would argue also on governments across the world, is to do everything they can to support businesses to be able to trade effectively. This means being I think mindful of three things in particular. The first is, as Elvira said, about confidence; that when I talk to businesses, European businesses operating in Russia, or indeed anywhere in the world, or indeed if I spoke to the Russian businesses represented here, they would say that they need the confidence and certainty in the future to be able to invest for the future. That is a critical part of the work that we need to do, both in terms of WTO accession for Russia, but also in building this strong relationship for the future. How do I make sure you feel confident in your business future - either as Russian companies in the European Union, or as European Union companies in Russia, or as joint ventures? That is essential. That confidence is partly given by predictability for your business. Much of the discussion that we had this morning was about how do we make accession and

what will come beyond it. A way of giving you predictability for your businesses, so that you know what may happen; you know what could happen; you are able to build predictability into your business model. It doesn't mean that things remain the same; it doesn't mean that we sign up to agreements forever that are limiting for government action, but it does mean that we think very carefully about the parameters within which we operate, so that you can say if I build my business in this country (whether that is Russia or a member state of the European Union) I can see what is likely to happen, I can see what will happen in the circumstances.

The third is how do we support the innovation, the investment and the technological change of the future in a way that will enable businesses to move forward? It is quite clear to me that the economies that emerge from this recession will look very different to the economies that went into this recession. It is also very clear that innovation and technology, as it has been done for a hundred years, will drive the businesses of the future. Also that the manufacturing, the research and development, and the service industries that will exist in twenty years time, will look very different; as indeed they will look different when we look back over those twenty years, and that is going to be a critical part, of not only accession, but even more importantly the kind of bilateral partnership, the free-trade agreement, that I hope we will see for the future.

My final point is about protectionism and I want to make a distinction between protecting and protectionism. I think it is absolutely essential that businesses see the government supporting them through the economic downturn. Right across the world, certainly in Russia and the European Union, we have seen investment by governments in helping businesses to survive and move forward. That is absolutely critical. The difference between doing that and protectionism is where one is seeking to raise barriers against trade. Again one of the reasons why dialogue between Russia and the European Union is so important is, as Elvira said, the same. The mechanism we have set up to be able to talk to each informally, as well as formally, about what is happening and what we are trying to do. This is so we don't fall into the trap of not understanding what each other is doing and not understanding the impact and the implications of what we are doing as well. That is a very important part of the work we have to do for the future.

My final point is this: The agreements that we reach are designed to support business activity, trade and economic growth and development across our countries. We need the dialogue with business to be as strong and as vibrant as it possibly can be. One of the things that I am extremely interested in hearing from the business community is how best we can take note of what business says it needs, how best we can keep the dialogue going and how best we can make sure that future agreements genuinely reflect the needs of business today, but also anticipate the needs of business tomorrow. Thank you.

**S. Karaganov:**

Thank you very much, Baroness Ashton. Baroness has just raised an issue which, I believe, should take one of the central positions in our discussions. This is an issue of protectionism. Now I will give the floor to two representatives of large businesses by turns and I would ask them both to address this issue in their speech. Let me remind you that Europe has experienced woeful time, especially that of the 1930s, when protectionist wars have become one of the main reasons for World War II. Certainly it is not the point to discuss today but we should be aware of the growing protectionist trends. We can see protectionist measures. And do not forget that 18 out of the twenty G20 countries have already been accused of protectionist measures despite the fact that all of them signed the declaration rejecting protectionism and encouraged each other to avoid it, but it does exist, it existed, it has not yet resulted in any disastrous effects but it should be apprehended. I give the floor to Tony Hayward, the Group Chief Executive, BP. You are welcome.

**T. Hayward:**

It's great to be back in St. Petersburg and I don't need to tell all of you how much has changed in the course of the last year. A year ago we were talking about height oil prices, unprecedented economic growth, and Russia's role in meeting the challenges of ever-increasing demand. Today, we've seen a financial crisis and we're in the midst of probably the deepest recession that the world has seen for a very long time. Demand for oil has fallen by over 2 million barrels a day and many of the exporting countries are struggling to meet their budget targets. I think the other thing that's changed for me is that in many countries, people have lost trust in business. In recent global surveys, nearly two-thirds of the public trust business less than they did a year ago and I think that's a trend that we'll need to take very seriously. It's really important that we remind people that since the opening of the global markets in the early 1990s, the world has experienced an unprecedented period of wealth generation. It was underpinned by free trade, open markets that stimulated the flow of capital, ideas and entrepreneurship. And it lifted hundreds of millions of people out of poverty and increased the quality of life for hundreds of millions more. As this recession deepens and the political pressure increases, there's a real danger of countries and governments turning inwards to try to protect their national markets. Many people are questioning the validity of the free-market mechanism. There's a threat that in an attempt to shelter domestic producers from international competition one government starts to erect trade barriers, subsidies or tariffs, the next country retaliates and before we know it, we're in a downward spiral which was the very spiral that created the depression that followed the recession of the 1930s.

And as Sergey just said, despite continuous pledges on the part of governments to avoid protectionism, the World Bank has reported that 18 of the twenty G20 countries have implemented protectionist measures since November. And it seems to me that every day there is the spectre of more emerging. I think you could be tempted to think that history was repeating itself. I think that's wrong. I think the response to this crisis is quite different. I do believe that people have learnt the lessons of the past. There are very few governments today that do not acknowledge the importance of free trade and open markets for a sustainable and growing economy. And the current level of multilateral dialogue and cooperation to overcome this downturn is both encouraging and, I would say, completely unprecedented. And it's absolutely critical in my assessment that we keep reminding people that it was trade protectionism, starting with tariffs, followed by devaluations, and other protectionist policies that turned 1929 into a ten-year depression. I think, as I've said, leaders today are aware of the dangers of trade protectionism and putting trillions of dollars into stimulus packages. Governments can't afford to impede trade flows and risk slowing down the economic recovery. So, in summary, I would say that we're not immune to protectionism, but we're aware of the pitfalls of protectionism and there's a fragile consensus, but it's one that we need to continue to work at and build on. And I think everyone in this room has a big role to play in doing that.

What I'd like to do now is just turn, if I can, to say a few words about the energy sector, which I know a little about. And the first thing I would say is that the world has benefited enormously from the open and free trade in energy that's developed over the last 30 years. More than two-thirds of oil is now traded across international boundaries. And it's this increased global integration in energy trade that has allowed us to manage the imbalance between where energy is produced today and where it is consumed. Over the past years, Russia in particular has benefited from strong integration into global markets and has risen to the supply challenge. It won't be a surprise that we see considerable mutual benefit in the continued strengthening of the investment and trade in the energy sector. BP is very pleased to see that negotiations are underway on the successor to the partnership and cooperation agreement between Russia and the EU. BP supports a strengthened institutional framework of better integrated economic cooperation between the EU and Russia, including in energy. One very important and concrete example of that is, of course, the Nord Stream pipeline. This is a critical linkage between Russian gas producers and European consumers. It will enhance energy security and ensure the free flows of gas to European markets. It's a real physical manifestation of the greater economic integration between Russia and Europe. BP's partnership with Russia has been very successful; we're the biggest foreign investor in Russia and TNK-BP is a good example of the benefits that open markets can bring. There are many success stories across the industry similar to TNK-BP.

However, I would have to say that in recent times we've seen a new form of protectionism reemerging in the energy sector. It's often referred to as "resource nationalism": aiming to protect the nation's assets from foreign investors by limiting the access of foreign capital. Proponents of this sort of policy defend it on the following grounds: Foreign involvement in certain strategic sectors interferes with their national interests; access to resources should be left to national companies; and the lack of appropriate domestic technologies warrants a delay in licensing issue to a later stage. Those are the arguments and some of them are used today here. I believe that in the long term this type of protectionism is as harmful as trade protectionism. The WTO assessment of Russia's accession to the WTO suggests that the biggest economic benefit for Russia would come from the liberalization of access to foreign investors in Russia. And as a major investor in Russia's oil and gas sector, of course, I'm bound to say that erecting barriers to the inflow of foreign direct investment is questionable. I think it's supported by the following arguments. The barriers will slow down overall investment in the sector. Russia's oil production has recently started to decline and demand for Russia's gas potentially outstrips available supply. In both cases, Russia would benefit from higher investment. Restricting foreign investment will also slow down the transfer of technology and managerial know-how. I think it's clear that the benefits to Russia from developing the energy sector are significant. In the short term, in response to the financial crisis, increased investment in the energy complex would boost government revenues, as well as have positive effects on employment and production in other industries in the value chain. And in the longer term, the challenge of harnessing Russia's vast energy resources and upgrading the country's refining and processing facilities will benefit from technologies that are absent in Russia today. That is why it seems to me that more foreign investment in times like this would indeed create a win-win situation, supporting Russia's ambitious goals, in particular in the energy sector, which remains the engine of Russia's growth.

So let me sum up. There's a wide agreement I think today that protectionism in all forms, be it trade or investment, is short-sighted and not a remedy in times of economic distress. We need free trade and free capital to address the demand and supply challenges we face in the energy industry. Governments have a key role to play by ensuring that markets are stable, transparent, and have a framework that is binding on all players. Governments, especially in our sector, have a role in establishing the rules of the game, which must ensure that resource extraction does not lead to disadvantage to the ultimate owners of the resources, that is, the people of the country. I think that our experience in TNK-BP confirms what is possible. The world seems a very different place from last year when I spoke here, but in the energy sector the fundamentals regarding the need for stable and open markets remain absolutely intact. And in this spirit, let me conclude by stating that I very much welcome the initiative by

President Medvedev to open the discussion on the goals and principles of the legal framework for energy cooperation. It seems to me that the Energy Charter Treaty continues to provide the right starting point for this important debate and the discussion must address the issue of concern to all interested parties. So, in final conclusion, what I would say is that although we're all aware of the pitfalls of protectionism, we're not immune from it. The consensus against it is fragile and we all need to nurture and build the consensus to prevent protectionism tipping 2009 into a ten-year depression.

**S. Karaganov:**

Thank you very much, Tony. We do not know when the world moves out of this recession, but we can be sure that this will result in a real investment war. It will be more expensive, people will struggle and compete for it, so I am almost convinced that in a few years our country will liberalise its approach to foreign investment even in the oil and gas sector. The question is whether we will receive anything in turn from the European side. As far as I know, many Russian businessmen, entrepreneurs and statesmen have good reasons to complain about facing persistent difficulties when trying to invest in Europe. Perhaps Mr. Victor Vekselberg will also answer this question.

**V. Vekselberg:**

Thank you. Since I am the last of the speakers, I am going to omit major points that have been discussed today. I would like to draw your attention to the fact that while certainly being our principal partner Europe still causes delays in reaching the agreements that are without doubt mutually beneficial. Leaving aside the WTO issue, the cooperation and partnership agreement, and proposals prepared within the European-Russian business dialogue imply the following measure: changeover from trade cooperation to mutual investment cooperation. We call it WTO-PLUS. But the rate and the speed we are moving at draw us away from changing over to a new quality level. However, both the parties are extremely interested in moving towards necessary decisions. My colleague, Tony, has already focused on energy business and identified the important points especially in terms of perspective. I would like to underline that this issue equally concerns all sectors and, above all, is equally adequate both to Russia and to the European Union. I remember speaking at a round table session within the same forum last year and we already addressed these issues and 90% of all the issues were about the challenges that a foreign investor faced in Russia. This results from the imperfect legislation, uncompleted judiciary reform, imperfect laws in various economy sectors and so on and so forth. But I told already at that time that we should keep in mind and understand that this was a two-way street. And we see that over the past period Russian capital has been involved actively in some

major investment projects in the EU. And, alas, the Russian capital is often treated as if it was not awaited. I mean the Russian capital (especially, large capital) provokes astonishment and inadequate reaction in Europe despite the fact that general legislation must be acknowledged to be better developed than in Russia today. However, Russian companies that nowadays enter European markets also face a number of difficulties which required at least to be discussed and addressed. But, of course, not only Russian companies face those difficulties; these shall not be considered as measures against Russia. These are some measures to protect markets in one case and sectors in the other. Anyway there are mechanisms that allow some countries and governments to regulate the access of foreign goods, in particular, goods of Russian origin, and foreign capital to the markets of these countries. I could give you multiple examples, but respecting your time I would like to discuss just some of them as the evidence of my statement, to persuade you that the problem does exist. Experts and many of the participants know that there is such a regulation, the so-called Reach, that governs the registration, evaluation, authorisation, and prohibition of chemicals in products imported into Europe. This list comprises 30,000 items, and an immense amount of imported products is subject to inspection and registration. Nowadays even most simple products such as potassium and nickel salts must go through a huge procedure in order to access the market. I strongly doubt that this document was drawn up for protection purpose; however it is most assuredly used as a protection measure today. Because, in the current economic crisis, the significant measures that would give some positive results in regular conditions, have somewhat different effects today. This shall be understood and dealt with somehow. I would like to illustrate the market access from the perspective of energy sources. A distribution company exporting electricity from Russia to Finland has a service tariff for Russian manufacturers (enabling them to supply service to Finnish networks) which is eight times higher than for local manufacturers. No doubt this is a form of a hidden export and import duty imposed on Russian power generating companies accessing the market, but this is the fact. And this is not a singular case. In my opinion, we should discuss these things in detail both within our business dialogue and the dialogue between authorised governments and bodies of two countries. I would like to say that along with trade barriers that surely exist in some way, we do not often see (as I told in the beginning) an adequate political response to the Russian capital being involved in major European companies. To be franc, I would like to tell you that we have recently faced ourselves these problems in Switzerland regarding the response of the EU to Surgut's participation in MOL capital. I could give more examples, of course. My colleagues are here and they probably can expand this list. I think that governments should first of all realise that many things would become the past or less sensitive for discussion if we reached the agreements that we are delaying. We should formalise and accept the rules according to which we

would like to live together. I think that these rules would restrain free interpretation of various mutual cross investments, capital input in Russian economy, and Russian capital in the EU. I do not want to regard the situation as ideal, we have a number of negative examples in Russia as well, but this problem should be jointly solved both at a political level and through a business dialogue. Taking into consideration the existing recession, we also see today some problems in financial sector. I suppose that it is no secret that the Russian economy suffered a considerable capital outflow in the critical moment. This resulted in a significant drop of the Russian stock market index. And some trends related to capital return, that we see today, are associated with certain difficulties. That is no secret that a Russian borrower today is not able to compete with a Western one in the same bank. The point is not that the Russian borrower is worse or is less solvent, the point is that there is a "perception cloud" regarding the image of Russian business and Russian capital. This is, in fact, an indirect measure of protectionism that we have been talking about. I think that today we should pay attention to such a tool as a credit rating agency. Today's credit rating agency is international companies (no Russian companies among them) that develop certain rules to approach to evaluation of assets and business. And various decisions are taken based on these rules. It is no secret that the role of governments in western banks and institutions has significantly increased. While earlier we could receive an answer from the government like "we are sorry, but this is not our concern, this is business concern only", today the situation is different as the authority of the government in all major international financial institutions is extremely high. I would say that the role of international institutions such as the International Bank for Reconstruction and Development and International Monetary Fund has also increased. These institutions are the tools that should be used as much as possible for the purpose of strengthening the integration process. And my last point... I see the representatives of our leading audit companies sitting in the first row. I would like to bring your attention to the fact that despite our alleged efforts to protect our inner market in Russia, decision-making lies with four leading foreign audit companies. Hence their approach to evaluating these processes, their role and ability to reorganise these processes and, in fact, to act as a moderator of integration processes are very important. I am sorry for exceeding the allotted time.

**S. Karaganov:**

You have not. I just warned you so that you do not exceed your time.

**V. Vekselberg:**

Do I have one more minute?

**S. Karaganov:**

No, the time is over, but if you need one minute, I can give it to you. You had 10 minutes and a half.

**V. Vekselberg:**

I think that if I had one minute left I would give it to Mr. Gomart with all my deepest respect.

**S. Karaganov:**

Thank you, but I have already given one minute to Mr. Gomart. Colleagues, we all see that Europe has also changed despite the firm and even “reinforced concrete” viewpoints it protects. You see that the European investment regime has already liberalised. Everybody was opposed to sovereign funds. Once the world faced the economic recession, they have put out of mind their opposition against sovereign funds and actually receive money with great pleasure. I liked the news about the possibility granted to a Russian state bank to purchase 35% of Opel Group. Some 8 months ago this would provoke strong indignation, but now it is likely to be as good as done. So we are moving forward and the recession gives us a window of opportunities. We keep talking about it in Russia, let us benefit from these opportunities. I open the discussion and give 4 minutes to Mr. Thomas Gomart.

**T. Gomart:**

Thank you to the EU-Russia ERT for its invitation, it is a real honour for me to represent IFRI in this forum.

The first point I would like to raise with you is obviously the current context in which we find ourselves. It was not mentioned by our panelists but obviously there is a fifth round of negotiations between the EU and Russia. We had a difficult EU-Russia summit two weeks ago and we will have elections in Europe for the European Parliament this weekend: this means a new Commission at the end. On both sides it has been said that there is a strong political wish to avoid worse protectionism but in practise we observe some sort of restriction. From the EU point of view, I am a "think-tanker," so I am supposed to mix economic issues with political issues. I think it is always important to remember that Russia is the third trade partner of the EU just after the U.S. and China, and for bad and good reasons it is said that Russia is the most difficult one in terms of political risk. I think that it is always important to keep this point in mind. I also think that it is important that we should not think about the EU relationship only in terms of itself and I think it is very important to understand its global importance in other frameworks and especially in the G20 framework. From this point of view I think

that the EU state members, as well as the U.S., should understand that new stake-holders have different visions of the rule of governments in the worldwide economy and some of them clearly promote a sort of "state capitalism." The EU and U.S. in my mind should take this shift into consideration, not only to deal with Russia, but also to promote their vision in the G20.

My third point is in fact, to try to see beyond EU-Russia relations. The importance of the WTO accession has been said many times and as everybody knows, it is impossible to think about this accession without thinking of transatlantic relations and the current discussions between the U.S. and Russia. From the EU point of view it is very important to carefully observe these discussions.

The second very sensitive issue is clearly also, in my mind, the situation in Ukraine. The fact that we will have elections in Ukraine in October should be seen very carefully by both sides, because we should avoid new tension in Ukraine.

What about the main difficulties from my point of view? I think that if Russia wants to develop a country brand strategy, such as China or India, which could be very good for Russia, there is a clear need for positive signals right now, because it is important for Russia to understand how its reputation was hugely damaged by the crisis in January. From this point of view, President Barroso made a point in the last EU-Russia summit, saying that this situation was not coming from the EU side, therefore I think that some positive signals should be given by the Russian side.

Now from the side of the EU, the big problem is to find the proper combination between the Eastern partnership and its relationship with Russia. In my view, President Medvedev made a very positive point, saying that for some state members, this partnership is a kind of partnership against Russia. So the EU should explain all that the time that it is clearly not against Russia. Let me conclude in order to respect the time. I think, its always important in civil society to insist and to say to policy-makers that in our view there is this impression of consistent negotiation. We have now three main tracks: the Medvedev Initiative in the security field, a new track to reconsider the Energy Treaty; and we have the negotiation for a new Agreement. I believe that it is clearly time to speed up the negotiations and to deliver concrete things.

Thank you.

### **S. Karaganov:**

Thank you, Thomas, I open the discussion. Our organisers did a good job and provided a list of entries. I have to give the floor to all of them but, with your permission, every other time. I will give the floor first to a person on the list and then to someone from the audience. So please give notes or raise your hands. First of all I give the floor to Mr. Sergey Boev, Vice-president of Sistema. Is he present? He

entered his name, but he is absent. Not bad. Then I give the floor to Mr. Antoine de Saint-Affrique, Executive Vice-President of Unilever. You are welcome.

**A. de Saint-Affrique:**

Thank you, Sergey. I must say I was extremely happy to see in here the commitment of Minister Nabiullina and Mr. Chubais to making sure there will not be another anniversary of the WTO accession discussions. I was also very happy to see Baroness Ashton nod vigorously to that.

Unilever has, for a very long time been, an investor in Russia, and we are a company that is actually bringing technology into Russia to export also towards Europe. We are exporting toward about seventeen countries in the EU. And as such we certainly feel a burning need to update the institutional framework because the economy has moved much faster than the institutional framework. So the Cooperation and Partnership Agreement of 1994 needs to be updated. WTO is a must. And there's a source for hope. Although, there's a bit of caution there because we heard the same last year.

And if there's a source for hope there's also certainly a big source for concern - which is the growing temptation of protectionism. It was raised by members of the panel. And I just want to get back to it for a minute. If I was to point at something, the new guidelines for the customs and tariff policy of the Russian Federation for 2010 and 2011 is certainly a big source of concern. It's a source of concern for investors like us - I mean it's going to be more expensive to import raw materials. It's going to be more difficult to export from Russia because there will be retaliation. So, as Tony Hayward said, it's back into the spiral of protectionism. It is certainly a concern for the image of Russia. Is it a predictable country? And is it a country that is stable for investors? It is a concern for competition and competitiveness, because an economy that doesn't have free trade is protecting inefficiency. And, in the end, it's a concern for the consumer because the consumer will pay the price either in the quality or in price.

So I think what I want to share with the panel and with the audience is that, while there is hope - and I really hope that WTO negotiations will come to a close - there is also concern, and it's going to be a race between the two. So more than ever, probably, the clock is on, and I hope that WTO accession will win the race over the tariff regulation. Thank you.

**S. Karaganov:**

Thank you. Please raise your hands or send notes here to ask for the floor. I give the floor to Mr. Jurgens who is not on the list. He has already raised his hand.

**I. Jurgens:**

Thank you very much, Sergey Aleksandrovich. I have a question, first a remark and then a question, probably to all participants of the forum, but first of all to Baroness Ashton and to Anatoly Borisovich. The payment for the Ukrainian gas is becoming due in 5-7 days and may be failed. Some people in the Russian Federation claim that we are going to supply the exact amount of gas that we were paid for according to 10-month protocol. At the EU-Russian summit in Khabarovsk President Medvedev and Prime Minister Putin said that the situation was difficult and had to be discussed with the European Union. As far as I understand, President Barroso answered that they would consider it in financial terms, but they would help with advice. Let's imagine the situation that we cut supplies, the January situation repeats, and the Russian Federation, according to some conversations in different sectors, declares that it withdraws from the Energy Charter until another document is developed. Then the negotiations on the WTO accession fail for some reason, because, as we remember, Mr. Gref and Mr. Schwab were ready to sign our practical accession two or three years ago. This is not only the USA and Russia, of course, but we have almost been there, and then the process was interrupted by phytosanitary and other inspections. Let us assume that something happens again and we do not access the WTO, as Anatoly Borisovich said, also because of a customs union. We have a triple blow: Ukrainian crisis, Russia's withdrawal from the Charter, and non-accession. I would like participants of the forum to comment on this situation for EU-Russia cooperation, on the one hand, and in addition on the well-known European initiative, Eastern partnership, where Mr. Lukashenko and Mr. Voronin are good people and the Russian Federation are not very good people. How will this affect common relations, for example, early next year?

**S. Karaganov:**

Thank you very much, Mr. Jurgens, for a very bright question. I will give the floor to participants of the forum to answer it at the end of our discussion, with your permission. And now I am glad to give the floor to the next person on the list – Mr. Carl Johansson, President of Ernst&Young CIS. You are welcome, Carl.

**K. Johansson:**

Thank you. I would follow on the comments that Victor Vekselberg started to make relative to capital credit and financing. A year ago it was accessible, but now when we look at the opportunities within Russia and the need to provide this kind of assistance for their restructuring and recognize that, indeed, we need to work on things in Russia, however, we also need capital access credit and financing. So from

the European perspective, how do we do that? We had an example recently how Sberbank and Magna and others have looked at it from another side, but I think finding ways to be creative, particularly in cross boarder trade, to facilitate the restructuring when it's needed. It would be very helpful.

**S. Karaganov:**

Thank you. You are welcome. Will you introduce yourself please? Unfortunately, I do not know your name.

**P. Windemuth:**

Yes, thank you very much. My name is Philipp Windemuth, I am a partner in ... <inaudible> farmer.

I have a question to Anatoly Borisovich. I have been working in Russia for already 20 years. I think that oil and gas are the most important Russian resources. This is your population. These are people that you can work with. Highly qualified, intelligent, and laborious people. The new generation are just great employees. However the biggest problem is that these great people do not have the opportunity to work in a well-developed economical environment. The current lack of diversification of the economy is the major problem. Everyone knows that Russia depend too much on oil and gas. Therefore new legislation is need that would enable small business to develop and would allow the new generation to open new and effective businesses and gain the lead in world economy. My question to Anatoly Borisovich. I know that you are the leader in the Russian Nanotechnology Corporation, the largest fund which is currently involved in diversification of Russian economy, but, as far as I know, this is the only company involved in this process. My question is: what measures will be taken within immediate 5-7 years in order to turn the nation exporting oil and gas into leading economy that is able to become the leader of the EU. Thank you.

**S. Karaganov:**

Thank you for your question, Anatoly Borisovich will have possibility to answer it at the end of the discussion. Colleagues, please keep in mind that your speech is interpreted and try to speak more slowly. I also like to talk fast but I do my best to slow down. Thank you. And now I give the floor to Dmitry Strezhnev, President of EuroChem. You are welcome!

**D. Strezhnev:**

EuroChem, the largest producer of fertilizers, is on both sides of relations: we have 100% plant in Europe and we are one of principal shareholders of largest German producer of fertilizers, thus we face

all challenges of Russia-Europe trade relations on either side. During last 5 years we followed wide and positive way of relations with Europe and eliminated almost all restrictions raised following the collapse of the Soviet Union. Today there is one fundamental thing, the unfair one in our opinion, used within our relations that exerts an adverse impact – I am talking about so-called "mechanism of gas adjustments". For instance, when the European manufacturers initiate the antidumping probe of energy-intensive products or fertilizers (the product of gas processing) they use the following approach: they take the gas price at Germany / Czech Republic frontier, calculate the gas price in Russia and demand to fix this price (as minimum) for the European market. This means in fact that, for example, the steel or fertilizers shall be 20–30% more expensive than they currently cost on actual European market. This is close to forbidden measure taking into account various quote restrictions that we are talking about. Therefore this mechanism is not correct from legal point of view and, moreover, it is discriminatory and inequitable. For instance, this mechanism is not applied to Algeria and countries of North Africa where the gas is thrice cheaper than in Russia nowadays. Our company that cooperates with metallurgists (other energy-consuming manufacturers) is extremely interested in reviewing of so-called gas adjustments related to the antidumping probe within large-scale movement of Russia and Europe in the near future, as in view of reduction of gas price difference this mechanism is of no economical importance and affects the interests of largest companies that actually invest in Europe, work both in Europe and Russia and are interested in free trade zone. The relations with Europe will benefit from this measure. Thank you.

**S. Karaganov:**

Thank you very much. Our meeting is attended by Mr. Andrey Stepnev, Deputy Minister, heading this activity in the Mayor's Office, and, I think, Mr. Medvedkov. You need to address to these persons and they will lobby your interests – they have to do it, this is their job. You are welcome...

**V. Zabrodin:**

Vladislav Zabrodin, Managing Partner of Capital Legal Services. I have a question to all participants of the Forum and, essentially, to Anatoly Borisovich, as it is a common practice today. I think that nowadays one concern of investment protection in the Russian Federation relates to the infrastructure access. As far as we are aware, unfortunately, Russia has no infrastructure in view of European meaning of this word. In addition to well-known poor roads, the access to the electricity, water, gas and other resources, required for business development, is extremely limited and expensive. I think that one alternative way out, especially in recession period, might be the implementation of rigid and, the main

thing, executable state rules (we know that there is a big difference between the rules and compliance with the rules in Russia) related to the investors' connection (whatever they are, foreign or Russian) to the infrastructure. I wonder if such ideas exist and if these ideas can be implemented, in your opinion.

– Thank you for your question. Now I give the floor to the old stager of Russia-Europe rapprochement. As far as we can remember ourselves and Russia and European Union approaching, Mr. Reiner Hartmann, Head of the Association of European Business in Russia and the Head of Russian gas business <inaudible> is a key player of this process.

**R. Hartmann:**

Yes, thank you very much, Sergey, for this very kind introduction. I apologize that I am late that's why I'm sitting in the fourth row and not in the first one. Thank you for reserving me the place. However, we just had a meeting with Alexey Borisovich Miller and we discussed indeed a very important issue which is concerning, I think, all of us here in this room, in particular the EU-Russian relations as far as the transit is concerned of gas through Ukraine. But this is not my topic.

I would like, first of all, on behalf of the Association of European Business, to congratulate this fantastic panel for organizing this meeting in which we will be participating. I'm very proud of this. My statement is very simple.

We have noticed - and when I say "we", this is the Association of European Businesses (we are representing 65 percent of foreign direct investment in our association) - that during the crisis the Russian government did a very professional job of stabilizing the banking system, of organizing flows of money into the real economy. There's always questions whether that is close to protectionism or not. But the worry which we are having now is that the new decree which is bound to be signed within this month is close to protectionism and this is not in line with what Baroness Ashton, of course, will see - that on the eve, I would say, of the accession to the WTO, Russia turns back to protectionism measures and we are very worried about this. This is my statement and my comment and I appreciate it if I would get a reply. Thank you.

**S. Karaganov:**

Thank you. Now you are welcome. Please, raise your hands, ask questions and briefly comment. Are there any volunteers? You are welcome.

**D. Lyzlov:**

Dmitry Vladimirovitch Lyzlov. I have attended the meetings hold and devoted to WTO accession for

many times, but I hope that this Forum will be an exception. Nowadays either mass media or relevant forums do not provide any specific figures. How can Russia benefit from WTO accession? What sectors will sustain losses, within what scope and to what amount? What sectors will benefit from this arrangement? We can decide on WTO accession without answering this question, but in this case we will have a project with uncertain outcome. Can any participant comment on approximate evaluations of this accession? What sectors and EU countries will benefit from this arrangement in Russia? And what sectors and countries will suffer damages? But I need specific figures.

**S. Karaganov:**

Thank you. We have a vivid ... thank you for your question. As far as I remember, ten-twelve-fourteen-fifteen years ago I read whole books devoted to such evaluations relating to our losses caused by WTO accession. These were very convincing books and articles. I would like to remind you, colleagues, that about eight centuries ago one Chinese emperor decided to close its country for international trade and penetration of foreigners and he destroyed the ocean fleet. This resulted in China's decline till approximately 50ties. Now we can see the situation in China. Despite the unwillingness of some Chinese people to access WTO, we can see that this poor advanced country benefits from WTO accession. I repeat that some people lost in China, of course, but China is now a leader of world development, everyone envies China and even is afraid of it. It overcame various difficulties and accessed WTO. However, I do not insist on WTO accession, as if we insist, our European and other colleagues will be rising the price. Is anyone willing to have the floor or ask any question? Then I give the floor to our principal speakers. They can relinquish their right if they are unwilling. However I would like to ask them to reply to the comments or questions stated during our discussion. Mr. Vekselberg, you have the floor.

**V. Vekselberg:**

Well, no questions were addressed to me. I would like to comment on the speech of EuroChem colleague about the given illustration of challenges that we face in EU trade. I would like to emphasize the fact that there is a number of similar examples, but the positive point of current dialogue is that I dared to tell to Mrs. Baroness during close session that along the declarations of friendship, the business of either country, in particular, Russia, would like to have some effective mechanisms used for informing EU Government on its concerns and receiving some replies. And I asked a simple question: what acceptable form shall we use to bring our requests, suggestions and difficulties to the attention of the European Union? The reply was diplomatic but as a whole it sounded like "we are ready to get it in

any form". Thus I, as the Chairman of the International Relations Committee of the Russian Union of Industrialists and Entrepreneurs, would like to address to Russian business: let us seize this occasion and attack this delicate lady, Minister of Economics and Trade, with all the power of our concerns with a view to trigger some positive shift. I would like to apologize in advance. Thank you very much.

**S. Karaganov:**

Thank you very much. The professionals in Russia-Europe relations, my colleagues and, to a certain extent, I lately noticed that Russia is not represented in Brussels in a surprising manner, this means that Russian companies are not represented in Brussels in a surprising manner. As far as lobbying of interests concerns we remain tenfold inferior not only to USA, but also to smaller countries. By the bye this is another reason to think about the arrangement of this work. If our companies are unable to do it alone, we shall achieve this through the pool. However the situation is really fantastic – I assure you that the number of Russian and people who represent Russia's interests in Brussels is five-ten times less than Brazilian, and I do not even mention larger countries. This is very important point. Now I give the floor to Tony, you are welcome.

**T. Hayward:**

Thank you. I don't think anything was particularly directed at me, but there was a question about how to attract capital into Russia. There are a couple of things I would say on this subject; firstly, there is no doubt that capital is in short supply today and it is probably going to remain in short supply for some years to come as people effectively de-leverage. I heard someone say the other day that the new world will be characterised by de-leveraging, de-globalising and regulation and we have talked a lot about how we can deal with some of those. I think in the matter of attracting capital it is even more important that the returns that are available are balanced by the risk that is perceived. There is no doubt today that the risk in Russia is perceived as being higher than in other places and that is because of concerns about the stability of the fiscal and regulatory regime, the respect for property rights and the rule of law. I believe everything that President Medvedev is doing to try and enforce those things should be really encouraged, because it will be those things that attract greater capital flows into Russia to do the necessary restructuring that is so evidently required. Without them the capital will not flow and that is doubly true in a world where capital is in short supply and is likely to remain so for some time.

**S. Karaganov:**

Thank you. And now <inaudible>, please.

### **C. Asthon:**

Thank you. There were some questions directed at me so I will try to address them. Firstly, on the issue of the Ukraine and gas; what I would say is that we are well aware of the concerns that Russia has. President Barroso and Prime Minister Putin are in touch with each other. We do not have information that suggests that there is a failure to pay and of course we are ready to help politically. I think as President Barroso has already made clear this is a commercial issue that in the end requires a largely commercial solution. The EU does not have a budget that would cover this, but we are obviously keeping closely in touch. I hope that we are not anywhere close to the spiraling-down situation that you were describing in your remarks, sir. I will also say a little bit more about the WTO in a moment.

I think the colleague from Ernst and Young talked about the need to be creative looking at cross-border trade and I just wanted to endorse that. One of the things that is very important is that we are looking all the time, not just at where we are now, but where we could be, and that trade, and the issues which surround trade, will change. It is quite clear to me after a very short few months in this role that although tariff barriers are the traditional issues of trade, actually it's all of the non-tariff barriers across the world that are going to be where my energies will be devoted in future and where we are going to have to become extremely thoughtful and work very closely with business to try and think about what the implications of that will be.

Linked with that, a number of other comments reminded me that it is so important that we find the right mechanisms - between Russia and the European Union, between business and its own governments - and that we are able to have these issues raised and discussed. It is quite clear to me already that in our discussions with Russia, setting up these informal early warning mechanisms, as we have done in the last few weeks, already creates the opportunity to simply raise the point, to raise the flag and say we have a problem or we think we have a problem. That will enable us to address many of the underlying concerns, even the concerns about regulations already in force, like Reach as has already been described. It is the implementation and understanding what needs to be done that can be just as important in dealing with this.

On the issue of joining or not joining the World Trade Organisation, as you have said, many studies have been done on the value. I can hear the scepticism in people's minds as to whether we will indeed be a year on discussing the seventeenth anniversary. What I would say is this: I am absolutely clear that there is the political will to finish. I am absolutely clear that what we have left to deal with are a few issues - important issues - but they are issues that require a great deal of work, but nonetheless they are few. As Elvira said, we have a timetable before us that we think will take us from here to potential

completion. Will it be easy? No. Is it achievable? Yes. Do we want to achieve it? Yes. Do I want to not be sitting here in a year's time describing the seventeenth anniversary? Absolutely. I hope that you will see the success.

The final point is that in trying to do all that we do it is absolutely crucial that business is feeding to us its views and its ideas; not just to come and lobby us, but actually to come forward with the propositions and ideas for the future. I don't know whether that means a greater presence in Brussels - I thought when that was suggested, that, it meant that you were thinking of joining the European Union, but I suspect probably not at this stage. What I do welcome very much is the dialogue created by the round-table that enables Russia and European businesses to have to the conversations with us.

**S. Karaganov:**

Thank you very much, Baroness. I would like to stress your idea one more time. As we all know how the European Union functions, all of us need to put emphasis on preliminary work, work at distant approaches before a decision is adopted, because afterwards it is very hard to change a decision made by 27 countries in the course of very intricate negotiations. Incidentally, this is what the European Union is criticized for, and at the same time this is what its strength is based upon. Please, Nils. Do you want to say anything?

**N. Andersen:**

Yes, I would just like to take the opportunity to repeat more or less what I said at the beginning, which was that this is a very challenging time. We've heard lots of discussion here today about problems, about protectionism rising. It is, of course, very crucial that we avoid that and that actually the WTO accession beats any trends we may see towards protectionism. Personally, I'm an optimist and I'm also very encouraged and enthusiastic about the opportunity to actually work much closer together in the future. It can be a unique, and large, and very exciting economic cooperation that we can start discussing once we have an ensured accession to the WTO. Thank you very much.

**S. Karaganov:**

Thank you. And now I give the floor to Anatoly Chubais, as usual he will answer all questions.

**A. Chubais:**

Thank you. I will try to answer those questions which were addressed to me. I made some notes here... I will start with the last question – “How much does accession to the WTO cost?” – that is how I got it.

Well, calculations indeed exist, Sergey is right, we have them, and they show that branch influence differs. In fact, there are branches with a potential for negative influence, and there are those with a potential for positive effect. There is a minimum number of branches with negative effect. There also exist aggregate estimates, which say that aggregate influence that Russia's accession to the WTO will exert on dynamics of Russia's GDP amounts to 1.5-2% of additional growth rate per annum. At the same time, however, even having said this, I have to confess that I am a bit sceptical about such calculations. I well remember, when we started market-oriented reforms in Russia, a certain group of academics repeatedly demanded that we should have provided feasibility evaluation for establishing a market economy in Russia. Then, when we started energy reform, a certain group of energy engineers demanded that we should have presented feasibility evaluation for energy reform. Well, we provided evaluations they demanded for; it is not hard. In real life... well, what is a feasibility study? We acquired 36 billion dollars of investments into energy industry – this is the actual substantiation. Try to do it in any other manner. Ultimately, I even understand that protection of home manufacturers is a sacred issue; I am ready to lay down my own life for it. Nevertheless, I think that there is one even more sacred issue, which is protection of domestic consumers about which we often forget. If you want to tell the consumers that we will not allow them to buy the better and cheaper goods from Europe, then eventually this would be destructive both for the consumer, and for the manufacturer. It seems to me that we solved this dilemma in public opinion long time ago, and it is time to act.

One more question addressed to me concerns access to infrastructure, some unified rules for access to infrastructure, as I got it, whether they exist and whether they are possible. You know, I would like to share with you my personal impressions. Staying in Moscow traffic jams, all the time, as probably the majority of those who is present here, I think about one question. I ask myself how much I am ready to pay to leave this damned jam and get to the place without troubles. I look around and see that there are hundreds, and hundreds, and thousands of people like me. I understand that there is a fantastic amount of demand, money demand to solve the traffic jam issue. It means that in fact we walk along this Klondike not seeing it, claim money from the budget, from the road fund not understanding that the amount of money demand for infrastructure is great. I have mentioned this to tell you a sad thing in reply to your question. You asked about unified rules for access to infrastructure. It seems to me that these rules are based on money. In our situation demand obviously exceeds supply and this is true for all types of infrastructure. If we admit it, then, it is possible to shut eyes to it and to create some tricky rules which will be bypassed 150 times. Alternatively, we may implement a clear, transparent payment procedure. It will be expensive. It will be expensive. I am telling you, those who will tackle this job will certainly not obtain nationwide support. Once we tried to do it, better or worse, introducing

payment for access to electrical power networks, and we received a great number of objections, however, it was introduced. If you have demand exceeding supply, and you want to make the situation more or less fair – make people pay. I do not know another method, no matter how unfair this approach is.

One more question was about what can be expected in the nearest 5 years concerning creation of innovative economy, taking into account an immense human potential that exists in Russia. What steps will be taken? Well, it is hard for me to tell you what measures will be taken. As far as I understood, the Commission headed by President Medvedev was created for this issue specially to give reply to this question. I am ready to tell you in a few words what we will offer. It seems to us, first, that all key branches of Russian legislation – here I will take the risk of formulating the issue in such an ambitious form – are created for the period of industrial economy. And we need post-industrial economy. This means another tax code, another budget code, another customs code, another law on technical regulation, and another legislation in the field of protection of intellectual property, etc. In my understanding... I still remember how they were created, I still remember that upon creation of the tax code we solved one simple task: to save Russian treasury by any means. It was not matter of elaborate mechanisms designed to introduce benefits relating to allocation of expenses for research scientific and development and engineering work to production cost in case they exceed some given volume of proceeds. The task we were solving was to collect taxes. Full stop. It was solved. Now the task is different – to develop a system to boost innovation economy. And it seems to me that to cope with this task it will be necessary to seriously, thoroughly and fundamentally revise key branches of Russian legislation. Moreover, as it strikes me, serious work on creation of basic elements of physical infrastructure for innovations will need to be performed: technological parks, business incubators, centres for transfer of technologies, etc. It costs money, it is partly business, partly not, and it will be necessary to do it, as well as it will be necessary to build up financial infrastructures of the innovation economy including venture funds, seed funds and other basic elements which currently only commence to appear in Russia. At least we will offer it, and as I understand it, activities of such an extent are necessitated by the need to ensure diversification of our economy.

The last one is the most difficult question asked by Igor Jurgens relating to that brilliant scenario which involves termination of gas supplies to Ukraine and Europe, withdrawal of Russia from the Energy Charter Treaty, and suspension of negotiations on the WTO. You know, I would give myself the following reply to this question... I recalled what Elvira Sakhipzadovna said opening our discussion. I really think that a gap is obviously forming between us (now I am speaking about relations between Russian and Europe on the whole). Depth of relation, depth of cooperation, scopes of investments, I

will stress – bilateral investments, European investments into Russia and Russian investments into Europe – have a direct, virtually unconquerable link with infrastructure, and with pipelines. Today the depth of integration makes it evident that, unfortunately, a gap between this integration and integration in business, economy, production, gap between this integration and the field of political relations cannot be ignored. For how many years have we been halting at the Cooperation and Partnership Agreement! For how many years have we been halting at the WTO! If it happens, Igor, if this catastrophic scenario which you described is implemented, I would give bad marks to politicians from both sides.

**S. Karaganov:**

Thank you very much, Anatoly Borisovich, for your answers... Thank you everybody! I close our session with the following comment. First, bad mark to the politicians. It seems to me that for the moment we can judge them at most satisfactory for the results they achieved in their work. And the last thing. Let's think about how to talk with each other in such a tone and with such a depth as we did today sitting around this table. Let's think how one day in about 5 or 10 years come to an understanding that Europe of the European Union and Russia shall co-develop. For instance, I dream that one day we would speak about union of Europe, i.e. a union between Russia and the European Union. Let me close our round-table discussion with these words. Thank you!