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22<sup>nd</sup> MEETING OF THE ASSOCIATES  
- Istanbul, 19 May 2006 -

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**ITEM 10A OF THE AGENDA:  
ANY OTHER BUSINESS:                    LATEST DEVELOPMENTS IN THE FINANCIAL  
INDUSTRY TASK FORCE**

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EU-Russia Industrialists' Round Table (IRT) is one of the industry-driven business dialogues initiated originally by the EU Commission to improve business conditions between the EU and other trading partners. Some more historical information on the EU-Russia Industrialists' Round Table can be seen at:

[http://europa.eu.int/comm/enterprise/enterprise\\_policy/business\\_dialogues/russia/russiaoverview.htm](http://europa.eu.int/comm/enterprise/enterprise_policy/business_dialogues/russia/russiaoverview.htm)

The key building block of IRT is the so-called Task Force. Currently there are Task Forces for Energy, Telecommunications and IT, Transport, Forest and Building industries and from the last year also on financial services.

The IRT had its 6th General meeting in The Hague on the 10th of November 2004. On the basis of initiatives from the Russian side participants from the banking business were also invited. During this General IRT meeting the proposal to establish a Financial Industry Task Force which would cover business sectors such as banking, insurance and financial markets was tabled. Section 8 of the Joint Conclusions statement of this General meeting (enclosure 4) summarizes the initial proposal and the main priority areas for the further work of the Task Force.

Against this background, the Financial Industry Task Force (FITF) was created in January 2005 by the Russian Organization of Professional Market Participants. The Association of Russian Banks, FBE Associate, is a member of this organization alongside the All-Russian Insurance Association and the Russian National Association of Securities Markets Participants.

The European Banking Federation was invited to participate in this Task Force from its 4<sup>th</sup> Meeting, which took place in London, on 3<sup>rd</sup> October 2005. During this meeting Mr. Guido Ravoet was elected as FITF Co-Chairman for the EU side. Mr. Garegin Tosunyan, President of the Association of Russian Banks, is a Co-Chairman for the Russian side.

The last, 5<sup>th</sup> meeting of the FITF took place on 27<sup>th</sup> of February 2006 in Moscow. During this meeting several important decisions were adopted, inter alia on: the necessity to prepare “Green” and “White” Papers on the creation of the integrated market in financial services under the framework of work on creation of the common economic space between the EU and Russia (as the priority of the FITF for the near future); and the creation of the Coordinating Council of the FITF and the specialized working groups.

The next full-scale FITF meeting may be organized in autumn this year in Finland under the framework of the regular meeting of the EU-Russia Industrialists Round Table on the eve of the autumn EU-Russia summit.

It seems that currently the Task Force's undertakings are reaching an important point, at which some key decisions regarding the modalities of the agreed gap analysis (“Green” and “White” paper project) need to be taken as soon as possible. As a result, the possibility of organizing the FITF Coordinating Council's meeting at the end of May is currently being explored by the involved parties (including the FBE).

Enclosures:

- 1 - Decision of the EU-Russia Financial Industry Task Force of 27<sup>th</sup> of February 2006;
- 2 - Press release: Results of the 5<sup>th</sup> FITF Meeting;
- 3 – List of proposed specialized Working Groups for the EU-Russia common space in financial services development
- 4 - The Joint Conclusions statement of the 6<sup>th</sup> IRT General meeting (Hague, 10<sup>th</sup> of November 2004)

**РАБОЧАЯ ГРУППА ПО ФИНАНСОВОЙ ИНДУСТРИИ РОССИИ И ЕС**  
**THE EU-RF FINANCIAL INDUSTRY TASK FORCE (FITF-РГОИ)**



**Decision of the EU-Russia Financial Industry Task Force of 27<sup>th</sup>  
of February 2006**

(Moscow, Federation Council of the Russian Federation)

1. To develop the practical work of the EU-RF Financial Industry Task Force (FITF) on preparing the proposals on creation of the EU-Russian common space in financial services (banking, insurance, financial markets and others) under the framework of implementation of the agreement on creation of the common economic space between the EU and Russia (“road map”) through specialized working groups, created in the core areas of the FITF activities (Enclosure 1). Members of the FITF are requested to indicate their interest in working in particular groups by the 15<sup>th</sup> of May 2006.
2. To create a Coordinating Council of the FITF according to Enclosure 2. The Council should approve the candidates for chairmanship of specialized working groups in its meeting in May 2006. The Coordinating Council should set the budget and the projection of expenses of FITF for the year 2006 taking into account the overall parameters set by the FITF meeting as well as discuss further the proposal to create the non-commercial partnership (Fund) to facilitate the creation of the common financial space between the EU and Russia and to take all necessary decisions.
3. To acknowledge the necessity of preparation of the “Green” and “White” Papers on creation of the integrated market in financial services under the framework of work on creation of the common economic space between the EU and Russia as the priority of the FITF for the near future. To involve the leading consulting companies in preparation of the named documents ensuring the openness and transparency of the process. The Council of the FITF should carry out an analysis of proposals in preparations of the “Green” and “White” Papers on creation of the integrated market on financial services, and select the most suitable one taking into account its content and cost as well as the availability of technical assistance funds through an open and transparent bidding process.
4. To organize the next FITF meeting in autumn this year in Finland under the framework of the regular meeting of the EU-Russia Industrialists Round Table on the eve of autumn EU-Russia summit.

РАБОЧАЯ ГРУППА ПО ФИНАНСОВОЙ ИНДУСТРИИ РОССИИ И ЕС  
THE EU-RF FINANCIAL INDUSTRY TASK FORCE (FITF-РГФИ)



Press release  
Results of the 5<sup>th</sup> FITF Meeting

**Financial services: further progress on convergence between Russia and the EU**

The fifth Meeting of the international EU-Russia Financial Industry Task Force (FITF) was organized on 27<sup>th</sup> February, 2006, in the Federation Council of the Russian Federation.

The FITF was established following the initiative of the Council for Professional Financial Market Participants Organizations which brings together the Association of Russian Banks, the All-Russian Insurance Association, and the National Association of Securities Market Participants. Its purpose is to organize the efforts of the market participants working on establishing the common financial-economic space between the Russian Federation and the European Union. These efforts are coordinated within the framework of the joint road map towards the common economic space adopted at the EU-Russia summit in Moscow in May 2005.

Executives of many leading Russian banks, insurance companies and funds, foreign financial institutions, industrial companies; representatives of the government and parliament, financial supervisors and regulators, the European Union, EBRD, RBCC [Russian-British Chamber of Commerce], the Industrialists' Round Table, and the European Business Congress, as well as the largest auditing and consulting companies, all participated at the meeting.

Participants in the meeting discussed the current issues linked to the development of the national financial market, the creation of a common market for financial services. They analysed the main tasks and priorities of the FITF's work

to facilitate the creation of a common financial-economic space between Russia and the European Union, and lastly, they debated the proposals on the organizational steps and sources of financing for the joint project.

Important decisions were adopted on commissioning the comparative analysis of the EU and Russian legislation within banking and the financial sector, on the supervisory and regulatory practices, as well as on the financial infrastructures. The aim is to identify the key differences, objective specifics and subjective barriers, with a view to creating a common financial-economic space, supported by the procedures customarily used within the EU. The preparation and publication of a “Green paper” is currently being planned with the involvement of external consultants. The “Green Paper” will aim at stimulating fruitful discussions and active consultations between businesses and government regarding the “road map” in financial services (banking, insurance, and securities). A “White paper” will then follow with the summary of the discussions and a package of practical proposals for specific measures, aimed at creating a common financial-economic space between Russia and the EU.

Participants in the meeting approved the proposal for the creation of the Coordinating Council of the FITF, which will organize the work and the budget, as well as some other practical issues.

The next general meeting of the Working Group is scheduled for the second half of 2006, in Helsinki, Finland, and will be linked to the autumn EU-Russia summit.

The FITF is an open organization, inviting to co-operate all interested parties who, in practice, are ready to support its efforts. Additional information can be obtained from the FITF Coordinating Council:

fax: + 7.495.428.63.48

or

e-mail: [preksin@sogaz.ru](mailto:preksin@sogaz.ru)

## Приложение/Enclosure 1

<p><b>ПРЕДЛОЖЕНИЯ ПО СПЕЦИАЛИЗИРОВАННЫМ ПОДГРУППАМ ДЛЯ ПРОРАБОТКИ ВОПРОСОВ ФОРМИРОВАНИЯ ОБЩЕГО ПРОСТРАНСТВА РФ И ЕС В СФЕРЕ ФИНАНСОВЫХ УСЛУГ</b></p>	<p><b>PROPOSED SPECIALIZED WORKING GROUPS FOR THE RF-EU FINANCIAL SERVICES COMMON SPACE DEVELOPMENT</b></p>
<p><b>1. Подгруппа по административной реформе в сфере финансовых услуг</b>  - Вопросы перехода к единому финансовому регулятору (мега-регулятору);  - Проблема нахождения оптимального баланса между регулированием и саморегулированием и т.д.</p> <p><b>2. Подгруппа по финансовой отчетности</b>  - Вопросы перехода на международные стандарты финансовой отчетности  - Проблемы введения единого окна по отчетности перед различными надзорными и директивными органами (регулирования, налогообложения, статистики);  - Порядок отчетности по финансовым группам и др....</p> <p><b>3. Подгруппа по профессиональной этике, корпоративному управлению (прозрачности), внутреннему контролю и имиджу финансовых учреждений</b>  - Разработка кодексов корпоративного поведения (внутрицехового, по отношению к клиентуре и по отношению к властям)  - Подготовка программы работы по повышению имиджа финансовых учреждений;  - Вопросы расширения охвата финансовыми услугами населения и проч.</p> <p><b>4. Подгруппа по конкурентоспособности</b>  - На потребительском рынке  - На корпоративном рынке  - На внешних рынках</p> <p><b>5. Подгруппа по налогообложению</b></p> <p><b>6. Подгруппа по предотвращению финансовых преступлений, включая вопросы использования инсайдерской информации</b></p> <p><b>7. Подгруппа по совершенствованию финансового законодательства</b></p>	<p><b>1. Financial Services Administration Reform Task Force</b>  - Single regulator (mega-regulator) option for financial services market;  - Proper balance dilemma between regulation and self-regulation etc.;</p> <p><b>2. Financial Data Reporting Task Force</b>  - International financial reporting standards implementation;  - Problem of the Single desk reporting to various supervision, regulation, tax, statistics and other administrative bodies;  - Financial conglomerates financial reporting system and other issues.</p> <p><b>3. Professional Ethics, Corporate Governance (Transparency), Internal Audit and Financial Institutions External Image Task Force</b>  - Corporate governance code of conduct implementation (inter-industry, towards the clients and authorities);  - External image improvement programs implementation;  - Retail financial services expansion outside the traditional clients base.</p> <p><b>4. Financial Industry Competitiveness Task Force</b>  (for retail, corporate and external markets)</p> <p><b>5. Taxation Task Force</b></p> <p><b>6. Financial Crime Prevention Task Force</b>  (including the use of insiders' information)</p> <p><b>7. Financial Legislation Improvement Task Force</b></p>

FINAL

30 December 2004

*The EU-Russia Industrialists Round Table (IRT)*  
*Sixth General Meeting in The-Hague (November 10, 2004)*

**JOINT CONCLUSIONS**

**Introduction**

The Sixth General meeting of the EU-Russia Industrialists' Round Table was held in The Hague, The Netherlands, on 10 November 2004, under the joint chairmanship of Jukka Härmälä, Chief Executive Officer of Stora Enso and Anatoly Chubais, Chief Executive Officer of the RAO "UES of Russia".

The forum attracted close to 150 participants, who represented a broad cross-section business communities and official bodies of the EU and Russia. The discussion was centered on essential issues of bilateral cooperation in specific sectors (energy, transport, telecommunications and information technologies, forest industries, construction, and financial services) and on prospects for the development of the EU-Russia Common Economic Space. The Round Table met with a new structure based on sectoral Task Forces, aiming at focusing the discussions on the specific industry-sector issues.

The European Round Table of Industrialists (ERT), of the Russian Union of Industrialists and Entrepreneurs (RSPP) and of the Union of Industrial Confederations of Europe (UNICE) played an active role in the forum's deliberations. The forum was also attended by high-level European and Russian officials, including Commissioner Rehn and Minister Khristenko.

**Section 1. Recent developments in the bilateral relations between Russia and the EU**

The Round Table noted progress on topics raised by 5<sup>th</sup> EU-Russia Industrialists' Round Table, on 1 and 2 December 2003, with special focus on the conclusions of a Joint Statement regarding the enlargement of the EU and the recent ratification by Russia of the extension of the Partnership and Cooperation Agreement, the conclusion of the bilateral negotiations on market access with the view of the accession of Russia to the WTO, and the recent ratification by Russia of the Kyoto Protocol.

The Round Table welcomed these positive developments, which removed the main obstacles

for the further development of the EU-Russia cooperation. The IRT calls on both sides to build on these results and to continue with consistent implementation and follow-up measures in order to transform these agreements into tangible results in bilateral relations. The Round Table sees that the PCA extension to the new EU member states opens the way for further development of their trade and economic relations with Russia.

The Round Table underlined that for development of business and investments, the entrepreneurs of both sides look for need a predictable, stable, rules-based system of business relations. In this context, the Round Table recommends that Russia maintains its intensive efforts to finalise the bilateral and multilateral negotiations with the other WTO members and that EU continues to strongly support these efforts with the objective of an early accession of Russia to the WTO. Prior of the WTO access IRT invites the EU and the Russian Government to promote the stability in bilateral relations and economic policies and a business environment based on market rules, which is transparent and non-discriminatory.

The Round Table recommends that both sides intensify their dialogue with the objective to build a true strategic partnership between the EU and Russia. Based on the decisions of the Saint Petersburg Summit of 2003 these efforts are now centered on the establishment of four “common spaces”. In this context the Russian IRT participants expressed concern with the linkage of agreements on specific “common spaces” with each other, which may prove to be counterproductive for the development of the strategic partnership, and suggested to continue the work on each “common space” in parallel, on the basis of joint interests and capabilities. The IRT participants underlined the need for the spaces to become operational as soon as possible. Specifically the IRT urges to go ahead with the dialogue and agreement on a Common Economic Space, which correspond to the long-term economic and business interests of both sides.

The potential of bilateral trade and investment is not yet fully used. Therefore, the necessary structural conditions should be put in place to create new opportunities for investment in the future. The IRT believes that the EU-Russia economic relations should be based on enhanced forms of industrial and technological cooperation, the promotion of economic integration and harmonization of legislation and regulatory instruments.

## **Section 2. The development of a Common Economic Space between Russia and the European Union**

The previous sessions of the Round Table supported the efforts of the EU and the Russian Federation to promote the progressive integration of their economies through the creation of a

Common Economic Space and recommended that the following objectives should be actively pursued:

- i) Regulatory convergence*, aiming at the harmonization of Russia's legal, regulatory and economic systems, as well as its technical, corporate and financial standards, with the international and European practice.
- ii) Liberalization* of trade and investment, reciprocal opening of the markets and elimination of trade and investment barriers with the final perspective of establishing a Free Trade Area.
- iii) Integration* of the EU and Russia's infrastructure systems in energy, transport, telecommunications and other relevant areas on the basis of introducing common technical standards and operational rules, upgrading of systems through investment and technology development.

Given the large differences and sometimes divergent trends in the economic, legal and social development in the EU and Russia, the realization of these objectives will be a rather long-term process. At present the efforts should be focused on the harmonization of most fundamental legal norms guiding the economic activity, like property rights, contract enforcement, non-discrimination and fair competition, stability and transparency of taxation and regulation. The convergence of legal and regulatory regimes in other areas will be taking place gradually on the basis of practical needs and demands of closer co-operation. At the same time this work should be supplemented by enhanced efforts to develop advanced forms of business co-operation in specific sectors, where conditions are favorable.

The IRT participants have noted that the development of the operational work plan ("roadmap") for the implementation of the Common Economic Space has, nevertheless, lacked concrete progress during 2004, so the Round Table decided to dedicate its Sixth General Meeting to a more detailed discussion of the concrete plans to develop the Common Economic Space, considering the willingness of the business communities to take an active role in the development of the CES and to find appropriate forms to associate themselves with this effort.

The Round Table received with interest the information about the proposals that the EU and Russia have negotiated and came to the following joint conclusions:

- i) The business community welcomes the project that the Common Economic Space is a broad and coherent framework for the bilateral relations, not limited to commercial and*

regulatory relations, but also covering an ambitious plan of cooperation in information technology, transports, space, energy and environment, and advises that the approach to all these sectors is maintained as ambitious and as coherent as possible.

ii) The Round Table endorses the proposal to establish specific enhanced dialogues in areas of priority interest, and invites the parties to ensure a rapid implementation of these proposals, namely:

- the decision to launch a regulatory dialogue on industrial products, where the emphasis given to ICT, Radio and Telecommunications Equipment and to the Forest-based industries is welcomed by the specific Task Forces of the Round Table;
- the proposal to launch a systematic dialogue on investment, with the objective to enhance transparency, predictability and simplification of regulation and its application and to promote and facilitate two-way investments;
- the proposal to develop a structured dialogue on economic reform, SMEs and industrial policy;
- the decision to launch dialogue in the ICT sector, with the objective to contribute to a better convergence of e-strategies, prepare a progressive approximation of legislations and pave the way for a better interoperability of both equipment and infrastructure;
- the proposal to develop a specific dialogue on transport issues;
- the decision to consider Space a new area for a dialogue which potentials are recognized by the EU and the Russian entrepreneurs, aiming at enhanced cooperation between the respective space programs and further compatibility of approaches.

The IRT also recommends supplementing the on-going dialogues on specific industrial sectors with active consultations on financial sector cooperation, including banking, insurance and stock market.

iii) The Round Table also invites the parties to ensure that an ambitious common cooperation in some of the most relevant framework conditions for the activity of companies is pursued, namely in the areas of public procurement, intellectual property, competition policy, financial services, accounting and auditing;

iv) Finally, the Round Table invites the parties to also focus on the implementation of the proposals referring to customs cooperation and trade facilitation, considering that customs hurdles are an important barrier to exporters and importers alike, as well as to the transports operators.

The industrialists and the business associations present at the Round Table meeting underlined the need for the European Commission and the Russian Government to establish coherent structures of consultations with the business communities regarding the implementation of the CES objectives, and more specifically the operational activity of the proposed dialogues.

### **Section 3. The EU-Russia Energy Dialogue**

The energy sector is and in the observable future will continue to be the cornerstone of the EU-Russia trade and economic relations. Since last year the definite progress was achieved in the framework of the EU-Russia Energy Dialogue, but final decisions on a number of key issues are still needed to go forward with large-scale joint projects and in-depth investments. The Energy Task Force underlines the important stabilization effect on the EU-Russia energy relations of bilateral agreements on the WTO Russia accession (especially on 'energy dossier') and the EU enlargement and PCA extension framework, as well as the Kyoto Protocol ratification by Russia. It also recognizes the long-term significance of the on-going dialogue on the four 'common spaces', and especially the Common Economic Space, but thinks that the progress in these directions should not be linked with the more advanced Energy Dialogue that represents the most important area of the EU-Russia cooperation. In the energy sector, given the growing instability on the world energy markets and long lead times for projects and investments, the time today is a critical factor and it is essential to avoid any unwarranted delays and hurdles in this truly strategic area of cooperation.

In the framework of the Sixth IRT General Meeting the special event – the joint meeting of the Energy Steering Group (ESG), established last year at the IRT forum, and the High Level Group on the EU-Russia Energy Dialogue – took place on 10 November, 2004 in the Netherlands Ministry of the Economy. As a result of this meeting the ESG received the full support from the EU and Russia's official bodies and the political mandate to proceed with its activities aimed at the establishment of mechanisms for regular business participation in the Energy Dialogue and the preparation of concrete and realistic proposals for the high political level on the further development of the EU-Russia cooperation in the energy field (on the basis of broad consultations with key stakeholders). The ESG proposals on high priority issues in the EU-Russia energy cooperation and work plans for the next 6 months have been discussed at the Energy Task Force session and received the full support of participants. In this connection the energy Task Force recommended to focus joint efforts of entrepreneurs and official bodies on the practical resolution of the following four key problems:

1) *Attraction of large-scale and long-term direct investments to the Russian energy sector.*

The steady growth of energy supply from Russia is one of the keys for the EU future energy security, and sizable foreign direct investment and participation is the key to the sustained expansion of Russian energy production targeted for export to the EU. The most urgent task in this area is the development of a stable and coherent legal base for foreign direct investments, long-term (up to 15 years) corporate cooperation agreements, public-private partnerships, joint investment consortia and operations of mixed (Russian-European) companies. Another top priority is the provision of long-term and low-cost finance for the energy projects of common interest, based on the support of EBRD and EIB and the national instruments of investment support. It is clear that international activity in the Russian energy sector will be conducted in the framework of national sovereignty over natural resources, but substantial improvements in the overall system of state governance in the energy and natural resources sector are needed and should be supported by the business community, including the transfer of best industry practice and private sector management methods.

2) *Development of infrastructure for enlarged supply of energy from Russia to the EU.*

In order to deliver new energy supplies to Europe from new and far removed oil and gas fields in Russia the new energy transportation infrastructure has to be created. Taking into account the huge amount of needed investment and the strained situation with public budgets the participation of private capital in these projects is essential. In this context the introduction of new legislation and regulations concerning public-private partnerships, access of private investors (both foreign and domestic) to energy transportation infrastructure, long-term enforceable commercial contracts should become a top priority. Third party access to pipelines and electricity transmission networks is of paramount importance, especially when it comes to the delivery of energy to the European market, and it should be provided by means of both appropriate regulations (non-discriminatory tariffs, rules and exceptions, network codes, etc.) and commercial agreements that take into account the surcharge for the recovery of infrastructure investment costs.

3) *Establishment of a new energy trade regime between the EU and Russia.*

In order to secure a steady and reliable supply of energy resources from Russia to the EU market it is necessary to establish a stable, transparent and fair regime for a cross-border energy trade, including gas, oil and petroleum products, coal, nuclear materials and electricity. It should provide equal (reciprocal) access to each other

internal markets and to encourage long-term trade and investment commitments. It is especially important to develop a well-balanced structure of long-term contracts with shared risks, which would imply a system of mutual obligations on supply, purchase and transmission activities, and the full range of spot contracts and their financial derivatives (future and options). It is also important to resolve issues concerning energy taxes and duties, customs procedures, supply and transit guarantees that now create barriers for expanded energy trade and distort its structure. Both sides understand that it should be done with a due account of specific circumstances and limitations on each side.

*4) Support of energy efficiency and energy saving in Russia.*

The use of fossil fuels will remain the basis of energy supply for the observable future. But technological and structural changes provide a large potential for the increased energy efficiency and energy saving. Russia is one of the largest energy consumers in the world, and this is explained not only by the cold climate and large territory, but also by the extremely low efficiency of most end-use energy consumption systems. Thus, Russia has a huge potential for energy saving and energy efficiency that can release substantial amounts of energy resources for a global market. This is a high priority area, where the EU and Russia by close cooperation and joint actions can reach very tangible results to their mutual benefit. The Kyoto Protocol instruments are essential to support this drive for more efficient energy production and consumption in Russia and the EU, and one of the priorities should be the development of practical commercial mechanisms to meet the Kyoto objectives, like the projects of common implementation and emissions quota trading system, and their use in bilateral energy relations.

Development and implementation of joint energy projects in Russia has to take into account specific transition problems associated with energy sector reforms and social aspects of energy supply (direct and cross-subsidies for population, multiple prices and tariffs, public service obligations and so on). It means that large-scale projects should be developed in close cooperation with authorities and within the framework of the National Energy Strategy of Russia. They should be tied-up with specific investment support schemes, regulation changes and steps towards deregulation and market-based reforms in the energy sector.

The IRT Energy Task Force took the decision to establish together with the ESG specialized Working Groups to prepare detailed recommendations on these four priority areas (investment, infrastructure, trade regime, energy efficiency) for the next EU-Russia Summit in May 2005. These groups will be composed of key energy companies' representatives,

government officials and independent experts with substantial experience in each field.

#### **Section 4. Cooperation in Information Technologies, Communications and Space Technology**

1. 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.

2. The participants noted the favourable developments in the overall environment for EU-Russia bilateral dialogue and cooperation in the fields of Telecommunications and Space in the establishment of:

- fair and transparent regulation procedures;
- cost-based tariff policy;
- pro-competitive legal framework for all operators and investors, irrespective of ownership structure.

The business community has confirmed the interest in further discussion of and cooperation in such issues as:

- Trade and operational problems for ICT industry in the context of EU-Russia Common Economic Space and the dialogue on future telecom standards and regulations, including mobile communications network and 3G licenses in Russia.
- Increased fairness and transparency of the regulation procedures.
- Cooperations 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 EGNOS program and Russian technologies.
- ICT contribution to the public security, including transport security issues (railways, metro, etc.)
- EU-Russia cooperation in Information Society: e-Government, biometric technologies of personal identification, Internet security and telemedicine.
- Cooperation in research and development, including software development (offshore programming) and IT services outsourcing.

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

At the same time the participants identified a number of obstacles to a wider cooperation in these areas. The key interest for the industrialists is to ensure that both EU and Russia's market access requirements for telecommunications, satellite navigation and IT products disregarding origin of the manufacturer will be gradually aligned with those of the EU and the WTO rules:

### **On conformity assessment**

An extension of the WTO principles into the regulation on market access of ICT, Radio and Telecom Equipment, meaning alleviating the conformity assessment requirements and procedures, and promoting open international standards and harmonization of the radio spectrum.

According to the EU participants the Russian conformity assessment system creates significant barriers to trade as the scope of mandatory requirements goes far beyond the European requirements, and multiple testing of the equipment is required.

Thus in opinion of the Russian side, current Russian legislation meets in full WTO requirements. The Russian conformity assessment system is aimed at providing integrity, stability and security of the country unified telecommunications networks and thus implies the telecommunications equipment conformity procedures on the voluntary basis.

### **On international standards**

Russia is moving in the direction of adopting international standards in the telecom sector. The European and Russian ICT industry strongly favours 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. The European second generation GSM standard and its follower 3rd generation (UMTS) are great examples of the success of open standards. The promotion of internationally developed and adopted open standards is of vital importance especially now, when Russia is preparing to issue licenses for 3G networks. The Russian side believes that EU should also consider perspective standards (for example CDMA 2000) as all-European standards.

### **On the international frequency plan**

Russia is working on harmonization of its national frequency spectrum with the international one.

## **On licensing of cryptography**

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 Russian Federation creates barriers to trade inconsistent with the intent of the national security exemption on such restrictions provided for in Article XXI of the GATT.

In this respect the Russian side pointed out to the fact that new law on Information, informatisation and information security is under consideration. This law is expected to regulate directly the issue of cryptography licensing.

3. The work of the Task Force should be perceived as a continuous process in order to improve the total outcome and to exploit in the best possible manner the greatest cooperation potential that both sides possess. 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 EU and Russia regarding the WTO and the Common European Economic Space concept. Yet, we understand that only through continued active discussions will there be real positive developments in the market access regulations. 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.

## **Section 5. Cooperation in Forest Industry**

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

- Promotion of a voluntary forest certification system in Russia
- Prevention of illegal logging (FLEGT initiative of EU)
- Transportation of wood and forest industry products in Russia and possibilities to stimulate the development of infrastructures
- Market promotion of wood based products, and reciprocal market access of Russian and EU products into each others' markets
- Investments barriers in Russian forest industry sector, particularly the Russian forest

legislation reform and its potential role in lowering the investment barriers and stimulating industrial investments

- Knowledge sharing and competence development

The Russian forest industry sector has very good growth prospects in the future. The fast growth of domestic markets, combined with increasing demand in export markets, particularly China, will fuel the expansion of the forest industry production. The wood harvesting is expected to increase from the present level of 170 million m<sup>3</sup> to, at least, 200-230 million m<sup>3</sup> during the next ten years' time period. Exports are currently dominated by raw materials, but in the future the share of processed products will increase. This will require significantly growing investments into the industries, and harvesting and transport infrastructures.

The forest industry sector of the EU countries is the key consumer of Russian forest and paper products. At the same time, the EU forest and paper and machinery producers are the key suppliers to the forest industry sector of the Russian Federation. Trade, investment, research and technical cooperation remain the key areas of forest sector cooperation.

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.

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 the acceptance process of the Russian national voluntary forest certification system by the relevant international systems has started. The EU and Russian forest industrialists support this process. It seems feasible that during the acceptance term of the Russian forest certification system, products certified under the Russian national system should be allowed to the EU markets. 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; therefore, development and improvement of forest certification should be supported. 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 the EU forest industry representatives that the legality of wood origin is an issue meriting earnest consideration. The FLEGT programme (Ensuring Compliance with Forest Laws, Management and Trade), initiated by the EU, is one of the issues involved. 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. Representatives of the EU forest industry support the initiative of the Russian forest industry representatives to adopt a charter calling for voluntary refusal to use illegally harvested wood. If the implementation of the FLEGT programme is launched, it should include and apply the wood origin verification/checking systems already implemented by the EU forest industries, and Russian industries and industry unions.

To improve the wood trade conditions and preconditions for investments, increased wood harvesting efficiency 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 could be launched with support of international financial institutions.

The EU will introduce phytosanitary checking of roundwood and wood products entering the EU market. The forest industry representatives of Russia and EU see it important that the realisation of this checking should not complicate the trade or increase its cost.

The EU industry associations are currently carrying out programmes to promote the usage of wood, as an environmentally sound material, in the European and Asian construction markets. The EU and Russian industry participants call for industry associations and other relevant organisations in EU and Russia to seek opportunities to extend these programmes into EU-Russia trade, including development and harmonisation of standards in construction sector to promote the wood usage.

Removal or lowering the barriers of investments into the Russian forest sector will be the key for stimulating the investment activity in Russia. This requires, among others, lengthening of 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. Long term tenure of leases is a necessary precondition for promoting long term sustainability, and investments into forestry and infrastructures. 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, at the federal and regional levels, on these principles, as well as all other principles of sustainability.

It was agreed that FITF will pursue to meet next time in February 2005 to review the processes and to define next steps for its work.

## **Section 6. Transport Dialogue**

### **Sub-section 6.1 Railway**

Within the work meeting of the Task Force Railway Transportation, the following agreement regarding the duties and aims of the Task Force has been made:

#### **Duties and Aims of the Transportation Task - Force**

The Transportation Task Force has been founded to develop transportation and traffic between the EU Member States and Russia and to support the industrial cooperation of carriers, manufacturers and service companies in all areas of surface transportation. The objective is the development of competitive railway concepts that can be implemented and applied in a short period of time.

The results are being transmitted as recommendations for action to the EU Commission and to the Russian Government and to be implemented within 2005. The support programmes (regional and structural funds for all 25 EU Member States and TACIS for Russia) created by the EU for the economic development and cohesion can eventually give financial support to the transportation and co-operation strategies developed within the IRT.

#### **Establishment of the Task Force**

The members of the Task Force Transportation represent various logistic, shipping, railway and industrial companies as well as harbours.

#### **Thematic Orientation**

The objective of our proposals is to tighten the various subjects and to focus on the issues with actual reference that bring forward the transportation development between the EU and Russia and at the same time do have a realistic chance of implementation. On this note, the members of the Task Force have agreed upon the following issues:

#### **Co-ordination of Transportation Policy between the EU and Russia with the aim of optimisation of**

- the control of transnational flow of traffic by spanning means of transport
- the planning of infrastructure expansion between PAN and TEN corridors as well as national routes of transport

- the financing of infrastructure expansion using eventual pilot projects

**Harmonisation of legal framework** by unification and simplification of freight and customs legislation and derived procedures as well as improvement of general conditions for industrial co-operations and investments in all transport areas.

**Harmonisation of Liability and Safety regulations** by unification of technical rules and standards pursuant to insurance law as well as formulation of standardised legal foundation with regards to the responsibility and adjustment of claims and an agreement of legal assistance between EU and Russia.

**Implementation of new Technologies:** Creation of IT interfaces within the transport control and supervision between companies of the EU and Russia, increased use of electronic data communication in the customs area as well as development of financing models for special rolling stock.

In a first step, the members of the Task Force have decided to set up focused working groups on the selected issues:

- Strategy and infrastructure
- Logistic and production
- Corridor management
- Optimization of border crossing procedures
- Government and EU – Russia affairs

The main goal of those working groups is to develop realistic and convertible conceptions. For the success of the Task Force, the consequential implementation of the results by the EU and the Russian government is decisive. This includes administrative as well as financial support.

### **Sub-section 6.2 Other transport modes**

The Task Force for the Road, Marine and Air Transport focused in its discussions on four priority areas in the EU-Russia transport cooperation:

1. security of international transport,
2. harmonization of legislation and regulation,
3. trans-border cooperation,
4. development and integration of transport systems.

## **International transport security**

Participants highlighted the growing problem of illegal shipments and indicated its connection to international terrorism. Apart from threats to public security these activities inflict substantial economic losses and undermine the normal work of transport companies. Over the past few years the real progress has been achieved in the EU-Russia cooperation on these matters, including the international agreements on navigation in the Baltic Sea, on security of flights, on the implementation of the SafeTIR delivery control system. But to meet new challenges an enhanced cooperation is needed in the following areas:

- exchange of information and closer cooperation of law enforcement agencies;
- harmonization of standards, rules and regulations on transport security through the mandatory introduction of the SafeTIR systems and upgraded training of personnel;
- public-private cooperation on transport security issues to address specific problems and countermeasures.

Specific recommendations include the accelerated adoption by Russia of the new Federal Law on Transport Security that meets European and international standards, the expansion of joint work with specialized international organizations to facilitate the cooperation in the above-mentioned areas.

## **Harmonization of legislation and regulation**

Participants underlined that enhanced cooperation in this area is a precondition for the integration of transport systems of the EU and Russia and noted a real progress in this area.

The common opinion is that Russia should harmonize its laws and standards with those of Europe as soon as possible to open the way for the efficient integration of transport systems. The EU experience is indispensable as it successfully transformed a patchwork of laws and standards into a uniform and efficient legal system. The harmonization itself should be based on generally recognized international norms and standards elaborated by organizations of which Russia and the EU are members. Close cooperation with the UN Economic Commission for Europe, the International Civil Aviation Organization, the International Maritime Organization, and the International Road Transport Union on these matters can accelerate the whole process.

## **Trans-border issues**

Participants discussed a number of proposals on facilitation of cross-border crossings for goods and shipments, including:

- introduction of joint customs control and traffic control systems to reduce costs and time-losses of double-checking;
- substantial reduction of redundant pre-shipment inspections, mandated by current Russian trade legislation;
- reduction of costs for Kaliningrad transit;
- simplification of visa requirements for professional drivers on reciprocal basis.

## **Development and integration of transport infrastructure**

Participants discussed the need for an integrated European strategy of transport infrastructure development, priority areas and projects for bilateral cooperation and mechanisms for facilitating private investment in infrastructure projects. Attention was focused to the following issues:

- development of navigation and positioning systems for moving objects (vehicles) and the interoperability of existing global systems (Navstar GRS, Galileo and Glonass);
- extension of successful experience with multi-mode and trailer carriage transport technologies to cargo shipments between the EU and Russia;
- joint planning of infrastructure expansion between PAN and TEN transport corridors as well as national routes of railway transport and financial support of these projects from TACIS and the EU regional and structural funds;
- major upgrading of Russia's regulation and supervision system for air traffic;
- exchange of experience on registration of ships in order to provide safe maritime transportation and to attract private investment into port and sea transportation infrastructure;
- establishment of the clear legal basis for the private-public partnerships in Russia, including the adoption of laws on concessions, toll roads and other legal forms of private capital participation in the transport infrastructure development as well as extending national regime to foreign investors for high priority projects.

Participants agreed to work further on these topics and proposals and to establish a network of working groups and expert councils to develop the EU-Russia transport cooperation.

## **Section 7. Cooperation in the Building Industry**

The formation of a joint EU -Russia Building Industry Task Force (BITF), a new dialogue structure within IRT-process, is underway. At their first meeting the co-chairs discussed the future structure of the task force and its early operational focuses bearing in mind that the IRT is a business driven process.

The work of BITF will cover business interests in the field of construction, building materials industry including trade and distribution, logistical systems and equipment related to building industry and provision of high quality and energy-saving communal services.

It was noted that many of the areas of interest are closely related to services sector, which will be addressed in the negotiation process on EU - Russia Common Economic Space. The development of consistent and common regulatory frame work in building sector services and related industries and the necessity to take concrete steps in abolishing barriers in trade and industrial cooperation will form the BITF's main agenda. The following was named in particular:

- streamlining of the regulation procedures for the construction sector
- harmonisation of building codes and technological requirements
- pro-competitive legal framework for all investors, irrespective of ownership structure
- encouragement of joint commercial and industrial investment projects
- exchange of information on business opportunities in respective countries

The following task sectors will be focused as soon as the BITF has achieved its operational capabilities in the coming months:

- housing construction
- housing mortgage financing
- real estate and development projects
- construction of infrastructure projects
- building materials, logistical systems and equipment related to construction industry
- construction of tourism infrastructure, sport and amusement projects

Having in mind the above interests and the instrumentality of IRT-process in achieving the enlisted business goals, BITF will pursue soonest possible to build its readiness to a dialogue with European and Russian parties concerned.

## **Section 8. Cooperation in financial sector (banking, insurance and stock markets)**

A group of representatives from various sectors of the EU and Russia's finance community such as banking, insurance and stock markets proposed a decision, which was supported by the IRT Co-Chairmen, to establish within the IRT framework a **Financial Industry Task Force** to deal on a systematic basis with issues of bilateral investment and financial cooperation.

After discussion in the meeting it was decided to focus attention of the future Task Force on the following priority areas of cooperation:

- facilitation of a sustained growth and a balanced dynamic development of the Russian financial market and related infrastructure networks;
- the search for long-term sources of funding for the Russian private financial sector to be used for the large-scale project finance in the Russian industry on terms and conditions which are competitive with existing external sources of credit and investment;
- convergence of financial industry regulation systems in the EU and Russia, introduction of common standards for financial operations, including corporate transparency and international accounting and audit standards;
- identification of optimal ways and means for the integration of the EU and Russia's financial markets, cooperation in new financial infrastructure projects, such as bureaus of credit history, financial rating agencies, joint banking, insurance and stock market institutions;
- dismantling of administrative barriers for free capital flows, as well as outdated stereotypes of financial business relations;
- joint coordinated actions against criminal money laundering, corruption and financing of terrorism;
- close contacts and cooperation with other industrial Task Forces in order to identify most promising projects for joint actions.

The participants underlined that joint efforts of private sector and government institutions, based inter alia on private-public partnerships, are needed to achieve real progress in all these directions and to realize favorable prospects for private financial sector cooperation with international financial institutions like the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB).

## **Section 9. Follow-up actions**

The Round Table Co-Chairmen will present these Joint Conclusions to the EU-Russia Summit in November 2004 and undertake the necessary steps to obtain the appropriate official positions with regards to their implementation.

The next General Meeting of the Round Table will be held in Russia in October, 2005.