

## **Russia and Europe**

**Carnegie Moscow Center 10<sup>th</sup> Anniversary**

**April 22, 2004**

Dear Friends,

It's an honour to be able to address such an important audience, on such an important occasion and on such an important topic.

Unfortunately, Commissioner Chris Patten was not able to join the European Commission delegation under President Prodi that is here in Moscow today.

He was called for a debate about the Middle East in the European Parliament.

We have every reason to be concerned with the situation there. For both the European Union and Russia, this is a key part of our near abroad. From the borders of Russia today, Baghdad is closer than Berlin. Parts of the Middle East extend directly into our European cities.

There were most certainly different views on the wisdom of last year's war in Iraq. But there can fundamentally be no differences on the need to win the peace in that important region.

Without stability in Iraq, there will be no stability in the Middle East, and without stability in the Middle East, our countries would be far more exposed to instability, threats and terrorism than would otherwise have been the case.

But I am certain that Chris Patten will tell the European Parliament that it is dangerous to ignore the relationship that is there between progress towards peace and stability in the areas of the Euphrates and Tigris, and the progress towards peace and stability that must be there in the areas between the Jordan River and the Mediterranean.

This was the "fertile crescent" of ancient days. The question is whether it tomorrow will be a crescent fertile for reform and representative government - or for resentment and rage.

Developments during the last weeks have undoubtedly created new dangers. It is thus appropriate for the European Parliament to address the issues, and for the Commissioner for Foreign Affairs to be there.

Mine is thus the task to say a few words about the relationship between Russia and the European Union. They can be seen as following the speech I gave on this issue to another distinguished audience here in Moscow in December.

It's not been an entirely easy relationship during the last few years.

Moscow has had its difficulties understanding the intricacies of Brussels decision making – preferring to fish for favours in bilateral media events that, at the end of the day, is not the way business is done in Europe any longer on many issues that has been on the mutual agenda.

And in Brussels, there has been the belief that Moscow easily promises but rarely delivers. To this has, particularly since last autumn, been added a growing concern over the state of political freedoms in Russia.

Both the Duma elections and the presidential elections were seen by European observer missions as steps backward in the hoped for evolution of a democratic Russian political system.

These factors – in both directions – remain. But in spite of them there are now signs that would could have become a crisis over the imminent enlargement of the European Union is instead turning into an opportunity to start to move things forward.

The near future will demonstrate whether that is the case or not. But if the omens were bad only months ago, they are now distinctly better.

Difficult issues like future direction of visa regimes, steel trade, natural gas pricing for domestic Russian industries, dialogue on treatment of minorities or outstanding issues concerning Kaliningrad transit must all be dealt with and solved.

The diversity of the issues on the table now shows the magnitude of the relationship in the future. We share a continent, and our respective futures are certainly not independent of each other. There is no ocean between this part of Europe and those 25 nations with close to half a billion citizens that within days will make up the European Union.

We have made enormous progress during little more than a decade. Europe has never been so free, so secure and so prosperous as is the case today. But our common interest is not only to preserve this situation – it is also in how to develop it further.

Both Russia and the European Union face major issues of economic reform during the years to come.

Although we see new economic tigers like Estonia and Slovakia demonstrating the huge potential that is there, vested interests in larger countries are often successful in slowing down the rate of reform. But as globalisation accelerates, and new technology creates new opportunities on an almost daily basis, reforms must be speeded up rather than slowed down.

There has been impressive progress in this respect here in Russia.

Going through some old files in Stockholm recently, I found a ten-year-old report on the rapid decline of the ex-Soviet oil industry. Production was declining. Everything was aging. Consequences could be severe.

But this did not happen.

The privatisations that were done were historic in paving the way for the creation of private industries that, among others things, turned around the rapidly declining oil industry and created world-class enterprises, the contribution of which to the impressive economic development we have seen in Russia particularly since 1998 has been immense.

In Washington just a few days ago, I could not but be stunned to see that the most prominently located gas station in Georgetown now proudly bears the name of Lukoil. A decade ago, no one on this side of sanity would ever have considered the possibility.

And there has been success in numerous other sectors as well.

Still, the levels of foreign direct investments (FDI) into Russia remain relatively modest. China operates in another world in this important respect. Even a small country as Slovakia seems recently to have been doing very considerably better.

I am convinced that Russia needs a significantly higher level of foreign investment if it is going to meet its ambitious growth targets over the

medium perspective. And this – in turn – is necessary if essential social ambitions in this vast country of huge social challenges should be met.

There is a long list of measures that could be taken to encourage such a development. Naturally, respect for the rule of the law and property rights is absolutely fundamental.

Who will make major deals here if there is a risk that everything will be undone for some sort of political reasons, manoeuvred behind walls as closed as ever in the past?

We can only hope that President Putin and Prime Minister Fradkov will deliver on promises for further economic reform. It is – literally – in the interest of all of Europe.

Energy represents an area of particular interest. And within that category in particular natural gas.

If we look ahead, the European Union will increasingly live on its imports of natural gas, and Russia will to a very large extent live off its exports of natural gas.

But this will require further reforms.

Such have been slow in coming in the important gas sector. But investment needs for the future are huge, and it's unlikely that they can be met from domestic sources alone. At the same time, it should be noted that other suppliers are becoming increasingly active in courting

the West European markets, possibly reducing the potential for Russia in the years to come.

And we also see the problems building up in the export infrastructure, notably on the oil side, creating problems that seem to be in the interest of no one.

But most important would of course be if we – better late than never – could move towards that WTO membership which would pave the way for progress towards a more concrete version of the common European economic space so often talked about.

The advantages are obvious. The EU single market is already the world's largest integrated economic market. It is the biggest export market for more than 130 nations around the world – Russia naturally included. With the process of EU enlargement continuing in the coming years, its weight will increase even further.

There is a clear-cut common interest to move from the present somewhat uncertain situation over a WTO membership to a free trade area, and from that over time perhaps to a customs union or making Russia part of the European single market. The further one goes in this direction, the more will it also be politically demanding. With one step at a time, we need not define the final goal, just the direction.

But there is no doubt that the economic integration of the European continent would bring enormous benefits. The larger, more open and competitive our common market is, the better not only for us, but also for the global economy as a whole.

To this economic agenda must of course be added the obvious political agenda. We have a common interest in meeting the new threats of the new disorder – terrorism, proliferation of dangerous technologies, the fall-out from fragile, failing or failed states – defined in the new European Security Strategy.

More concretely, we should have a common interest in restoring some basic political decency to Belarus, in respecting the choice Ukraine wants to make as concerning its future, in preventing the state of Moldova from failing even more, in hindering the different frozen conflicts of the Caucasus from hotting up, in respecting the territorial integrity of Georgia and in combating terrorism throughout the area, which the effects of the Chechen conflicts certainly high up on that list.

And I would certainly not neglect the role of Russia in seeking solutions to the different outstanding issues on the Balkan Peninsula as well as overcoming the division of Cyprus.

I have a personal experience of Russia as a serious and constructive partner – when it is engaged in a serious and constructive way.

It is also against this background that I cannot but be surprised by the veto Russia used in the Security Council yesterday on a resolution on Cyprus. Naturally, the resolution was meant to send a message to the referendum on Saturday.

We should all have an interest in overcoming the tragic division of the island of Cyprus, and do our utmost to avoid playing with or giving encouragement to the dark forces playing on both sides of the divide.

As we develop the deeper political relationship on these and other issues, there will of course be differences as well.

At the moment, we see new versions of Russia wanting to put the rights of the Russian nationals in Estonia and Latvia on the table, sometimes engaging in rhetoric that is more inflammatory than either factual or constructive.

We consider the situation in these countries to conform to high European standards. And we must note that there is no tendency whatsoever for the young Russians in Riga or Tallinn to move to Russia instead. On the contrary, they see their new possibility to become citizens also of the European Union as a widening of their horizons for the future.

In the other direction, there are more disturbing trends.

Last year, Russia overtook Iraq as being the country from which the most political refugees to the EU countries come. It was not only the number for Iraq going down, but also the number for Russia going up.

Obviously, this is an outcome of the Chechen conflict. That conflict undoubtedly contains a grave issue of terrorism, but these numbers testify that it is also contains an issue of human rights. To be on the top of the particular list I mentioned should not make any Russian of

whatever views proud. And the weight of that list will continue to make it an unavoidable and important part of our political dialogue.

Without being fully a part of Europe and the world, Russia will never be able to rise out of the poverty and despair after its seven tragic decades of tyranny and isolation. And without a Russia able to overcome this horrible legacy, our common efforts at stability will be much harder to achieve. All of Europe has a profound interest in a Russia that is strong and stable and confident in its future.

A century ago, Russia was one of the fastest growing economies of the world. The industrial revolution was beginning to transform the country. St Petersburg and Moscow were bustling European metropolitan centres. From Sweden, we saw artists and entrepreneurs moving East to the rising nation of Russia.

It is worth noting, that had this development continued, Russia today might have been with the United States and other parts of Europe in the top of the world as concerns economic development. But instead, it lingers near the bottom of the league of the countries of the industrial revolution a century ago.

Unavoidably, Russia will continue to pay the price for the seven decades of communism for decades to come. But the big question is whether it will remain essentially a petroeconomy trying to shield itself from the outside world in other areas, or whether it will truly try to make the leap towards a modern, broadly-based and competitive economy.

I belong to the generation that was brought up during the decades of the Cold War, the wall in Berlin and the communist system extended by the powers of Soviet arms deep into the hearth of Europe. But I also belong to the generation that has been fortunate to see the true historical miracle of the peaceful dissolution of this empire based on occupation, the liberation also of Russia and the demise of the confrontations of the past..

The task of our generation is to build a new system of security, cooperation and democracy encompassing as large parts of our continent as possible.

Gradually, we are through the European Union building a federation of nation states that will include all of Europe to the west of Russia and the Ukraine, stretching eventually from the Arctic Ocean to the Mediterranean, over time in all probability including Turkey as well.

This is by no means an easy, smooth or uncomplicated process. Nothing like this has ever been done. And we are the best half the way towards fulfilling that agenda that history threw upon us through the big changes of 1989 and 1991.

The complete transformation of all of Russia from a decaying rustbelt of eleven time zones to a modern and strong European democracy will obviously take its time.

But it remains as crucial a part of the building of our new Europe as does the need to keep and reinforce the relationship across the Atlantic with the United States.