

"The EU and Russia: Friends or Rivals"
Renaissance Hotel, Wednesday October 17 2007

Conference Report

Opening Remarks: Markus Ferber MEP, Board Member Hans Seidel Stiftung, and Lord Paddy Ashdown, President, EU-Russia Centre

In his introductory remarks, *Markus Ferber* MEP explained that Europe's relationship with Russia was one of the most important challenges facing the EU because it had an impact on a variety of other issues including Kosovo, Iran and energy security. He spoke in favour of Europe speaking with one voice and co-operation with Russia on a basis of trust.

Lord Ashdown felt that the high attendance reflected the importance of the subject – and its good timing one week before the EU-Russia summit. He regretted Europe's failure to speak with one voice in its dealings with Russia and drew attention to the upcoming bilateral research undertaken by the EU-Russia Centre which demonstrates the complex nature of bilateral relations and the different interests and perceptions that result.

He felt that the EU needed to be more self-confident in its relationship with Russia, both as a customer and a trading partner and emphasised the mutual economic benefits and shared global challenges that are at stake. Lord Ashdown emphasised that the rule of law was both a political and a business issue. Understanding of democracy had become muddled and it was better to judge countries according to whether they were open or closed.

He did not believe in paternalistic preaching to Russia, but in resolutely and firmly ensuring that Russia met its international commitments, including those before the Council of Europe.

Keynote Address: Commissioner Peter Mandelson

The Commissioner began by welcoming the primary concern of the conference and the EU-Russia Centre on the issue of the rule of law. As Commissioner he had spoken to numerous companies operating all over the world where there was a veneer of respectability, and they staked their success on the existence of the rule of law.

The Commissioner felt that the previous six months had confirmed concerns he had expressed at a conference in Bologna stating that relations between the EU and Russia were as difficult as they had been for a decade or more. The two had had little experience of managing a proper relationship and distrust lingered. Despite this, a common European history and culture meant that many on both sides wished to see the EU and Russia grow closer together once again. There was no reason to believe that this could not happen, but good reason to fear that it would not if the relationship was mishandled. The next year was likely put strain on the relationship at the points where it was most sensitive.

The transfer of Presidential power in 2008 would be a bellwether of the direction of Russia's politics and the development of its democracy, as would developments in relationships between Russia and its near neighbours. Iran would also present a challenge.

The Commissioner felt that it was striking that political and strategic questions shared the same political stage with disputes over timber export taxes and the food export ban - issues that should not be allowed to dominate the relationship –there was too much focus on short term political tactics, and not enough on long term objectives.

The Commissioner was struck by the lack of economic integration between Russia and the EU – without energy, Russia's EU exports were about the same as those of Morocco or Argentina. Russia was not capitalising on its proximity to the huge European market. It lacked the stimulus of greater trade, was under-diversified and had an under-developed SME sector. Meanwhile, opportunities for EU trade and investment in Russia were limited by an uncertain business and political climate and barriers to imports. Europe wanted to see the entrenchment of a political and social system based solidly on the rule of law.

The Commissioner supported WTO accession as the springboard to the EU and the global economy – and the growth and prosperity this would bring. It was also the necessary first step towards an EU-Russia Free Trade Agreement and the basis for negotiation of the new Partnership Agreement.

In support of his argument, he pointed out that more than four fifths of Russia's exports were still hydrocarbons, raw materials and semi-manufactures - with volatile international prices. "High energy prices are not the economic icing on the cake in Russia, they are the cake itself". Russia needed a more diverse economic platform on which to keep building its income growth. The gains to be had from WTO membership of stability, economic diversification and growing trade and investment outweighed any disadvantages.

According to the Commissioner, the great majority of conditions for Russia WTO accession had been negotiated and only political will in Moscow could close the remaining distance, and he hoped to resolve the remaining issues ahead of the next summit. Energy was closely linked to this economic integration process as the biggest single issue in the relationship.

The structure of the energy sector in Russia, and the lack of a bilateral legal framework for energy trade and investment resulted in concerns that energy trade had been politicised and become less predictable. Energy dependence on Russia was an inescapable part of the EU's future, and Russia's reliable supply over many decades had to be acknowledged. Given the huge costs of developing new fields and transport, it was equally entitled to security of demand from its biggest market.

There were differences however. The EU wanted competitive markets with strong rules, genuine rights of transit and the separation of energy production from distribution while Russia preferred state ownership, exclusive rights, vertical integration and limited transit rights. An agreement that allowed Russian investment downstream and European investment upstream, anchored in a broader economic integration agreement between the EU and Russia, would take the politics out of energy trade, without denying Russia's legitimate right as a state to take the maximum benefit from her oil and gas.

The Commission had a crucial role to play here and needed to make sure that the existing network of contacts delivers a coherent and consistent message. Enlargement had complicated the relationship on both sides, and while the EU complained that Russia plays divide and rule between individual member states, it could hardly be blamed for such behaviour when some Member States appeared to invite it. The mechanism for the future could be the creation under the new Partnership and Cooperation Agreement of something akin to the EU/China Strategic Economic Dialogue.

In conclusion, the foundation for the relationship was in deeper economic interaction and integration to provide the necessary ballast for a frank and constructive relationship that would not be capsized by each little trade or political storm. The goal should be a relationship that did not deny differences, but that addressed them constructively, particularly through cooperation programmes, trade and politics.

In response to questions, Commissioner Mandelson said that he had strongly supported Russia's WTO membership, and that smaller issues such as timber and meat should be addressed separately. He did not want to be drawn on the outcomes of the Russian elections.

He said that during the '90s the West had a perception of Russia that was far rosier than that held by the Russians. When Russia re-asserted state control over energy, this was unpopular in Europe, but was entirely rational from the Russian point of view. He likened it to UK control over North Sea oil in the 1980s and the attitude of some Member States attitudes towards energy today.

1st panel: Will the EU ever have a common policy towards Russia?

Panel Chair, *Antonio Missiroli*, Director of Studies, European Policy Centre started by saying that there was no alternative but for the EU to deal with Russia. The Samara summit provided a glimpse of a united Europe – but it was a negative one

Michael Webb, Deputy Head of Unit, Russia, DG Relex said that the situation was quite muddled. The Summit had been positive in that Europe had spoken with one voice. A frank exchange with Russia was no bad thing.

There was agreement with Russia – specifically about WTO membership, the gradual implementation of the four common spaces of the PCA and the alignment of regulatory systems using grass roots experts. There was also little disagreement between Member States about values – just differences in how they were expressed. Some states wanted a stronger voice than others on issues such as press freedom, journalist safety, North Caucasus, NGOs, and human rights defenders.

There was contact between the EU and Russia at a number of levels, but what was missing was sufficient 'middle level' contact. This meant that problems became politicised too early, with the result that they could be exploited by those wanting to emphasise and play on the differences.

Carl Hallergard, Private office of Javier Solana said that a common policy could consist of a variety of positions, and that it was possible to have a strong policy alongside bad relations. Importantly there was increasing convergence and more and more common interests between the EU and Russia.

The EU had more contact with Russia than other countries, and this was complemented by technical dialogue – he was interested to know the number of Russians that visited the EU. Russia played a crucial role in all dimensions of international politics, but was not always successful. There were no fundamental differences, but Russia was a tough negotiator. It takes time, but they do reach agreement.

Finally he emphasised the importance of personal relations compared with other countries.

Ambassador Normunds Popenis, from the Permanent Representation of the Republic of Latvia to the European Union said that partners should be equals and that no individual Member State could 'match' Russia. He said that Russia and the EU now enjoyed regular dialogue and could discuss issues that they had not previously, as well as the planned meetings and summits.

The EU's solidarity towards Russia was a benchmark of its foreign policy, but puzzles are made up of small parts – whilst he supported WTO accession and wanted the EU to promote a Free Trade Agreement, he wanted to emphasise that rules do exist and smaller issues are still a matter of principle.

He felt that the EU was moving to a more coordinated position and the new reform treaty would allow for a stronger position. It was not true that enlargement had made the relationship worse. The EU now addressed Russia in a manner that was more realistic and genuine.

Manfred Weber, MEP said that any partnership needed a common agreement, and he could not foresee such an agreement on Iran, Kosovo or the missile defence system – and Russia was using energy as a weapon. Without this common interest, he felt that the EU and Russia could find themselves in a new cold war.

He said that the reform treaty would bring more power to the EU; in particular there was much hope for the new 'foreign minister'. He felt that Europe was at its strongest when it was independent from Russia. Energy independence was as important as climate change.

At a recent conference with representatives of the Duma, representatives declared that they were Europeans. The time had come for them to answer as to whether they really have common values and interests.

In response to a question about the solution to the Transnistrian conflict, *Carl Hallergard* said that the EU's participation was a signal of support for Moldova. He had recently met President Voronin who said Russia/Moldovan relations were better than they had been, but there were strategic issues at stake, including military ones. He emphasised that there could be no solution without Russia, because she is trusted by the Transnistrians. *Michael Webb* said that the issue of Transnistria was raised frequently with the Russians – it is within Europe's neighbourhood as well. However an agreement with Transnistria as a separate trading partner is not a possibility.

On the issue of future contact, *Michael Webb* said that mid-level contacts were vital, and too often issues were raised straight to ministerial level, where there was insufficient consistency. He wanted to encourage contact at civil society level; the Commission was increasing funds on student exchanges, but there were still far fewer than with China.

Manfred Weber said that the problem in attracting the young to Russia was not money but interest.

On the visa question, *Michael Webb* said that there was insufficient document security – counterfeit fraud was preventing visa abolition.

2nd panel: Doing business in Russia

Panel Chair, Dr Fraser Cameron, said there seemed to be a dichotomy between poor political relations and booming economic ties. He was sure that the audience would be interested in how the panellists saw the situation.

Danila Bochkarev from the EastWest Institute started by saying that the Russian leadership felt that EU interests were too divergent to allow the EU to be a real power. The lack of cohesion and political will was causing frustration for the Russian leadership, which had demonstrated clearly that it wanted tangible results but was getting nothing but declarations from Brussels.

Mr Bochkarev said that both sides might be well advised to limit their expectations of the relationship, and focus on smaller functional issues instead – such as energy. He said that working together without a framework agreement would not be a problem. The Energy Charter framework is not seen as realistically feasible in Russia both by the government and the industry. Overall it was more realistic to focus on smaller steps and follow the lead taken by commercial companies.

There was similar disillusionment with the missile defense system amongst other security issues. The Russians saw little value in speaking to Brussels when they can directly talk to Washington.

Sergey Lepnukhov Government Affairs Manager - Russia, Ukraine & CIS, Nike, said that there was good cooperation between business and the government in Russia, adding that it was both possible and necessary to co-operate on a transparent basis. He gave the example of intellectual property where the customs code, criminal sanctions and the IPR instrument had been implemented to prevent counterfeiting. He added that IPR was a major WTO accession issue.

The government was in the process of negotiating a new trade law. Nike had been asked to participate in the consultation from the beginning.

Lutz Guellner, Bilateral Trade Relations with Russia, DG Trade, European Commission stated that EU-Russia relations were a lot better than perceived. Russia was widely considered as a key future market with the most potential when considering future investment. Recent surveys had demonstrated that of the 100 top European companies, two thirds operate in the Russian market and half have a significant presence and are considering expansion. Many businesses say Russia is more exciting than China.

He added that businesses needed to tell the Commission what the problems are in Russia, and it was for politicians to provide solutions – not impose a model.

Russia was the largest economy outside the WTO and it was in everyone's interests that it joins. There are mechanisms and instruments in place to address business issues. The

Economic Space builds upon the PCA and is an indication of where we need to go in years to come. Dialogue on issues such as IPR, investments and other regulatory issues was not only a forum for solving problems but for generating understanding and creating opportunities.

The future is breaking down barriers, economic integration and developing compatible regulatory systems. It was necessary to look at the EU and Russia objectively. Not every problem dominates the relationship.

Dr. Godlieve Quisthoudt-Rowohl, MEP, said that EU-Russia relations were at a crossroads. It is the role of the politician to see developments that might not be so favourable. Relations were at their lowest point since the Cold War, but dialogue with Russia was more sincere and open than before.

She referred to her recent Parliamentary report on Russia, and another by Polish MEP Jasek Saryusz-Wolski on energy. Her report was more realistic, his was more subjective. Both had passed in the Parliament with majorities. This demonstrated the difficulties of speaking consistently from month to month. Some colleagues believed that there should be no reinforced relationship with Russia without improvements in the areas of human rights etc.

Economic progress was more reliable and more predictable, but this progress does not necessarily call for the adoption of the energy charter. WTO accession should not come at any price, but it should come quickly and as easily as possible. Accession should not be any easier for Russia than for Vietnam.

During the question and answer session, *Lutz Guellner* said that economic decisions had to be made in context, but that the context should not be more important than the substance. He said that, whilst Russia had re-codified its IPR legislation, the outstanding issue was enforcement. He emphasised the importance of a larger framework for the EU-Russia relationship – but did not know when this would be possible.

Sergey Lepnukhov added to this saying that there were enforcement problems with IPR. Judges were not used to the new framework and there was a high rotation of officials. It was necessary to share views and to offer training to Russia.

Dr. Godlieve Quisthoudt-Rowohl agreed about the importance of a large framework for the agreement, adding that a sectoral agreement would be a step backwards, and bring more problems to the EU than Russia. The EU needs to promote SME growth. Consolidation of society was in the EU's interest.

Danila Bochkarev said that more people may move from business into politics in the nearest future, and stressed that despite Russian government's strong efforts corruption was still a problem at the lower level. *Sergey Lepnukhov* said that Russian business legislation was very young and still evolving. He emphasised the importance of direct contact with officials.

Danila Bochkarev said that mutual access to technology and research was a useful area for mutual business co-operation and gave the recent Airbus/Aeroflot deal as an example which can foster intense EU-Russia air-space cooperation. He said that real "grassroots" participatory democracy needs some time to develop and it will come from a strong middle

class. This was currently 25% in Russia, but more developments would come when it reached 50% - natural liberalization and higher expectations would follow".

Dr. Godlieve Quisthoudt-Rowohl said that it was not just the laws that were changing, but also the interpretation. These were big barriers to trade as there was no means of relying on experience. This had to change.

Sergey Lepnukhov felt that the fact that the recent government changes had had no effect on the stock exchange was a sign of progress. *Dr. Godlieve Quisthoudt-Rowohl* wondered if the same would have happened if it had been the President.

EU-Russia Centre Director, Dr Fraser Cameron closed the meeting by thanking the speakers, and adding that Russian Ambassador Chizhov had wanted to attend, but was kept away as he had to receive two visiting Russian Ministers. He also introduced the audience to the concept of the EU-Russia Forum and invited attendees to seek further information.