

5 January 2006

***The EU-Russia Industrialists Round Table (IRT)
Seventh General Meeting in London (October 3 2005)***

Task Force Recommendations and Conclusions

1. The EU-Russia Energy Dialogue

Context

The European Union (EU) and the Russian Federation (RF) have a mutual interest in cooperating in energy. The RF's massive resource base combines with the EU's growth market as a "win-win" proposition. To advance the dialogue on this, the EU-RF Energy Dialogue was launched at the EU-RF Summit of October 2000 in Paris. The aim is to define arrangements for a lasting partnership in energy field.

The Industrial Round Table (IRT) was invited to participate in the Energy Dialogue in order to ensure the participation of the business community in the aspired energy partnership. Consequently, the IRT created the Energy Steering Group (ESG). This is a small group of CEO's (6) of energy companies in the EU and RF representing oil, gas and electricity businesses.

The ESG has since set out on developing key issues for a practical, medium-term energy cooperation programme incorporating priority projects and defining actions to be taken. In 2004, the ESG discussed its contribution with the administrations of the EU and the RF. This resulted in the creation of four thematic groups under the guidance of the two administrations with input from representatives of energy companies in the EU and the RF. The themes being addressed are (1) the strengthening of the upstream investment climate, (2) the development of energy transportation systems, (3) the development and harmonisation of energy trading regimes and (4) the promotion of energy efficiency and saving.

In its meetings of November 2004 and June 2005, against the background of a shared sense of urgency, the IRT agreed for the ESG to prepare an IRT Energy Statement in order to provide input to the work of the thematic groups. This Statement would also be used in various other ways to assist in focussing the Energy Dialogue on the most critical issues as seen from the IRT's point of view.

Background

The energy business today already represents the most important economic link between the RF and the EU. This consists largely of trade in natural gas and crude oil, but efforts to increase significantly mutual development investments in this industry are under way. Priority should also be given to trading electricity and creation power connections.

It has been realised that the RF aspires retaining substantial control of its natural resources. At the same time, additional investments and a further influx of technology will be necessary for the development of the upstream resources in the RF and for energy transportation to the EU. There has to be a balance, therefore, between an attractive investment climate and sovereignty over resources in the RF. In the EU, however, regulation and contractual issues are key priorities.

There is significant development in the business relations between the EU and the RF. The EU supports accession by the RF to the WTO. The RF has announced its intention of ratifying the Kyoto protocol. Furthermore the recent EU-RF Summit discussions concentrated on the four 'common spaces' of mutual interest and a consequent Roadmap has been established.

It is accepted that joint activities in the energy sector in the RF can be carried out only in conformity with some basic principles. On top of the sovereignty of the State with respect to its natural resources these comprise also the need for a transitional period in the Russian energy sector to take account of social aspects and public service obligations. Furthermore, there will have to be a framework for the formation of strategic alliances between energy companies from the RF and the EU, including also public-private partnerships.

General themes for developing proposals for action by the thematic groups

The ESG supports the following general themes as areas of work by the four thematic groups. They should be tasked with defining concrete proposals for action in the short and medium term, and for clear prioritisation of these proposals.

Area 1: Support and protection of investment:

- FDI policies, including foreign participation in shareholders capital; transparency in tendering; guarantees and risk insurance.

- Financing for energy projects, including long-term lending and investment support (EIF, RF stabilisation fund).
- Public-private partnerships and joint investments, including legal framework, arrangements for private investment in state-owned energy networks (rights and guarantees; governance provisions to ensure effectiveness efficiency).

Area 2: Development of energy transportation systems:

- Access to energy transportation and distribution systems including trunk gas and oil pipelines in the RF; gas distribution and storage systems in the EU; cross-border power transmission systems.
- Tariff structure and energy transportation costs including, inter alia the harmonisation of tariffs structure (incl. investment costs) and the informational transparency of tariffs policies and regulations.
- Development of priority projects in energy transportation infrastructure such as the North-European gas pipeline, the modernisation and development of East-West oil pipelines and preparing of power systems for synchronised operation.

Area 3: Enhancing the energy trade regime:

- Contractual structure and market instruments for energy trade, including long term supply and sales contracts (balancing the risks); spot market physical contracts; enabling derivative financial instruments (futures and options).
- Reciprocal access to domestic markets: removing barriers and limits, creating a single gas market in the EU and domestic gas market in the RF, internal markets for petroleum and other up-stream products and also a single electricity market in the EU and domestic power market in the RF.
- Development of wholesale energy trade hubs in Russia including a wholesale electricity market, an oil exchange and gas trading hubs.

Area 4: Enhancing energy efficiency:

- Waste reduction in energy production, transmission and distribution: legal measures, energy pricing, operational approaches.
- Cooperation in the development of energy technology for improving energy efficiency.
- Joint development of emission trading systems.

Specification priorities as defined by the ESG

The ESG has defined five high priority actions that can be addressed realistically in the short term. This will provide for some ‘early wins’ and thus assist in building up the momentum in the Energy dialogue:

- 1) The new RF **sub-soil legislation** should support the cooperation between foreign and Russian partners, with equal rights and obligations (end 2005/beginning 2006 to be addressed). Oil, gas and power production licenses for the RF-EU partnerships should be established in such an equal framework. This will facilitate the EIB and the EBRD abilities for supporting Foreign Direct Investment in the RF energy sector.
- 2) The RF and the EU must focus on enhancing the **security of transmission** in the fields of power, gas and oil. This includes developing a master plan for back-up and alternative routes between the RF and the EU networks; development of trunk pipelines’ legislation; non-discriminatory access to energy transmission systems.
- 3) Public Private Projects (PPP) are to engage the issue of infrastructure, with a focus on the physical interconnections between the RF and the EU (i.e., the power-frequency switch, the oil - Murmansk gateway, the North European Gas Pipeline, connections Black Sea \leftrightarrow Mediterranean, pipelines Burgos - Alexandropoulos, Odessa - Brody), LNG projects (Arctic). A **legal framework of PPP approaches and methods** should be established providing for a non-discriminatory setting for energy players in both the RF and the EU.
- 4) Co-operation on the topic of choosing the pattern **for optimal reforming of the energy markets in Russia**, learning from the experience of European countries and specific companies, enlarging the Russian energy sector, inter connecting to global energy markets.

On behalf of the IRT, the ESG looks forward to discussing these action areas with the respective governmental representatives on both the RF and the EU side. The aim will be to table these five points, plus any recommendations from the thematic groups, on the agenda of bilateral discussions on energy matters, in particular the Summit in London planned for 4 October 2005.

2. Cooperation in Forest, Paper and Printing

Forest, Paper and Printing Industries Task Force (FITF) had a constructive discussion and exchange of views about key sectoral topics of the European Union and Russian forest industrialists, including:

- Investment barriers in Russian forest sector, particularly the Russian forest legislation reform
- Development of infrastructures, and transportation of wood and forest industry products in Russia
- Promotion of Russian voluntary forest certification system
- Prevention of illegal logging (ENA FLEG process)

The developments since the IRT General Meeting in The Hague 2004 have confirmed that the Russian forest industry sector has very good growth prospects. The fast growth of domestic markets, combined with increasing demand in export markets, particularly China, will fuel the expansion of the forest industry production. This will require significantly growing investments into the industries, and harvesting and transport infrastructures. However, many of the key policy and regulatory issues in the forest sector remain unresolved.

The forest industry corporations will not make large scale investments without a long term security of wood supply. The current forest legislation and regulations in Russia do not support the long term security and application of rational sustainable forest management. The EU and Russian forest industry representatives see it important that the Russian Government and relevant authorities would base the ongoing reform of the Forest Code and related regulations on the principles of sustainability, at the federal and regional levels.

This requires, among others, long forest lease periods, transparent rules and mechanisms for defining stumpage/lease fee, clear division of responsibilities between the leaseholder and the state, and transparent and competitive procedures for getting, renewing and transferring leases. In addition, the regulatory framework should facilitate the Western European/Scandinavian type forest management methods in forest renewal, silviculture, thinnings and final cuttings.

To improve the wood supply conditions and preconditions for investments, the development of forest and related infrastructures in Russia will be of utmost importance in the future. In view of objective to ensure profitable and sustainable wood harvesting operations, it is important to regard the improvement of a forest road network as a priority. A specific programme for developing forest infrastructures is under an initial stage of development, with a support of international financial institution. The EU and Russian forest industrialists support this process.

Customs and other procedures to import capital goods for forest industry investment projects are currently very cumbersome. The EU and Russian forest industrialists call for streamlining and simplifying the import procedures. Same streamlining is needed in the export procedures. It is also vital to remove such export and import duties that impede industry development and investments.

The last few years have witnessed positive developments in forest certification as a tool to ensure the environmental soundness. The development process of the Russian voluntary forest certification system is in an advanced stage, and it has become the member of the PEFC (Programme for Endorsement of Forest Certification Schemes) system. The EU and Russian forest industrialists support this process. For the forest industry, certification is an important process, targeting objectives such as sustainable forestry, wood trade development and open access to the forest product markets. It is in the interests of the forest industry to prevent any specific forest certification system from becoming monopolistic.

It is a shared belief of the Russian and EU forest industry representatives that the legality of wood origin is an issue meriting earnest consideration. The ENA FLEG (The Europe and North Asia Forest Law Enforcement and Governance) process is one of the key programmes in this field. One should bear in mind that a system of monitoring the wood origin has already been used in wood trade for a number of years. Both the European and Russian party are committed to improve the system. If the implementation of the ENA FLEG will be launched, it should avoid over-regulation of the forestry, as well as include and apply the wood origin verification/checking systems already implemented by the EU forest industries, and Russian industries and industry unions.

FITF encourages the Russian authorities to look at incentive schemes of Eastern Germany and the EU Regional Policy to promote investment into the forest industry. Such a scheme should focus on infrastructure development around mill sites. Both existing mills and greenfield projects should be eligible from the same basis, as well as Russian and foreign investors.

3. Cooperation in Information Technologies, Communications and Space

Inputs and Conclusions

The Task Force was in charge of identifying projects and topics of common interest and to identify problems and solutions thereto. The dialogue was based on the submitted topics and projects, complemented by issues identified during the course of the meeting and projects, which already existed from the previous meetings and, which maintained their relevance.

Participants welcomed the recent adoption of the Roadmap for EU-Russia Common Economic Space. They highly appreciated the efforts to create an open and integrated market between the European Union and Russia. Participants have also confirmed and welcomed the changes in the Russian telecommunication market towards the creation of the developed free market conditions in this field. The Task Force is looking forward to a fruitful dialogue with the EU-Russia expert group on ICT on such issues as:

- Development and implementation of a transparent and pro-competitive regulatory framework, including access and interconnection, licensing, data protection and universal service
- Coordination of national ICT programmes such as e-Europe and e-Russia
- Cooperation in space communications and navigation aimed at the provision of compatibility and interoperability of GALILEO and GLONAS systems, as well as special application projects based on integration of the EGNOS programme and Russian technologies. Cooperation in the field of commercial utilisation of the existing surplus capacities of the Russian satellite group
- Furthering of interoperability of ICT systems
- EU-Russia cooperation in Information Society: eGovernment, biometric technologies of personal identification, Internet security and telemedicine
- Cooperation in research and development, including software development (offshore programming) and IT technology parks establishment in Russia. Possible EU support (including financial) to R&D activity in Russia

The participants call for accelerated progress toward these objectives through the cooperative efforts of industrialists and the European Commission and Russian Government assistance.

At the same time, the participants identified a number of obstacles to a wider cooperation in these areas. Foreign investors in Russia are concerned about the uncertainty of investments into companies in sectors that are referred to as of strategic importance for national security and would like to see clearer and more transparent rules for and definitions of which companies are subject to such restrictions. The key interest for the industrialists is to ensure that market access requirements for telecommunications, satellite navigation and IT products disregarding origin of the manufacturer to both the EU and Russia, will be gradually aligned with WTO rules:

On international standards

The participants appreciate adoption of international standards in the telecom sector of Russia. The European and Russian ICT industry strongly favour open standards developed in international standard forums and based on ETSI, ITU-T recommendations, as they play a key role in stimulating competition and services development.

On the international frequency plan

The participants esteem the Russian endeavour to harmonise her national frequency spectrum in the European framework.

Rules for investments in companies with strategic importance

Foreign investors in Russia are concerned about the uncertainty of investments into companies in sectors that are referred to as of strategic importance for national security and would like to see clearer and more transparent rules for, and definitions of which companies are subject to such restrictions. In the agreement between the EU and Russia regarding Russia's membership in WTO, the Russian telecom sector does not contain any restrictions for foreign ownership except for some, well-defined, companies within the Svyaz invest holding.

On the other hand, industrialists from the both sides appreciate the fact that Russian Authorities in accordance with the Russian President decision has started elaboration of the clear rules for investments into companies that are referred to as of strategic importance.

On licensing of cryptography

The European opinion is that encryption technology has become an important tool for the protection of intellectual property. Most WTO Members have eliminated import licensing requirements and a substantial proportion of export licensing for non-military encryption. The current system of non-automatic import licensing in the RF creates trade barriers, inconsistently with the intent of the national security exemption on such restrictions provided for in Article XXI of the GATT.

On free economic zones legislation

New law on free economic zones despite its general positive impact has not clarified several important issues that should be further developed and concretised, such as IT industry definition, location of technology parks, software exports procedures, benefits for potential investors, etc. In our opinion, the law is mainly aimed at newcomers and ignores the interests of players that already have invested a lot in ICT R&D in Russia.

The work of the IRT TFIV should be perceived as a continuous process in order to improve the total outcome and to exploit the greatest cooperation potential that both sides possess in the best possible manner. The objective is to bridge the existing gap between the emerging opportunities and the institutional, legal and regulatory conditions of international trade and industrial co-operation.

The participants welcome the common understanding achieved between the EU and Russia regarding the WTO and the Common European Economic Space concept. Yet, we understand that real, positive developments in the market access regulations will occur only through continued active discussions. It is understood and once again confirmed by the business community that consistent and tangible political support from the European Commission and the Russian Government is crucial for the success of our joint efforts in IRT.

4. Transport Dialogue

The objective of the Transport Task Force

The objective of the Transport Task Force is to facilitate traffic between EU and Russia by including all transport modes in the growing traffic movements, and to improve transport quality by reducing conveyance times. The Transport TF aims at simplification and harmonisation of the legal bases and administrative framework conditions, provision of competitive products by developing new transport concepts, and setting up through-going logistics chains. Furthermore it seeks optimising and restructuring the logistics chain by employing new state of the art technology. The goals of the Transport TF include also the development of an overall concept and an implementation ready **action plan**, the inclusion of the EU **support programmes** to finance studies and implement projects, and communication of **political action recommendations** to the EU Commission and the Russian Government.

Working groups on four major areas

- **WG 1** concentrates on coordination of the transport policy between the EU and Russia. The group aims for optimisation of control of transnational and intermodal traffic flows, planning for the infrastructure development between PAN and TEN Corridors as well as the national transport routes, and financing of the infrastructure development by using possible pilot projects.

The spanning and planning of transport means have participants from ports, shipping and transport companies. The project proposals set include market analysis of EU - Russia traffic flows, cross-carrier deficit and process analysis (rail, road and ship), strategic propositions for EU - Russia transport policy, and improved integration of the Russian transport system into the European network. Financing the infrastructure expansion is planned with development banks and ports. Pilot projects are designed for the development of container terminals.

- **WG 2** aims to harmonisation of legal framework by unification and simplification of freight and customs legislation between the EU and Russia, and derived procedures. In addition, the objective is to improve general conditions for industrial cooperation and investments in all transport areas. The target issues on

the action field involve parties from transport and shipping companies, being ports in on the development actions as well. Proposals for projects contain formulation of common carriage conditions, inclusion of the focus area in the negotiations concerning the Common European Economic Space (CEES), and preparation of a catalogue including requirements for framework conditions for cooperative ventures and investments by EU companies in the Russian transport sector.

- The objective of the **WG 3** is to implement new technologies by creating IT interfaces within traffic control and supervision systems between EU and Russian companies, and to optimise container transports. Transport companies, shippers and terminal operators take part in the work on this area. Project suggestions for the implementation of new technology include formulation of requirement concept in the consignment tracking area and implementation of staff exchange programmes. The optimisation programme involve introduction of common processes and procedures for container uses and organisation of a shared information system for container transports monitoring.
- **WG 4** aims to harmonise liability and safety regulations. The objective is to unify technical rules and standards pursuant to insurance law, and formulate standardised legal basis for claims adjustment. The parties concerned in this action field are transport and shipping companies, ports, Europe's Committee of Ministries together with Russian Ministries. Projects plans cover inclusion of the topic in the negotiations concerning the Common European Economic Space (CEES), and formulation of a common legal basis for liability in the event of transport damage and damage settlement.

Time scheme

Concept phase

The set-up of working groups and definition of their working fields were due December 2005. The development and finalisation of project concepts has a time limit until February 2006.

Implementation

The implementation of projects is scheduled to be completed by August 2006, and the presentation

of project results is set to take place at the General Meeting IRT in October 2006.

5. Cooperation in the Building Industry

The EU-Russia Building Industry Task Force (BITF), representing leading construction companies, started intensive work with a view of elaborating a **modern consistent pro-competitive regulatory framework in building sector services and real estate sector**. Ad hoc panels set up within BITF started to elaborate recommendations aimed at improving investment climate in specific areas of the sector and eliminating obstacles to implementing mutually beneficial projects.

BITF prepared and approved, at its meeting in Paris, a “white paper” with outline of basic approach to a solution to the problem of harmonisation of building codes and technological requirements in EU and Russia, and concrete steps to abolishing barriers to cooperation in construction and investment activities. BITF has also emphasised the important role of professional association of builders in achieving the goals set for in the “white paper”.

BITF advocates pragmatism in adoption of new norms and standards. Pilot projects, where new norms can be tested not only promote relevant interaction between authorities and industry, but give an opportunity to study in a practical way different available options.

Taking into account the BITF conclusions the IRT will submit the recommendation to incorporate in the Plan of Actions on the EU-Russia Common Economic Space a paragraph emphasising the importance of **“a modern consistent pro-competitive regulatory framework in building sector services and related industries as a major element of the EU-Russia Common Economic Space”** to the heads of state of the EU and Russia at the next Summit in London. IRT will also recommend to the summit to acknowledge the important role of professional organisations of the building industry in achieving that goal.

6. Cooperation in financial sector (banking, insurance and stock markets)

Taking into account the discussions in London of October 3, 2005 during Financial Industry Task Force the participants of this meeting have noted the following conclusions and recommendations.

- 1) Helping to create the common financial and economic space between Russia and the European Union countries is considered to be the main objective of the RF-EU Financial Industry Task Force (FITF) activities. This includes banking, insurance, stock market operations, investment and other financial services. The work is supposed to be conducted within the framework of a roadmap on the Common Economic Space (CES), as approved by the RF-EU Moscow Summit in May 2005 and the common financial and economic space is considered as CES integral part.
- 2) Taking into account that Russia is well behind most of the EU members as far as the national financial system development is concerned, there is an intention to work out a package of measures aimed to a proper levelling of qualitative and other characteristics of the EU and Russian financial markets, including Public Private Partnership instruments that could be helpful to the financial and banking system in Russia. The main characteristics of the Russian financial market are as follows:
 - LOW COMPETITIVE ABILITY OF RUSSIAN FINANCIAL INSTITUTIONS AGAINST THE FOREIGN ONES AND THE ADDED RISK OF THE RUSSIAN FINANCIAL SYSTEM DEVELOPING INADEQUATELY BECAUSE OF THE LIBERALISATION OF THE FOREIGN CURRENCY CONTROL LEGISLATION, COUPLED WITH THE PLANS TO JOIN THE WTO;
 - THE PROBLEMS OF MISTRUST AMONGST THE FINANCIAL INSTITUTIONS OPERATING ON THE RUSSIAN MARKET, AMONGST THE CORPORATE AND PRIVATE CLIENTS AND THE FINANCIAL INSTITUTIONS AND FOR THE RUSSIAN FINANCIAL INSTITUTIONS AT THE FOREIGN MARKETS WHERE THEY FACE THE PROBLEMS OF DISCRIMINATION EXPERIENCED;
 - HIGH COSTS OF FINANCIAL SERVICES IN RUSSIA DUE TO HIGH INTERNAL EXPENDITURES IN BANKING AND FINANCE INDUSTRY, GENERAL INSTABILITY OF THE MARKET AND CONTINUOUS PROBLEMS THAT MANY COMPANIES WITH CIVILISED BUSINESS EXPERIENCE IN GETTING ACCESS TO FINANCIAL SERVICES ON COMPETITIVE TERMS AND CONDITIONS;

- EXCESSIVE REPORTING DEMANDS TOWARDS FINANCIAL INSTITUTIONS ACTING IN RUSSIA, MULTIPLE DUPLICATION OF REPORTS TO DIFFERENT SUPERVISORY, REGULATORY AND OTHER AUTHORITIES, INSUFFICIENT USE OF THE MARKETS' SELF- REGULATING CAPACITY;
- THERE IS AN UNCERTAINTY REGARDING FURTHER DEVELOPMENT OF THE RUSSIAN FINANCIAL SERVICES MARKET AND ITS LEGISLATIVE BACKGROUND, INFRASTRUCTURE AND ADMINISTRATIVE PRACTICES: ON ONE HAND, THE COURSE FOR THE CREATION OF A COMMON ECONOMIC SPACE BETWEEN RUSSIA AND THE EU HAS BEEN OFFICIALLY ANNOUNCED, AND ON THE OTHER HAND, AN AGREEMENT ABOUT THE CREATION OF THE UNIFIED ECONOMIC SPACE BETWEEN THE RESPECTIVE CIS STATES AND THE TREATY ABOUT SETTING THE EURASIAN ECONOMIC COMMUNITY (EvrAzES) HAVE BEEN ALREADY IN FORCE

- 3) The search for all sources of funding for the Russian private financial sector capital growth and long term credit and investment resources to be used for sound business projects, including those between Russia and the European Union that may be mobilised internally on competitive terms and conditions.
- 4) Identification of the best ways and means for integrating of the EU and Russian financial markets, cooperation in new financial infrastructure development projects, such as bureaus of credit history, rating agencies and other joint banking, insurance and stock market institutions.
- 5) Bringing closer and further convergence of financial legislation regulatory and supervisory practice in Russia and the EU. Tax optimisation and introduction of common standards for financial transactions, including corporate governance and transparency and international accounting and auditing standards.
- 6) To secure an efficient and most rational concentration of FITF efforts and resources on its main objectives and practical activities, a number of special purpose working groups will be formed, i.e. on administration reform and self-regulation in banking and finance, on financial reporting system and tax issues, on preventing financial crime, including use of insider information, on professional ethics, corporate governance and transparency, internal audit, image of financial institutions or other that may be helpful in order to address some particular issues, relating to the creation of a common financial and economic space between Russia and the European Union.