

Article by President Romano Prodi in advance of EU-Russia Summit

Vladimir Putin, the new Russian President, will shortly unveil his new economic policy strategy and make clear his foreign policy priorities. Next week's EU-Russia summit in the Kremlin, which will precede the visit of President Clinton to Moscow, therefore comes at a defining moment in our relationship with our largest and most influential neighbour. We must seize with both hands the extraordinary opportunity it offers to open a comprehensive dialogue between the European Union and Russia.

The forthcoming economic programme will be crucial to the future course of Russia's relations with the rest of the world. And it will determine the attitude of international investors whose confidence is vital to the economic future of the country. The French Foreign and Finance Ministers are right to suggest that it is a good moment to take stock of our relations with Russia and prospects for the future.

We see reasons for optimism - Mr Putin's strong performance in the presidential elections gives him a solid mandate for change and he has said that he is committed to reform and open to European ideals. Russia faces huge challenges, as in Chechnya: this is why the President needs strong and visionary leadership.

We have high expectations. The first priority is to ensure strong and effective institutions to underpin the rule of law. No amount of liberal and constructive legislation on the statute book will make any difference if the courts are too weak to ensure it is applied. Bankruptcy legislation will only have an impact on investor confidence if they see it preventing the discrimination and abuse that have done so much to undermine Russia's image in the past. A more modern tax system will only have the desired benefits, including in boosting government revenues, if its enforcement record is improved. Better relations with the international financial institutions and progress on debt relief will require more decisive action against corruption, fraud and money laundering.

Secondly, Russia needs to press ahead with the unfinished business of structural reform. This means in particular action on tax reform, bank restructuring, industrial modernisation and new rules on land ownership. Improved prudential supervision and a fairer, more open legal environment for business are vital if Russia wants to attract more international capital flows, tackle crippling capital flight and create an appealing climate for investors. By promoting initiatives like the EU-Russia industrialists' Round Table, we can help to foster the necessary mutual trust and understanding.

Thirdly, we are naturally keen to acknowledge Mr Putin's electoral success in these early days of his Presidency. But the Chechnya conflict is still not over and our concerns over the treatment of civilians and the difficulties faced by international humanitarian and human rights organisations in the region have not disappeared. Public opinion in the EU has been deeply touched by reports coming from Chechnya. Against this background, we do expect from President Putin a new and more constructive approach to individual rights and personal freedom.

Finally, we need to work for improved EU-Russia trade relations. This is a key theme of the EU's Partnership and Co-operation Agreement with Russia and the our recently-adopted common strategy. The EU accounts for close to 40% of all Russian external trade and Russia has a ?10bn annual trade surplus with us. Both the EU and Russia have everything to gain from more open trade relations. Most importantly, Russia needs to accelerate its process of WTO accession, and in that of course she continues to have our full support.

There are too many crucial political issues that demand Russian involvement. Three in particular are likely to bear heavily on EU-Russia relations in the coming years. Firstly, and perhaps most obviously, the Balkans, where it is difficult to imagine lasting stability without Russian support. Secondly, EU enlargement, where although Russia is not directly involved in the negotiations with the candidate countries, we do acknowledge its deep interest and want to keep channels of communication open. Thirdly, nuclear safety, which has perhaps not received the attention it deserves, but which could become the biggest challenge we face in the coming years as Russia's ageing and obsolete stock of power stations, reactors and military equipment need to be decommissioned.

The EU is Russia's first partner by far in all fields. This is why I look forward to meeting President Putin in the Kremlin and initiating strong co-operation which will be of strategic importance in the years to come both for the Russian Federation and for the European Commission.