

**ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM
JUNE 16–18, 2011**

**Business round table
RUSSIA – EU BUSINESS DIALOGUE TODAY’S AGENDA: SMART
INTEGRATION**

**JUNE 16, 2011 — 15:00–17:00, Pavilion 8, Conference Hall 8.2, Innovation
Hall**

St. Petersburg, Russia

2011

The recent global financial crisis and long-term trend in regional economic integration have had a profound impact on the substance and form of trade and economic relations between Russia and the European Union. The Russia–EU strategic partnership is becoming increasingly complex and the two are becoming increasingly interdependent.

Moderator:

Mario Monti, President of Bocconi University, Honorary President of Bruegel, Former European Commissioner for Competition

Panelists:

David Brennan, Chief Executive Officer, Astra Zeneca

Anatoly Chubais, Chief Executive Officer, Chairman of the Executive Board, RUSNANO

Kairat Kelimbetov, Minister of Economic Development and Trade of the Republic of Kazakhstan

Dmitry Konov, President, SIBUR

Alexei Likhachev, Deputy Minister of Economic Development of the Russian Federation

Peter Loescher, President, Chief Executive Officer, Siemens AG

Jorgen Buhl Rasmussen, President, Chief Executive Officer, Carlsberg A/S

Front row participants:

Anatoly Artamonov, Governor, Kaluga Region

Viktor Dmitriev, General Director, Association of the Russian Pharmaceutical Manufacturers (ARPM)

Ronald de Jong, Executive Vice-President, Royal Philips Electronics

Virtor Kress, Governor, Tomsk Region

Anton Kudasov, Deputy Minister of Economy of the Republic of Belarus

Tapio Kuula, President, Chief Executive Officer, Fortum Corporation

Alexei Mordashov, General Director, Severstal JSC

Herbert Stepic, Chairman, Supervisory Board, Raiffeisen Bank

Fernando M. Valenzuela, Ambassador of the European Union to the Russian Federation

Igor Yurgens, Chairman of the Management Board, Institute of Contemporary Development

M. Monti:

Good afternoon, ladies and gentlemen. My name is Mario Monti. I am President of Bocconi University and Chairman of the Trilateral Commission European Group. For ten years, I have been a member of the European Commission, where I was responsible for policies at the heart of our discussion today: the single market and competition.

I am very honoured to be the moderator of this session on the EU-Russia Business Dialogue. Today's agenda is Smart Integration. For sure, we will all have to be smart to fit this impressive programme that has been assigned to us in the time limits also assigned to us. This will be the most demanding aspect of our smartness this afternoon.

This session could not have been timelier. Only six days ago, the Russia-EU Summit, as you all know, was held in Nizhny Novgorod. We are fortunate to have with us key players of that summit and of the process of bringing forward Russia-EU cooperation. Key players both at the political level—we will have ministers who took part in the summit with us at some point in the afternoon—but also at the level of top business leaders. In particular, the IRT, the EU-Russia Industrialists' Roundtable, played a very key role in, can I say, feeding the summit with its recommendations, and will no doubt have an important role to play in the implementation of what was decided there, as well as in furthering the agenda.

The IRT is, of course, going to have a prominent role at this meeting as well, and as you know, the IRT is co-chaired by Anatoly Chubais and Peter Loescher. And the decision that they took, which is also smartly compatible with the fact that Mr Loescher is a bit late in arriving here, is that Mr Chubais will now say a few words on the role of the IRT's recommendation in the summit process, and later on, when he joins us, Mr Loescher will draw some conclusions.

So, I have the great pleasure of asking Mr Chubais to speak now on this. Oh you have your own microphone. Okay.

A. Chubais:

Thank you, dear Mr Monti. Thank you, ladies and gentlemen, for attending today's event. We have a packed room. I hope everyone who is here today will find our discussion informative. First of all, please allow me to welcome you on behalf of our EU-Russia Industrialists' Round Table.

Mr Monti reminded me that the latest EU-Russia summit ended just days ago. We followed the summit's developments closely, and we are happy that it provided a new push for further development of our ties. I do not think that I need to convince this audience of the importance of ties between Russia and Europe. I will only mention that Europe still accounts for more than 50% of Russia's foreign trade. Europe is doubtless our number one partner in the world. I will also mention that in 2010, the volume of our trade set a record by exceeding USD 300 billion.

I told you that the last summit provided what we see as a positive impetus in a number of aspects. However, rather than concentrate on the past, on how far we have come, I would like us to focus on defining our goals for the immediate future. Especially since our Industrialists' Round Table has already stated its vision for these goals. This vision includes a three-step program focused on developing ties between Russia and the European Union. The basis of our ideas is as follows.

Step one: 2011. Russia joins the WTO. Period. This probably does not even require any further comments, especially considering Russia's documented 17-year record in this process. I want to add just a couple of words. We are aware of the progress made at the summit, and we support the one-month time limit proposed by President Medvedev that would apply to solving the last—the very last—remaining issues between Russia and the European Union, which we consider to be quite minor, in order to assist Russia in joining the WTO. We consider this one-month deadline extremely important—not technically, but

politically—because if we adhere to it, the WTO Ministerial Conference might make the final decision regarding Russia’s membership as early as December. We actively support this particular deadline. It is well known that our round table has held an unambiguous position in this respect at every stage. And today, as the politicians enter the home stretch, we would simply like to get this stage finished. There is one month to take care of all remaining odds and ends, and then, in December—a decision of the WTO Ministerial Conference.

That’s the first stage. Its implementation will allow us to move on to the second stage, which, as we understand it, is scheduled to be completed during 2012. We imagine—and we shared this opinion with the political leadership of Russia and the European Union—that in 2012, we can solve two major issues in our relations.

Issue number one is the visa system. It is apparent that a major decision regarding simplification of the visa system for a number of categories has come to a head. This is a tactical solution. The strategic solution is simple—a transition to visa-free travel between Russia and Europe. This is the first major question for the 2012 stage.

The second major question for the 2012 stage is the extended structure of a new fundamental agreement between Russia and the European Union. It is well known that the current partnership and cooperation agreement is largely outdated, since it was created back in the early 1990s. The reasons our round table presented to the political leaders, the new agreement that will be crafted in 2012, could be based on the by-then completed process of Russia’s entry into the WTO. In that case, relations between Russia and the European Union could move to the next rung of the ladder, to the next step in terms of WTO standards. That is why we propose to agree in principle in 2012 that the entity called WTO-Plus or Free Trade Zone Plus will serve as the basis for a new agreement. I am talking about the entity based not only on the WTO standards, which, as we know, do not include issues related to investing or of technical regulations, but

also a comprehensive solution which includes the full scope of this list of questions on a higher and more advanced level than that provided by the WTO standards.

We believe this is a holistic approach, if for no other reason than because Russia has no bigger trading partner. That is why we believe it is in the interest of both Russia and the European Union to sign an agreement in 2012 that would define our relationship for the next decade based on the outcome of the WTO issue. It is essential that we achieve this in 2012.

Next, the third stage—2013-2014—could actually lead us to the signing of a legally binding agreement between Russia and the European Union that explores the reasons behind creating the Free Trade Zone Plus.

These are the three stages—2011, 2012, and 2013-2014—that we proposed to our political leaders. I would like everyone to reach a thorough understanding of the reasons behind this during our discussion, and to possibly enrich it. We have a great deal of interest in seeing this happen here at the summit, especially since it is time we begin preparing for the next summit in December. We must document the business community's proposals to the politicians. Here, I would like to end my introductory speech. I realize that the discussion could cover even wider subjects and go beyond the topic on our agenda. Mr Monti courteously agreed to lead this discussion. But I wanted to share some background information before we started.

M. Monti:

Thank you very much, Mr Chubais. That will be an extremely helpful background by which to frame the whole discussion. And really, these are steps towards integration. As you were speaking, I was going back in my memory to the way in which European Integration within the EU was built. And three terms that you used were very instrumental in the whole multi-level process in the EU. That is,

stages, deadlines, and binding agreements. So... to establish an order, to put pressure, and then the summits.

Also, the European Union is no longer in the process of becoming something, but already represents an established form of integration. But it derives impulsion and new energy and life from the European Council, that is, the summit. So the contents are still, of course, different, but the methodology of moving forward is very much similar. I think this should also be noticed.

Thank you again, Mr Chubais. Now we have arrived at the point where we invite the panellists to speak. They already know that each of them will have to stay within a five-to-seven-minute limit, which will be the very first implementation of the principle of the importance of deadlines in the whole process.

And I now give the floor to Jorgen Buhl Rasmussen, the CEO of Carlsberg and an IRT Council Member. He will start the collective discussion with his own perspective on European investments in Russia, success stories, and areas for improvement. Mr Rasmussen.

J. Buhl Rasmussen:

Thank you. Just before I give my perspective as an investor—and clearly I can only give some highlights in the allocated time—I just want to briefly introduce Carlsberg as a company. We have been on a tremendous journey in the last ten years or so, to the point of now being the fourth-biggest brewer in the world, employing about 45,000 people around the world, and selling our beer in more than 150 markets across the world.

And clearly, one of the significant contributors to us being where we are today is this marketplace, Russia, where we really started to invest in the early 90s. This is a very significant part of Carlsberg, and accounts for close to 40% of our total business in Carlsberg. It is also a market where we have invested, since we started, more than USD 12 billion. So we are clearly one of the big, significant foreign investors in the Russian market in what we have built here.

But in terms of perspective, let me start by saying, why did we think Russia could be very attractive to Carlsberg in the 90s?

We certainly had a strong belief in growth in this marketplace already in the 90s. It was a lot more uncertain and harder to predict what would happen in this marketplace. But looking at all the kinds of KPIs we could think of, we felt strongly that this would be a growing marketplace at some point in time, but, yes, it could be a bumpy journey.

At the same time, it was a market where consumption of beer was still low, but consumption of alcohol was quite high, but mainly vodka, not a lot of beer. So again, we saw that being an opportunity for what is again a very low-alcohol product, beer, compared to any other alcoholic product.

If I kind of try to highlight why we have been successful, I believe there have been a couple of key drivers. First of all, arriving early in the market has clearly given us a competitive edge and an advantage in understanding this market from an early stage, but also demonstrated our commitment to the marketplace, because it was clearly very uncertain when we got into 1997 and 1998 with what happened to the economy.

But we stuck to our commitment to keep investing in the marketplace, and that took us to where we are, at the end. I think one would have to do that ultimately, especially when you go into growing marketplaces.

And then we have focused a lot on brands and innovation. This marketplace, Russian consumers, they do love brands, and they do like innovation. And that has been a key focus area for us.

And then also I would say, in contrast to many other international companies, we have built our management on strong local Russian management. We have very few expats here. And I believe it has given us a better understanding, sometimes, in terms of what is going on in the marketplace.

If I were to highlight a few areas where I think it could be better, or it could be improved, I would highlight the area of dialogue between government—whether it is regional government or central government—and businesses.

That needs to improve. It needs to be more frequent and more transparent and therefore create a more predictable environment for businesses in Russia. Predictability, especially, is key. If you invest a lot of money in a business in a place like Russia, you want some certainty and some predictability, and therefore the dialogue is very important.

If I look at our own businesses, have we had some issues in this area? Yes, we have. We have had some surprises, and a surprise is always difficult to handle.

We had one last year where the government suddenly increased the beer tax by 200%, and 200% basically implies a consumer-price increase of 25%. That is not easy to manage in a one-step solution. And had we had dialogue and if it could have been staged, I am sure we could have managed, as an industry, a lot better.

So a plea from me to government regulators would be more dialogue, and therefore a more predictable environment.

But I would say we are still extremely optimistic about this marketplace. We still see many more opportunities in our business industry. It is, in general, a positive experience to be here. But dialogue, predictability, and then more availability of skilled labour, is key.

Certainly skilled labour is in short supply in Russia, and I think there needs to be a focus on developing education, and on building a larger skilled-labour force. We all need it, because if we don't have it, it also puts a lot of pressure on salaries and costs. And I can see, in a lot of the skilled areas we are looking at now, salaries are close to what we see in Northern Europe, pretty high packages. I will finish here. Hopefully I stuck to my time.

M. Monti:

You were admirable also in that respect. Thank you very much.

So, the predictability of the government and of public administration, in particular, as regards your case, tax policy. I believe that the pharmacology sector is another area where predictability of public policy in any country is of the utmost importance.

And that is perhaps one of the aspects that David Brennan, the CEO of AstraZeneca, will like—needless to say, I will not repeat myself, IRT Council member—may wish to reflect upon. Mr Brennan.

D. Brennan:

Well, good. Thank you, Mr Monti. And good afternoon, everyone.

I thought I would just take a moment to mention a bit about AstraZeneca as Jorgen did around his company. We are a company that operates globally, of about 60,000 people.

Last year we had revenues of about USD 33 billion, and spent about USD 4.5 billion on research and development. We are primarily focused on human health and research-based pharmaceuticals, so we operate at the investment end of the spectrum.

Here in Russia, we currently have over 1,000 people working for us. We expect that number in the next three or four years to grow to about 1,500 people. We operate in about 68 cities here and expect that to also increase as we increase our overall employee base.

There are really three areas that we are focused on. The first one is a new facility that we are building in the Kaluga Region in manufacturing, which work started on just a couple of months ago. And hopefully by the year 2015 or 2016, we expect some 75% to 80% of all of our products that are sold here in Russia will actually be manufactured here.

So we are looking forward to completing that facility and making sure that it operates to the global standards of GMP—which is Good Manufacturing

Practice—which I think demonstrates that our standards are widely accepted in the world and suggests that the level of quality is very, very important to patients when they think about taking their medicines.

The second area of investment is in research and development, and we have a couple of different areas of investment in research and development. Probably the most significant is an announcement we made today that we are going to locate a predictive science centre here in St. Petersburg, which will employ some 30-plus scientists who will work on bioinformatics. So they will work on some of the tools that are used in the pre-clinical and early clinical development of new drugs that are coming to the market and to utilize some of the expertise and technology that exists here in Russia to try to step up our game.

And I think as we learn more about how that group can actually work, I think we will figure out which projects and products we would like to bring into the country for future development; as our pipeline is, we have got a lot of early-stage compounds that need a lot of work.

And we do a lot of clinical development work globally because we have a number of clinical trials for all of our products. Russia is actually the third-largest contributor globally, behind the US and Japan, to overall clinical trial participation. So clinical development here is a very important part of the research base that we are involved in.

And then the third, of course, is our marketing and sales organization, which is heavily involved in medical education and bringing information about disease into the medical community, so it is good.

Just a couple of quick points about Russia. One of the reasons that we have picked Russia as one of the very few countries where we are increasing our investment is due to some of the public health challenges that the country faces.

Life expectancy for men here is 63 years of age, and that is twelve years less than Russian women. And just to give you a comparison, in the UK, where I live, the figure is 78 years for men and 83 for women.

Heart disease is clearly the number one cause of morbidity and mortality in Russia. It accounts, in fact, for 61% of deaths. And premature deaths alone from heart disease, stroke, and diabetes are estimated to impact the overall economy here to the amount of USD 11 billion.

So our view is that prevention has a key role to play in trying to prevent diseases, while we are also very actively involved in bringing products forward to treat them. We are actively involved in aspects of preventive health to try to prevent the onset of chronic disease, which sometimes is, in fact, quite preventable.

So overall, we have increased our commitment here. I think it represents our expectation of the potential for the future here from a business perspective as well as from a public health perspective. And we are looking forward to having a bigger presence here as time goes on.

Thank you.

M. Monti:

Thank you very much.

I did some research while you were speaking on research. My research was on CVs: yours and other speakers' CVs. And I made a discovery that I wanted to let you know about for any action you might find appropriate today: it is Mr Chubais' birthday.

Now we shall shift to the side, but maybe that will not prove to be a problem. Let us now look at Russian investments in Europe: success stories and areas for improvement. And I would like to give the floor to Dmitry Konov, the CEO of SIBUR. Mr Konov.

D. Konov:

Thank you. The sector I work in is not as well-known and popular as the beer or pharmaceutical industry. My company, Sibur, works in the petrochemistry sector. In recent years, this has involved sizable investments on our part. Not once in the

last five years, did we invest less than a billion dollars. We invest primarily in Russia. I will touch on the subject of our European investments later.

I would like to talk about two aspects. The first is the question of joint ventures between Russian and European companies. Our second largest investment project is located in the Nizhny Novgorod Region. We are working on this project together with Belgium-based company Solvay. We invested approximately EUR 1.2 billion in the construction of a polyvinyl chloride factory. The second aspect is the logic and motivation of Russian companies going to Europe for the purposes of development.

Here are a few aspects of our joint venture with Solvay, based on a few scattered observations. Russia does not have the culture of joint ventures, or any other activities where partners, first of all, trust each other, and secondly, regulate their relationship using the right legal framework. In addition to the joint venture, our project involves an element of green field development, a large industrial construction undertaking. We have spent literally two and a half years to create a system of checks and balances between us and our partner. The same thing was done on our partner's side. For example, once we distributed and assigned posts in our joint venture to representatives of our two sides, we developed an atmosphere of mutual trust and laid the foundation for future work. But as experience has taught us, this distribution of posts may not be ideal from the perspective of implementation of this very complex project.

The second thing I want to mention is that certain aspects of Russia's business process—for example, technical regulations—are completely inaccessible to foreign investors. This is reflected in the project costs and in our partners' behaviour. I am talking about Russian legislation governing major industrial objects, which is reflected, as it is in this particular case, in the cost of the project. Construction in Russia costs 20% more than it does in, say, Europe, despite cheaper labour. Our partners who invest in Russia underestimate this aspect, especially early in the partnership.

A number of things are reflected in the business model: for example, how easy or difficult it is to access auxiliary services, such as for maintenance. You will not find a place in Europe where companies handle this service in-house. In Russia, they have to, because the market does not exist and it is impossible to outsource these services. This, again, has a serious impact on behaviour.

Why would a Russian company go to Europe? What actions lead to success, and what actions lead to failure? Our modest experience in this sector teaches us that there are four reasons to embark on this serious undertaking. The first is raw materials. From the perspective of petrochemistry—and I think this is obvious — Russia has a much higher and more underused potential than Europe. That was not our reason, so as a result, we do not work in this area.

The second reason is accessibility of the market. I will share an interesting observation that in the last 40 years, out of five basic construction materials—metal, wood, concrete, polymers, and glass—global consumption of all but the polymers have grown by 300-500%, while global consumption of polymers has grown twentyfold. Naturally, this growth reflects structural changes Europe already underwent and Russia is undergoing as we speak. This is the reason foreign companies come to Russia, and the reason we focus mainly on the Russian market, including our joint project with our European partners which I mentioned earlier. And we see that Russia will continue to have this potential for the next decade.

The third issue is a search for technologies. A search for technologies in most segments of the industry where we can invest one or two billion dollars and acquire a license in a smooth and accessible way, is not our main concern. It also does not serve as a reason for us to leave the Russian market for Europe.

Strangely enough, we are left with a fourth reason, called 'skills and competences'. These two things sometimes develop as a result of experience, but sometimes, we have to borrow from other companies. This resource can

often come into our possession only if we purchase a company, develop joint ventures with it, and adapt its experience and competence.

Understandably, the sector which I represent here—petrochemistry—is not always a representative example. At the same time, I want to say that one of the main ideas behind building partnerships between Russian and foreign players is competence and skills which can be used in Russia to increase productivity and ensure the ability to modernize the economy.

M. Monti:

Thank you very much, Mr Konov. And that highlighted some of the potential, as well as some difficulties. Let us see whether that same ideas are reflected in Sergey Dubinin's perception. Sergey Dubinin, as you know, is a member of supervisory board of VTB Bank. Mr Dubinin, the floor is yours, but I do wish in the meantime to recognize the arrival of Peter Loescher and to welcome you, Mr Loescher.

S. Dubinin:

Thank you. I want to continue in the vein of my colleague's speech about the factors that promote Russian investments abroad. What do Russian companies expect when they turn specifically to the European markets? What attracts them to the European system is the possibility to invest financial resources by channelling them into production, human capital, and the knowledge and competencies we so sorely need.

I have to stress here that Russia has a lot of economic sectors which follow general market rules, but still carry out their business quite autonomously, oriented towards various markets and various demands. First of all, the presence of our largest export companies in Europe can be felt in such sectors as gas, oil, and metals. They were the first companies to attempt to enter the European

market by investing directly into production facilities and trying to purchase production subdivisions and even large companies.

To tell you the truth, I cannot name many successful projects in this sphere. Maybe we can turn to the example of Gazprom, which created certain production capacities in cooperation with RWE. There are a few examples in other sectors, where attempts in this direction met with success. But attempts to widen these projects or undertake particularly major projects like, for example, the well-known story about Surgutneftegaz and the Hungarian company MOL, or attempts to acquire metallurgic assets, have not yielded any practical successes. This can largely be explained by a simple lack of understanding between people. They did not understand the motives, the procedures, or the way business with partners must be approached. I am not talking about the commercial sector, where everything is much simpler, and where specialized companies provide intermediary assistance, but particularly about the production sector.

There is another fairly prominent class of investors into Europe, too. Let us call them 'household' investors: people who decided to acquire real estate in Europe. I do not want to spend too much time on this. This investment sector is usually based in resort areas or in large cities, such as London and Munich. But more often, these are resort areas, such as the Mediterranean, or the coast of certain northern countries, and other resorts. I am talking about personal ownership of various properties.

What unites these directions is, first of all, these investments mostly do not bring in any income. In other words, these are liabilities rather than assets. They are a source of additional expenditure. As a rule, attempts at purchasing football teams, newspapers, and airlines, culminate in endless additional injections of money, but generate no income. These incompetent investments are, unfortunately, typical for the majority of these European projects undertaken by Russian companies directly.

I have to say that the financial sector is pretty much the only sector that looks more hopeful. Foundations for this were probably laid down a long time ago—back in the days of so-called Soviet ‘sovzagrnbanks’: Moscow Narodny Bank in London, or Eurobank in Paris. There were corresponding banks in Switzerland, Austria, and Germany. This allowed the banking sector to develop certain skills, and to hire European specialists in addition to delegating Russian specialists to work abroad. All these structures have always employed foreign specialists. Procedures and business activities were designed in compliance with the national legislation of each country where the bank was registered.

I visited Mosnarbank several times. Today, I represent VTB on the Board of Directors of VTB Capital London—that is what it is called now. And I see that this company operates in compliance with all requirements of the regulatory organs and the FSA. It works like a regular European or English bank. It is making money. We have similar examples among new investments, not only in the spheres we inherited.

And in conclusion, I would like to move on to the subject that might not be a direct analysis of the investment climate, but can still help answer the key question: what do we have to do to make sure this process achieves practical results and that it strengthens our ties rather than create an atmosphere of mutual suspicion and divestment? What do we have to do to make sure that the plan described by Anatoly Chubais really sees the light of day and to make sure we discover new business trends?

I think in this regard, the Bologna process is even more crucial for education than the unification of various legislative standards and procedures. We need to develop the human capital that we can use together and that can inspire confidence in our partners. We need people who know how to work, both in Russia and abroad. We need people with foreign education and with Russian financial work experience.

There are already plenty of people like this. VTB Capital is headed by Yuri Soloviev, who spent many years at Deutsche Bank. Financial Director of the VTB headquarters is Herbert Mos, who also spent many years working as a specialist in Europe and other countries. This mutual understanding of compliance procedures, corporate governance and all those things, is typical particularly for the financial sector, and it has been very successful. That is why we must focus our attention on this issue in the near future. We must focus on training our human capital. And we must do it in a way that ensures that similar procedures and rules of the game are used within Russia and that these people can work with equal ease in companies abroad, primarily in the countries of Europe. That is how we achieve the necessary unification of our economies, and a free trade zone, or the WTO-Plus, will turn from a simple slogan into a reality. Thank you.

M. Monti:

Thank you very much, Mr David Brennan, also for broadening the scope of this discussion by bringing in the financial services dimension and the importance of human capital.

On the basis of these first thoughtful interventions, we will now have a set of very short—I apologize for that, two minutes each or less—remarks from the discussions. And we have organized them into two parts: industrial aspects and regional aspects.

But I would like, if he agrees, to ask first Chancellor Schüssel to give us his own concise remarks, of course, as former Chancellor of Austria and as a key player in the Eurasia Dialogue. He is uniquely positioned to have a broad perspective on what we are discussing here today.

Wolfgang, please.

W. Schüssel:

First of all, thank you very much for giving us the opportunity to discuss these important issues. The Summit last week was, with a little sense of humour, called the Vegetable Summit, or, 'From Cukes to Nukes', and it had something to do with the fact that not much was to be reported.

It could be a positive sign; two big partners, no real problems, no friction. Russia is number three for the European Union. In terms of trade, the EU is number one for Russia. In the trading world together, the amount runs close to USD 250 billion.

On the other hand, there could be also a little bit more scepticism. That is to say, we are wasting opportunities. And I think we are really at a crossroads. Either we can create a kind of a golden decade, or it will be a lost decade. And I am an optimist: like most of the discussants and participants, I think we should use the opportunities.

Firstly, after Fukushima, the nuclear industry in Europe will decline. Germany, Switzerland, Italy, Austria, and a lot of other countries are rethinking the whole thing. So gas will be a major player in the field and Russia is number one. On the other hand, there will be an enormous demand for energy efficiency, and this is what Europe can offer in the European industry.

The second point is that we are faced with a decline in Russian manufacturing. All of the Russian speakers spoke about the need for skilled workers, the problems of industrialization. So this is, I think, what Europe can offer, because the European way of life, the European industrial sector, is incredibly competitive. And Russia, on the other hand, is a major supplier of raw materials and knowledge to a large market, representing the best partner for us.

The third problem, the third possibility, is that Russia is developing a lot of very interesting top-down projects: Skolkovo, the Soyuz issue. On the other hand, the European Union can also offer something with Galileo and all their research and development programmes.

So again, let us combine our efforts. It should not always be a top-down approach which is important: Medvedev-Putin, absolutely fine. But it must be accompanied by a bottom-up approach.

Our success depends on a broad-based *Mittelstand*, as we call it in Germany. It is a kind of small, medium-sized family company. This is something which makes us strong, nearly invincible in some areas. I think this is something, again, that we can offer. And we need education, we need skilled workers, we need better-trained people, vocational training, and so on.

So I think, let us use this decade. Note, Rahm Emanuel, the Chief of Staff for Obama, said, "Never use a good crisis". I think there was a crisis, and now let us use the positive opportunities which lie ahead. I think we are prepared for it and, I think, also our Russian counterparts are willing and able to do it.

Thank you.

M. Monti:

Thank you very much, Chancellor, for these extremely simple guidelines to be followed if we want to avoid the lost decade and turn it into a golden decade.

How can we articulate the social principles in terms of industrial aspects and in terms of regional aspects?

The first speaker, particularly, in regards to the industrial aspect is Viktor Dmitriev, Director General of the Association of Russian Pharmaceutical Manufacturers.

V. Dmitriev:

Thank you, Mr Monti. Good day, ladies and gentlemen. Mr Brennan already touched upon the subject of pharmaceuticals. I want to say that although the EU-Russia Industrialists' Round Table has been gathering for years, this year is the first time we began an active discussion of questions connected with development of pharmaceuticals and biotechnology. This is no coincidence as

this sector is recognized as one of the highest priorities in global economic development. The newly adopted Pharma 2020 programme defines production localization, entry of R&D technologies into the country, and their transfer. I want to say that currently the localization process is quite a success. AstraZeneca and Novartis laid the cornerstone of a new factory in St. Petersburg. We have plenty of companies like this, plenty of examples. They include Nycomed and STADA, which are actively working in our market after purchasing Russian assets. What seemed like a pipe dream 7–10 years ago is actively happening today. I am talking about the export of Russian medications to the European Union market. Today, STADA's Hemofarm factory in Obninsk exports medications to Germany. This points to a high quality of production, high quality of medications, and most importantly, interest on the part of the business community.

What is required to make sure the programmes and plans outlined in the Pharma 2020 strategy are implemented faster, more effectively, and more productively? First of all, it is the setting in stone of the regulatory and legal frameworks. Unfortunately, without this I doubt we can move forward. In this regard, I hope our active discussion during this round table will help us move in the right direction—not just in terms of preparing documentation, but also in terms of enforcement of this documentation, because the industry is already quite heavily regulated. But this is of course to be expected, since the industry deals with people's health.

The second crucial question is the need to train and retrain our workers, and to update their skills for the new conditions shaped by the standards we have been discussing today. I am talking about the so-called GxP: production standards, clinical research regulations, and so forth. I am convinced that by implementing these programmes, by implementing these projects, we will do more than jumpstart business development—more importantly, we will do a good deed for our population by raising the quality of life, lowering mortality rates, and improving the health of our people. Thank you.

M. Monti:

Thank you very much. Let us now turn to financial services, and let me note that one of the most successful foreign banks in Russia is, for sure, Raiffeisen Bank, and Herbert Stepic is the CEO of Raiffeisen Bank International. The floor is yours.

H. Stepic:

Ladies and gentlemen, I have two minutes. Raiffeisen, a pioneer in banking, with a 150 billion balance in total, and the largest amount of investment in Russia, opened in 1997, a very difficult year. We started with a crisis. In the first year, we lost USD 150 million due to the Russian crisis.

I was able to convince my board to stay, but it was not easy. I tell you, if you start by being USD 150 million in the red, it is not easy. We did it with local staff. We are constantly training them. We have a very tough selection programme. We work together with universities. We pick the best from the universities, fifty people every year.

We train them internationally: INSEAD, Harvard, wherever, in order to make sure that we have the best people in banking in this market. Russia was the first and most successful country to get out of the crisis. They pumped liquidity into the system early, in the industry and also in private households, by increasing pension funds and pensions to private individuals.

We were instrumental in circulating liquidity, as one of the few banks in the country, in order to make sure that liquidity did not dry up. And you remember that the crisis we are talking about was a liquidity crisis. Now, having said that, why is there an outflow of money, a net outflow for Russia?

When talking about investment and when talking about the possibilities of investments in a country that has got out of the crisis very quickly, it does demonstrate to the rest of the world that they can do it, the Russians could do it.

Now that is the question. We have brought more than 800 international companies to this market: foreign bank investors, the biggest, largest one worldwide amongst them. What do they tell me? Always the same things.

The reasons why people shy away from Russia is firstly because of unpredictability, secondly due to problems with the legal system, and thirdly due to tax systems which are irrational, as well as a few other things. Now that can be solved. Talking about investment means also talking about putting it on a broad level.

Chancellor Schüssel was of the same opinion: we need the SMEs. It will not be beneficial to continue to pour money into large corporations. This is the old way of thinking that does not work. You take the countries in Central and Eastern Europe and we are present in 17 of those. The countries which have done best are those that have been able to create a middle way.

You have a large number of companies that you have to help. You have to use it, and they need capital. They need seed capital. They need venture capital, the resources, and whatever. They do not need subsidies. They just need help when we are talking about start-ups. This is all what they need. And they run along and create jobs.

Number three, and finally, is to link that to the development of the capital market. You cannot develop investments—you cannot ask for foreign direct investments and you cannot develop local investments as just mentioned—if you do not develop a functioning capital market. We only have short-term funds in a market that needs long-term resources. That does not work.

So if we do not do that, and we can only work as commercial banks together with the Central Bank and the government, it will not work, because you have to continue to import long-term funds, which is not beneficial to this market. And it is not beneficial to any market. Definitely, Russia is a country that can do it alone.

There are enough resources in terms of potential, in financial terms, and in natural resources. You can do it alone. You need to organize it. We are prepared

to help you. We are prepared to cooperate with you, and therefore I believe that Russia, once this homework is done, has a very bright future, and I am a strong believer in the Russian economy. Thank you.

M. Monti:

Thank you very much for that message built on your own story. You certainly helped Russia emerge from the crisis when you started over here. And also, thank you for relaying the experiences of so many companies you helped establish in this country.

The final person to speak on the industrial side of things is Ronald de Jong, the Executive Vice-President of Royal Philips.

R. de Jong:

Thank you very much, Mr Monti. The topic of today is European-Russian cooperation and traditionally I think there have been strong ties between Russian companies, European companies—but also countries—and Russia. Philips is no exception to that rule.

We were found in 1891 in the Netherlands, and are one of the leading players in health and wellbeing today. Mr Rasmussen mentioned that his company started to invest in the 90s in Russia. That also goes for Philips, but it was a century before you started.

In 1891, we went to Russia—one of our founders did—and basically sold 50,000 light bulbs to light up the Winter Palace. It is interesting that today we still have strong business relationships with Russia. We originally changed the lights in the Winter Palace for LED lighting, which also contributes to energy efficiency. For a long time now we have seen Russia as a very interesting market to export to.

And I think we have reinvented ourselves over the last few years in really taking a different view as to how to work in Russia and with Russian stakeholders. We also see Russia more and more as a source of innovation. There is a strong

knowledge base. There is innovation. There is R&D and there are huge resources. So we try to team up with key stakeholders in Russia to really better understand, hopefully better than anybody else, what the key challenges are, for instance in energy efficiency, but also in healthcare.

Mr Brennan mentioned life expectancy and the challenges to the healthcare system. We have teamed up with the local manufacturer of x-ray equipment here in St. Petersburg. Based upon market research, we are now jointly trying to develop medical equipment to diagnose and treat people with medical conditions. And we do that based upon insight into the Russian markets.

We will announce a further partnership to the same extent in the next couple of days. But the very essence is that we work together, deeply together, with key stakeholders in Russia to try to also contribute to the development of the Russian economy, in which we are also a big believer. What would be our wishes? Volatility is indeed an issue. We think that our business model caters for that. I think the second issue is business ethics. We, as a company, put great emphasis on acting in a very ethical way. We have a rigorous code of conduct. And I think we need to join forces across the industry to make sure that business is conducted in a very transparent manner. Thank you very much.

M. Monti:

Thank you very much. In fact, Mr de Jong is not the last person to speak on the industrial aspect. The last one would be Mr Dmitry Pumpyansky of the Steel Pipe Company.

D. Pumpyansky:

Dear round table participants, I represent TMK—the largest steel pipe manufacturer in the world. But I am not here to talk about my company, which, by the way, operates in Europe among other places.

During the last meeting of our EU-Russia Industrialists' Round Table, we spoke in detail about technical regulations and standardization. This was last December in Brussels. Speeches by participants of today's plenary meeting show the enduring urgency of this subject and the fact that it still serves as a serious technical barrier to trade between our countries. I want to let you know that at a meeting which took place in spring of this year, the leading coordinators of our round table decided to create one more working group. It is called Working Group No. 8 of the EU-Russia Industrialists' Round Table. This working group will handle issues of technical regulations. I consider creation of this working group as a crucial step forward in solving the problem of removing technical barriers and synchronizing Russian technological legislation with that of the European Union. Mr Hans-Jörg Grundmann, head of the Mobility Division of Siemens, will head the working group on behalf of the European Union. I will be heading it on behalf of Russia. We have already had business meetings, and have come up with an action plan for the future.

This issue is especially urgent for the Russian Federation. We did not have the time to create a new system of technical regulations of our own before we implemented the concept of technical regulations and sets of rules that govern these technical regulations and accreditation systems. We joined the Customs Union, and are creating a new system of technical regulations that currently governs the territory of the Customs Union, and after June 1, will extend across the Common Economic Space. This system will apply to three countries: Russia, Kazakhstan, and Belarus. It must, without a doubt, be synchronized as closely as possible with the systems governing the European Union and based on the so-called new and global approach, because countries of the European Union are Russia's key trading partners.

I want to invite all of you and your experts to take part in the work of this new working group. That will help us to develop and codify concepts of technical regulation that still have many different interpretations. We must take systematic

and thorough action on these issues. I extend an invitation for cooperation to all of you. Thank you.

M. Monti:

Thank you very much. Let's now turn to regional aspects, which are of course extremely important as well, and quite complementary to the industrial aspects. And I call upon Viktor Kress, Governor of the region of Tomsk, to open this series of talks, of quick talks.

V. Kress:

Thank you. The regions are currently facing several challenges. The first challenge is the absence of financial instruments—first and foremost, instruments designed to support small and medium-sized business.

The second important issue—and this was already mentioned here today—is personnel training. We must bring personnel training standards in compliance with technical standards. In Russia and in many regions today, we are moving towards training personnel that have two degrees. In Tomsk we have been working on this for several years. But if we consider the total number of graduates, the number of people who graduated from this program was, unfortunately, quite low. Our times do not make it easy to implement this program. The process faces financial challenges and many other problems.

And the third issue. Curiously enough, on one hand the Internet has turned the world into a global village, where everyone knows everyone else's business. But when it comes to, say, Siberia, it continues to be seen not just by Europe and the world, but by the European part of Russia, as a purely natural resources-based region. In reality, we are also developing in the sphere of innovations. Our personnel is currently trained using new methodologies and new systems. That is why I would like to propose that we create a permanent regional session during these biannual meetings, which would allow one or two regions—and we must

begin with the trans-Ural regions—to present one or two projects with global resonance. With this, I would like to conclude my speech. Thank you.

M. Monti:

Thank you very much. And this is an important discussion that we are hearing, in fact, all the time in Europe as well, and I think that our German friends might have found equals in the willingness of the lender in their country to play an important role. So this is a common problem with different ramifications but one that cannot be forgotten at all if we care about achieving good results. Now, Tapio Kuula, CEO of Fortum, who is also the Council Co-Chairman of the Northern Dimension Business Council.

T. Kuula:

Okay, thank you, Mr Chairman. Fortum has actually been active in Russia since the 1950s, and today we can say that we have an on-going big investment programme worth EUR 2.5 billion. Of course, that brings a significant amount of new capacity, new technology, improves environmental issues, improves NSA efficiency, etc. So, we can say that Russia has been, is, and will be very important to Fortum.

What are then the main criteria we have heard? Many are them have been really decisive factors in order to be able to take these kinds of investment decisions. But I would underline one, and that is predictability. Of course, Fortum, as a company, has been actively engaging in dialogue with political decision-makers. But we have also been active in participating in different platforms, and this North Dimension Business Council is one of those platforms we share with Mr Mordashov. Our aim is really to influence and to improve business opportunities in a very pragmatic way. Not competing with, but completing other organizations.

One main target for achieving that is to organize and to get good dialogue going between businesses and the administration, between businesses and political decision-makers.

The other significant area where I feel that we could still improve a lot is research and development. We have, in North Dimension, 22 different universities in the network from ten different countries. I would just mention, as one good example, the cooperation between Lappeenranta University of Technology and the State University here in St. Petersburg. Thank you.

M. Monti:

Thank you very much. I am, of course, delighted each time that the role of universities is mentioned in this important dialogue. May I turn now to Alexei Mordashov, the Director General of Severstal, who is the other Co-Chairman of the Northern Dimension Business Council?

A. Mordashov:

Thank you, Mr Chairman. As my colleague from the Northern Dimension Business Council, Mr Tapio Kuula, mentioned, in practice, our Business Council commenced operations about a year and a half ago. Recently, in March of this year, the second Northern Dimension Business Council Forum took place in St. Petersburg. We believe the forum was pretty successful. Most importantly, the Forum gave business representatives from the countries of the Northern Dimension an opportunity to meet, discuss urgent issues, and discuss potential directions for further development. And in fact, that is precisely how we see the main objective of the Northern Dimension Business Council.

Meanwhile, the Northern Dimension Business Council is integrated into the business dialogue process at the European level. The countries of northern Europe are a natural and integral part of the European dialogue as a whole. In

this capacity, on the one hand, we share in the successes of this dialogue. Yet, on the other hand, we see the obstacles this dialogue faces.

Naturally, we will continue our work, meeting the challenges specific to the countries of the Northern Dimension. But the full context of European and Russian business sphere is doubtless an extremely important and urgent factor for us. Issues like, say, Russia's entry into the WTO, have been around for many years now. I think many of you know that Russia submitted a formal membership application back in 1993, when the WTO was still called the GATT. In other words, this year will be 18 years since Russia began these negotiations. This is a record for the WTO countries. The old record belongs to China, with 14 years of negotiations. Even back then, it was considered an extraordinarily long period. Russia has been going through the same thing for 18 years now.

At the same time, on the one hand, we have done an immense amount of work in terms of changing our legislation—and it really has benefited our country. On the other hand, I think Russia is currently more ready to enter the WTO than probably many other countries that do belong to the organisation. And yet, we always run into obstacles that prevent us from concluding negotiations, even though we have formally signed bilateral agreements with every country included in the Working Group.

And today, I think completing negotiations and becoming full-fledged members of the WTO is a matter of goodwill on the part of all sides. Unfortunately, however, we are currently seeing great progress in our negotiations with our American colleagues, but nowhere near as much progress in our negotiations with our European colleagues, though until very recently it was the other way around. And I believe together, we must determine and agree on the final list of challenges that still stand in our way, and must find a compromise. I have no doubt that the Russian side is ready to work in this direction.

But the problem is that new issues keep springing up on our agenda—issues that prevent us from entering the WTO. At the same time, membership in the WTO

would be extremely beneficial to everyone doing business in Russia—both Russian and foreign entrepreneurs—because it would create a much more predictable business model in the widest sense of the word. This makes the hard work I mentioned worth it.

I am very happy to hear about attempts to liberalize the visa system between the Russian Federation and the countries which signed the Schengen Agreement. Naturally, this will strengthen business connections between European countries and Russia. We need each other, as the economies of Europe and Russia are complementary in many ways. This becomes especially apparent in the atmosphere of the global challenges we all face. But to what extent we can utilize this complementary nature, to what extent we can use this synergy to strengthen each other, depends on both sides.

I have no doubt the Northern Dimension Business Council and the EU-Russia Industrialists' Round Table can, and will, play a key role in this process. In spring of next year, we are planning to organize another business forum, probably in St. Petersburg again: the Northern Dimension Business Forum. There, we will continue our work within work groups. Mr Kuula already mentioned this. How dynamic these groups are depends on its participants, but some are always active, like the forestry group and the ecology group. We are sure that in some capacity, we will be able to bolster further development of economic ties between Russia and Europe.

In conclusion, I want to stress that the success of this work completely depends on us and no one else. Thank you very much.

M. Monti:

Thank you very much, Mr Mordashov. Now I would like to ask Mr Felix Karmazinov, the Director General of Vodokanal of St. Petersburg, to speak.

F. Karmazinov:

I will talk about the area which, I think, does not get the attention it deserves—the state of our environment, and what we have done in this regard in St. Petersburg in cooperation with our Western partners. I would like to say that Vodokanal of St. Petersburg has been working directly with Western partners for more than 20 years. I will add that this cooperation has a practical character. Today, I am ready to share the concrete results of this cooperation.

To do this, I would like to ask you to think back to at least the 1980s. It was not so long ago—it was practically yesterday. But the situation was completely different. Back then, the city of Leningrad dumped 3.2 million cubic metres of wastewater a day into the Baltic Sea without any purification. St. Petersburg's water supply was in a state of collapse. Then, in 1991, our Finnish partners invited us to work together on a wide range of issues. But this cooperation came with one fine point. They offered us grants, but immediately, despite our deep desire to simply buy some pumps, some equipment, they said, "All these grants and all of our assistance in the near future—all of that is meant to be spent strictly on personnel training."

Back then, I did not understand, or was not conscious of the wisdom of this approach. We set out to continuously increase the qualifications of our personnel.

And what do we see today? Today, St. Petersburg purifies 95% of its wastewater. That is how much things have been transformed in a little over 20 years. In addition, Western experts have officially declared that all wastewater we purify today fully complies with the requirements of the Helsinki Convention. In other words, while 20 years ago St. Petersburg was a dirty, black stain on the map of the Baltic, today we can almost be called a 'green' city.

Of course personnel training is not the only factor. I can tell you right away that, in cooperation with our Western partners, we implemented the first public-private partnership, which handled the construction of the south western purification stations, which lasted four years. This was the first case of a public-private

partnership in Europe's public services history. With the help of our Western partners, we are actively working with Western investors. I can tell you that the total amount of investments made in cooperation with our partners during these years amounts to hundreds of millions of euros. This includes public-private partnerships and direct lending. It is a whole range of cooperation.

I can tell you that we do have certain particularities that makes this cooperation unique. Vodokanal of St. Petersburg is a state unitary enterprise. At the same time, we have an international credit rating given to us by Standard & Poor's, and Moody's. In other words, we are an organization that utilizes all economic principles in our work. And it was all made possible only by our close collaborative work with Western partners.

What do we expect to see in the future? First of all, Mr Mordashov was right when he talked about the Northern Dimension. As part of the Northern Dimension, we have created an education centre in cooperation with Finland's Lappeenranta University of Technology. The centre continues to train personnel - but now, this personnel comes not just from our offices, but from all water supply and wastewater disposal companies around Russia. This is a sign of further growth of public-private partnership. And I think that we are ready to work with our Northern Dimension partners to perform operational functions. Thank you.

M. Monti:

Thank you very much. I'm perfectly willing to accept, and indeed to ask for, one further contribution which is not scheduled. However, I have to ask Alexander Misharin, Governor of the Sverdlovsk Region, to be particularly concise. Thank you.

A. Misharin:

Thank you, Mr Monti.

Ladies and gentlemen, I represent the Sverdlovsk Region. This traditionally industrial region, which accounts for about 10% of Russia's mining resources, is one of the fastest-developing regions in the country. In recent times we have shown high rates of development. Average growth for the last two years has exceeded 13%, due precisely to reorientation towards new technologies and the development of new clusters. I would especially like to note, for example, the creation of a new transport equipment manufacturing plant—the fruits of a project developed with Siemens and aimed at producing a new electric locomotive and train carriages. I hope to sign a contract with the Russian Railways, Siemens, and Sinara Group in the nearest future.

We give a lot of attention to increasing our attractiveness and improving our investment climate. Yekaterinburg, the capital of Sverdlovsk Region, is the third largest user of foreign resources in Russia. In a poll of German companies conducted last year by the German Consulate—the region plays host to more than 150 of these companies—showed that more than 90% of responders consider 2010 a successful year, and virtually all responders expect 2011 to be successful as well. We consider this an excellent sign, which gives us strong hope for increased investments. It is no coincidence that the administration of the Russian Federation passed a decision to designate the region as a special industrial economic zone. Today, equipment and factories that produce titanium products for Boeing and Airbus are being prepared for distribution. I should note that the companies I mentioned own a more than 50% share of these factories.

I believe these examples leave no doubt that Russia's regions are currently actively working to attract investors and manufacturers. This is another very interesting aspect of integration and coordination of technical regulations. I would like to second Mr Pumpyansky in this respect and throw my support behind the creation of Working Group No. 8, which could doubtless help us intensify and speed up this work.

I will mention another direction which we have begun to explore. Last year, we unveiled Russia's first Exhibition of Industrial Innovations. This new platform offers an opportunity to showcase major innovative projects. It will open its doors in July, and I am currently inviting companies to take part in it. I would like to thank you once more for this opportunity to speak to you. Thank you.

M. Monti:

Thank you very much. We have come to the moment when, before beginning the political panel discussion in a few minutes, we would like to have the leadership of the IRT project debate this further.

And as Anatoly Chubais was highlighting the substantive contribution of the IRTs to the process up to this very recent EU-Russia Summit at the beginning, I think it comes upon you, Mr Loescher, the President and CEO of Siemens, of course, to bring us up to date on the IRT's vision for further progress.

P. Loescher:

Before I do so, coming in late, I would like to start with something else. I would like to wish a happy birthday to my co-chairman.

Speaker 1:

It's already happened.

P. Loescher:

It's already happened. So I...

<inaudible>

P. Loescher:

So you have it from me as well.

A. Chubais:

So now I am congratulated twice. Thank you very much.

P. Loescher:

I think with the... and I would like to start with what is called the creation of the 'Golden Decade' and with what Mr Mordashov has actually commented on, the importance of the conclusion of the WTO agreement.

I think the important thing is that we realize that this is actually creating a base for further integration. And there was a very important personal contribution in Germany by Mr Putin, who actually has called it the further integration from Vladivostok to Lisbon.

So I think what we have to have in mind is not the decade itself, but going beyond the decade. It's really to say, "What is the momentum which we can currently use?" And we have strong momentum, politically speaking, as well as economically speaking.

We have exports and imports increasing by more than 30% in both directions. I think this demonstrates the importance of the WTO. And we have now to have our side in deepening the economic and investment climate in a broader economic zone. And that is for me the most important area where we can contribute.

And then we are back to the issues which we have discussed here, the importance of driving innovation and joint work in terms of creating the embedded culture from the top-down as well as from the bottom-up. And Skolkovo, for this reason, is very important.

And I think many of the companies here present, or indeed all of them feel strongly about the potential, and not just of the relationship between the EU and Russia, but also in terms of industrialists really making long-term investment decisions in terms of how we would like to collaborate.

And this, obviously, is starting with research and development. My company, for example, is establishing a global research centre in Skolkovo for this reason. I think the importance between universities, innovative universities, and then having a culture which is linked back like we have in Germany between Max Planck, between Fraunhofer, between SMEs, between large companies, and creating this culture.

So, using the modernization agenda of Russia as an opportunity for PPP projects, for deepening localization programmes... that we leverage research and development, that we leverage engineering, that we make sure that actually we really have an embedded culture which drives the broader issue of integration from a regional perspective and to work on joint learning processes, which you were referring to.

I mean, there is excellent stewardship from the governors here in terms of the culture of what they would like to present, and learning from integration: what was good and what can, in addition, be done in terms of the learning from the integration of the European Union. And how to make sure that as industrialists, we have the right political dialogue and the right industrial dialogue while at the same time making sure that we support it through a very concrete industrial project.

And that is the momentum of what we have created. The side of the IRT has—looking at it—really strong support, not just in terms of looking to conclude joining the WTO, but how can we use a WTO-plus environment, and how we can use this momentum to really further strengthen resources: what Russia has—leadership in technology—what we can jointly enhance; and therefore, enhance the joint competitiveness of this broader regional engagement. And this is why we are here. This is the momentum we have created and this is the role that the IRT would like to have.

M. Monti:

Thank you so much, Mr Loescher. And I would like to underline at this point that Mr Loescher is, of course, not only the co-chair of this round table but is also the Deputy Chairman, if I remember correctly, of the European Round Table of Industrialists. And the European Table of Industrialists has indeed been playing a role for many, many years. I have many personal recollections of that role, a key role, always operating with discretion, and never invading the politicians' space, but nevertheless having a key role in driving economic policy. Even the political agenda and the broad signs of the European Union are moving forward, and I'm sure that the same spirit is now carrying over in this crucial IRT set of initiatives. According from the number of quotations this afternoon, working group number eight is the place to be now; everybody has mentioned that working group. But I'm sure that those of you who are in seven are equally decisive. Perhaps Mr Chubais would like to add a word or two.

A. Chubais:

Thank you, Dr. Monti.

You know, I would like to share my thoughts on what we have heard during this discussion. We heard, as we always do in these circumstances, examples of positive results of cooperation between Russian and European companies. We heard examples of problems, including those caused by various drastic measures on behalf of the government, such as a one-off threefold tax increase on beer, which Mr Rasmussen justly mentioned. This is a common, natural issue, and it is good that we are talking about it. But I got the impression—maybe I am wrong—but I got the impression that many of today's speeches reflected the particular importance of a new subject. It has never been defined so precisely. This subject deals with personnel training, with education, and with culture in the widest sense of the word. Tapio Kuula touched upon it when he talked about cooperation between universities. Mr Kress talked about it, and so did Mr Karmazinov, who is, without a doubt, the most respected specialist in Russia's

hydroeconomic sector. And when Mr Dubinin voiced what might, at first glance, seem an unexpected thought—that the Bologna process is even more crucial for the Russian education system than technical regulations, I felt that this focus on the subject of educational and cultural integration—the focus inspired by business—is a sign of a qualitative improvement in cooperation between Russian and European economies. If we see demand for this and if people realize the practical importance of this factor for business, I believe this is valuable in and of itself.

If we take a bird's-eye view of this issue, let us ask a rational question: where should Russia look for new strategic and cultural alliances? Should it look to the south? To the east? To the north? Even school kids understand that the only good answer is Europe. And if we understand that this cultural integration carries with it a unique trade, economic, and business importance, it becomes perfectly clear that the ability to create strategic alliances in our modern super-competitive world is largely a question of survival. I found this to be the most significant and most interesting of the thoughts we have heard today from my esteemed colleagues. Thank you.

M. Monti:

Thank you very much, Mr Chubais. I am afraid that we will not have time for the Q&A at this point. Perhaps we will combine the Q&A on this economic panel with the Q&A to follow on the political panel. It is always so difficult to separate what is economic and what is political. And so we are now ready to begin the political panel discussion.

But before doing so, I would like to really congratulate the IRT for putting together not only their structural and on-going activities, but also for providing us here, a wide audience, the opportunity to be in contact and to gain deeper awareness of the remarkable work that you are doing in the interest of cooperation between Russia and the EU.

I think this is something of the utmost importance, and I would like to thank all the contributors to this discussion, but in particular the two co-chairs of the IRT.

The political panel discussion has a key phrase, which is 'the single economic space'. So, we are really again deeply immersed in international integration, but with the particular configuration here of the single economic space.

And to speak to us on the main principles and operations of the single economic space, we welcome Alexei Likhachev, Deputy Minister of Economic Development of Russia. Minister.

A. Likhachev:

Thank you very much, dear Mr Monti. I would like to begin by thanking the organizers of this round table for inviting the entire team which participated in building the Common Economic Space (CES). We have representatives of both Kazakhstan and Belarus, and of course Russia—all our colleagues who have spent the last two years actively working on the issue of the Customs Union and the Common Economic Space. In my opinion, the fact that this discussion is part of today's conversation means that our work was not in vain, and that the results can be felt beyond the borders of the three aforementioned countries: the Russian Federation, Kazakhstan, and the Republic of Belarus.

If we can summarize the main changes the sector underwent in the last two years, the most important point is this: in regard to a number of issues, the European Union, represented by the European Commission or by the European business community, has found a partner not just, and not so much, in the Russian Federation itself, but in the entity that has many names. I am talking about the Customs Union, about the Common Economic Space, the Customs Union Commission of the Republic of Belarus, Kazakhstan, and the Russian Federation.

And it is true that the last two years have seen fundamental changes. I would like to recall two aspects of our last discussion. The first is the idea that this work will

take several decades, and we are making plans for substantial time periods. And the second aspect is the fact that in this particular case, the Russian government sees its role in this work as a source of more favourable conditions for business development, attraction of investments, creation of joint projects, and the activation of business as such within the geographical area traditionally called post-Soviet.

As a matter of fact, our three countries form the nucleus of integration. The end product of our cooperation is the freedom of movement for commodities, jobs, services, finances, capital, and intellectual property across our three countries, which has resulted in a unified consumer market of 170 million people. Our union is open to new members. Apparently, a number of countries have shown at least a cursory interest in the possibility of joining. This means that the number of 170 million people is just an initial assessment of this consumer market. We hope that in the medium term this number will continue to grow.

The first stage, which we have already completed, is the stage of forming the Customs Union and raising it to the transnational regulatory level in terms of customs tariff and non-tariff regulation. We carried out this work publicly, in cooperation with our colleagues from the Russian Union of Industrialists and Entrepreneurs (RSPP) and under their watchful eye. At least three of my colleagues who are here today representing the Russian side are members of the Foreign Economic Council. The Council is headed by our Minister, Elvira Nabiullina. Alexei Mordashov, Anatoly Chubais and my colleague Pumpyansky all saw the Customs Union take shape before their very eyes. At this stage, we carefully studied how the European Union was formed, and how the European Commission's functions were developed. Rather than copy it verbatim, we actively used this experience, allowing for the fact that it had been achieved over an immeasurably longer period of time, beginning with a coal and steel union, then on to a customs union, and eventually culminating in the economic and political union we see today.

The Common Economic Space (CES) is based on 17 conventions. Transfer of power to the Customs Union Commission, and this year's step-by-step implementation of the CES agreement, mean that for the first time in the history of the new Russia we have moved from inter-governmental relationships between the countries of the CIS and the Eurasian Economic Community (EurAsEC) to the functions of transnational regulation. We voluntarily gave up national regulatory functions to bodies on the transnational level. I do not want to waste valuable time on details of all 17 conventions. They are briefly explained in the presentation which, I hope, you all were able to see. These conventions are also available to the public on the website of the Ministry of Economic Development and on the foreign economic activities department's website, www.ved.gov.ru, which we created specifically to illustrate our international trade and foreign economic policies of the Russian Federation. I think you and your specialists will have no trouble familiarizing yourselves with these materials. Instead, I want to focus your attention on two issues.

First, we did everything in our power to design these conventions for immediate impact and to make sure they clearly define which functions and responsibilities remain with national bodies, and which are delegated to the transnational level where decisions will be made by the Customs Union Commission, and by extension, by the European Commission. Later, I will talk about how we see its development. Of course these conventions do not serve the function of a start gun. They are being implemented gradually, and are open to further improvements, both in the regulatory sense and in the functioning of the Customs Union Commission. Regardless, these conventions actually regulate the market of these three countries at the supranational level. They create unified rules and conditions for competition, provide unified access to government procurement, create a unified subsidiary policy in the industrial and agricultural subsidy sectors, while at the same time regulating natural monopolies and extending the influence of the regulatory committee to tariffs, including railroad tariffs.

A separate convention is dedicated to the issues of intellectual property and uniformity of intellectual property protection. One way or another, these conventions cover the entire range of fundamental economic policies.

Their implementation is gradual, with an eye on practical experience. This is a realistic process by which functions are transferred to the supranational level. Our goal is not to formally create a new regional union as much as it is to truly extend unified CES rules across our three countries, and to completely erase borders that impede the flow of commodities, services, capital, and workforce throughout the territory.

Here, I want to stress that these conventions take the principles and standards of the WTO as their foundation. We understand—let me be perfectly frank—that people have a certain suspicion of this process. That is why we signed a separate agreement to ensure that the WTO standards take precedence over the standards established by the conventions of the Common Economic Space. This agreement is practically ready and is currently at the signing stage. We worked on this in the atmosphere of transparency for our partners in the European Commission, the Presidential Administration of the United States and other interested parties, and we conducted corresponding discussions. Unfortunately, our discussion of this issue with the European business community did not go far enough. I remember only one meeting with the Business Europe Association. We talked in detail about our work, but as they say, our work is still ahead of us.

Today, the Customs Union Commission consists of Deputy Prime Ministers of our countries. It is still evolving and developing. In this regard, we also pay careful attention to the experience of the European Union. This helps us, on the one hand, to avoid excessive bureaucratization of the system, while on the other hand, to learn how to maintain balance between the interests of each of the three members of the Common Economic Space and the issues connected with the integration process.

And another extremely important issue, which, I believe, demands a discussion today, is the question of risks which develop in the process of creating these types of unions. Advantages of the process are obvious. They include implementation of the WTO regulations throughout our countries under our conventions even before we join the WTO, and a real competition between our countries, between subjects of the Russian Federation and corresponding institutions in Belarus and Kazakhstan, to create the best investment climate and attract investors to our respective countries. The borders are being erased. That means that officially, it does not matter where new production facilities are being built. This is the bonus our business community got even before the conventions of the Common Economic Space went into effect. These advantages are obvious.

But there are also risks. They lie in possible duplication of our countries' existing barriers by our bureaucratic systems. They lie in creation of additional bureaucratic structures. They lie in the absence of a possible dialog between the governing bodies of the CES and the business community, first and foremost in our three countries, and also in other countries and the European Union as our key trading partner. We try to minimize these risks. We would like to get the perspective of the experts who are here today, to hear directly from the business community what additional steps we can take in this direction.

I want to say once again that the key issue is an effective, transparent decision-making process on the supranational level that would benefit not just the business communities members of the Common Economic Space, but also the business communities beyond the borders of our Customs Union.

And the second significant problem which will require our attention for a long time to come is the legal capacity of the Customs Union and the CES as a unified entity, and the perception of this legal capacity beyond its borders. To this end, we have already created a joint Russian, Belarusian, and Kazakhstani delegation tasked with conducting negotiations in regard to WTO membership. With the

direct participation of Kazakhstani, Belarusian, and Russian interests, we are building a wide range of relations with other countries, for example in the form of free trade zones.

I beg Mr Monti's forgiveness for taking more time than was scheduled. I mentioned maybe a third of everything I wanted to talk about. But in any case, I believe this is a vitally important subject that is of interest to representatives of Russian and foreign business communities alike. Thank you very much for your attention.

M. Monti:

Thank you very much, Minister. You certainly covered more than your time, but you were certainly extremely interesting, and for me it is particularly painful to cut the time for somebody who is speaking about such an interesting exercise of economic integration. And I would have many questions myself, but I hope that we can speak on another occasion. Now, due to time, we have one last contribution only, and it is an important contribution, and I have to apologize on behalf of all those who exceeded their time allocation a little bit to the three persons in the first row who were expecting to make remarks as discussants. Ambassador Valenzuela, Minister Kudasov and Igor Yurgens, President Yurgens. The last contribution is by the Minister of Economy and Trade of Kazakhstan, Kairat Kelimbetov.

K. Kelimbetov:

Thank you very much. Since the Ministry of Economic Development of the Russian Federation already did a detailed presentation, I would simply like to confirm certain issues, to once more highlight them for my colleagues.

When we meet with our European business or government colleagues, the first question we usually get is, "Are you happy with the Customs Union?" I would like to confirm once again: yes, we are happy. Now, I will try to tell you why.

First of all, we received access to the market, and as a result, third parties get access to it as well. We are talking about a unified market that adds up to 170 million people. If we compare it with Russia's access in the past, we will see that our market has grown by more than 20%. Considering that integration is going to continue, I think the market will grow further. This gives many companies an opportunity to design their business strategies taking into account this entire territory.

The second question relates to the new geo-economic reality. Here, I would like to challenge Anatoly Chubais. Maybe today we should not be looking only at positions held by Russia and the European Union. Maybe we should be casting a broader eye. Because the world has changed in the last 20 years. This change is most apparent in the growth of the Asian market. China's role has also changed. Today it occupies the driver's seat in the global economy. Some forecasts say that in the next 10-20 years, its economy might equal that of the United States. In any case, we must not turn away, but rather put our heads together with our European partners and figure out how we should react to this factor.

Looking ahead, I want to give one example. We are currently beginning to refine natural uranium in Kazakhstan in cooperation with French company Areva—the largest nuclear company in the world. We used to simply export raw uranium. Now we have begun to supply Chinese electric power plants with fuel components. I realize this is not a very popular subject after Fukushima. Still, China and India's nuclear programmes probably will not be scrapped—they will simply have to comply with stricter safety regulations. In any case, this is a new market for our cooperation.

Here is another example: Russia and Kazakhstan have the second largest rare and rare-earth metal deposits after China, which is the number one monopoly in the sector. We could also begin production in this sphere with the help of our European technological partners.

What will this mean for many European companies? It will mean, for example, the ability to transport commodities from Europe to Kazakhstan. If in the past, the goods had to cross three borders—Belarusian, Russian, and Kazakhstani—now, there is only one border to be crossed, in this case the border with Belarus.

The second crucial question is the level of our relations. If in the past our companies mostly worked together on the import-export level, these days we have an opportunity to consider strategic alliances, which Anatoly Chubais also mentioned. I completely agree with him. In other words, companies that simultaneously operate in the energy and technology sectors can create corresponding alliances with the companies that have sprung up on our territory over the last 20 years. I believe this process has a bright future. I will give you a few examples of this kind of cooperation.

For example, even in the midst the world financial crisis, three companies—the Russian Transmashholding, the French Alstom, and the Kazakhstani Temir Zholy (which means ‘the railroad’)—organized the joint production of electric locomotives in Kazakhstan. In other words, this is a large investment project founded on the most important issue of today, that of the transfer of technologies, meaning access to technologies. A fair foundation of our relations, our partnerships in the energy sector and the mineral deposit development sector, is access to technologies and their transfer.

Another example is the active work of the German company Siemens in Russia, and activities of the Italian company Finmeccanica in Kazakhstan. Despite the crisis, and even though they do not work in the raw materials sector, these companies find opportunities for opening new production lines. These point to the great potential of our cooperation.

And of course in closing I would like to confirm that all our integrated associations were built on the principles of European competition standards. This means that our business and government experts first studied the successful experience of European countries. And I think that if in 2011–2012, both Russia and

Kazakhstan become members of the WTO, this will answer remaining questions about the transparency of our economies and their status as market economies. This is our biggest achievement of the last 20 years.

Once again, I would like to use this opportunity to ask our European colleagues to begin looking at the relationship between the European Union and Russia from a wider perspective—as an opportunity to work not just in Russia, but in the countries of the Customs Union, Kazakhstan and Belarus. Thank you very much for your attention.

M. Monti:

Thank you very much, Mr Minister. I think we can close, and indeed we have to close this round table.

I think it has been extremely interesting for everybody to listen to the official contributions, to the discussions, and the points made. And I think we can say that you really covered the whole spectrum, from the highest principles of economic integration down to the most detailed important aspects such as technical standards, and so on and so forth.

And if there is one point that I have taken from most of the contributions, it is predictability. It seems to me that, of the remaining obstacles, many are linked to a lack of predictability.

Of course, predictability is not only a problem for the Russian economic and political system; it is also a problem for the European Union economic and political system.

And I think all our countries, whatever their constitutional form and political system these days, tend to operate in a political world which decides so much based on short-term considerations, whereas all the problems that were discussed here have to do with the long term, and the one aspect most clearly lacking and most desired is, in fact, predictability.

And I think that also for a hugely important exercise of integration like the one between the EU and Russia, like the single economic space between Russia, Belarus, and Kazakhstan, whatever can be done to increase the degree of predictability will be of utmost importance.

And I think that a number of key contributions have also come from this angle, for which I wish to thank once again the key speakers and all those who took part and followed these intensive hours of discussion so attentively. Thank you very much.