

Speech by Romano Prodi, President of the European Commission.

Ladies and gentlemen,

I am delighted to be speaking to you today in a place whose name - Mala Manesh - reminds us that Russia is indeed firmly rooted in European history and culture.

The exhibition here, promoted by the European Union office in Moscow, it is about war and the sufferings of millions of people in Europe and throughout the world.

On 9 May, Russia celebrated the 55th anniversary of the end of the Second World War. On the same day, in Brussels, we celebrated the 50th anniversary of Robert Schuman's declaration which laid the foundations of today's European Union.

The EU is a success story built on a combination of vision and pragmatism, which, today, embraces the whole continent.

Born out of a few men's determination to secure lasting peace on the continent, European integration has also brought unprecedented prosperity to Europe. The EU is now well established as a global economic actor, with its huge single market already embracing some 400 million consumers and with its own currency, the Euro.

Both are tangible proof of the success of our method for addressing common challenges such as the emergence of the global economy. This method is a continuous process of pooling Member States' sovereignties. Whilst respecting each State's identity, it allows each country to expand its sovereignty jointly with the other Member States, thus giving it a greater influence on the wider, global scene.

At the same time, the EU remains very much a "work in progress". The challenges facing us are enormous. The most obvious and significant one, the EU's enlargement process, derives directly from the end of the cold war. It confronts us once again with our history and with the whole purpose of European integration.

It fundamentally reflects the shared desire of the European peoples for peace, democracy, a market oriented economy and social cohesion, all of which are conducive to prosperity in a continent coming to grips with its history and geography.

Rarely in the course of history does an opportunity like this present itself. For the first time in many centuries we have the opportunity to unite Europe - not by force of arms but on the basis of shared ideals and agreed common rules.

An enlarged Union offers a greatly expanded zone of stability and security in Europe, and this has important implications for Russia, Ukraine and the other countries along our new borders. We want close and constructive relations with our new neighbours. We would like to work with you to stabilise our shared continent, to combat international crime and terrorism. In short, to construct a wider European area of peace, stability and prosperity. A "new European order". A "pax europea" between equal partners.

While enlarging the Union we are also working to deepen and strengthen it through further political integration and closer co-operation in a number of areas. We are, for example, creating a common area of security and justice and a common foreign and security policy.

So we cannot avoid asking ourselves fundamental questions about the political aims and ultimate purpose of the Union. This discussion will inevitably raise divergent reactions within the Member States and European public opinion, as we saw with the reactions to Joschka Fischer's speech in Berlin a fortnight ago.

The road to further political integration will, of course, remain long and arduous. But there can be no doubt that the EU is on its way from being a global economic actor towards being a genuinely global political actor as well.

This leads me to the core of our discussions today with President Putin. Since the end of the cold war and the peaceful implosion of the Soviet Union, Russia has resolutely trodden the difficult road towards democracy and a market economy. Democratic values, such as electoral processes and the freedom of the press, are widely accepted but still have to be further consolidated. In particular, the Rule of Law must be firmly established.

The road towards a market economy has also been kept largely on track, but has encountered numerous slowdowns and pitfalls as illustrated by the financial crisis in the summer of 1998. And the virtues of the market have inevitably been overshadowed by popular disenchantment with lower living standards for the majority, the ostentatious wealth of a small minority, the spread of crime and corruption and the massive exodus of essential capital.

Like the EU, Russia is now at a major turning point. It has a new parliament, a new President and a new Government. This turning point represents a historic opportunity for Russia. President Putin has called for a strong democratic State based on a genuine market economy, under the so-called "dictatorship of the Law", with the State providing a level playing field for companies and entrepreneurs and ensuring that democratically-decided laws are also implemented.

This is why we were so keen this morning to hear from the President himself how he and his new Government intend to steer Russia along that track. The new economic programme is critically important in this regard. Now that Russia has the opportunity to break out of the vicious circle of economic decline, a key objective must be to re-establish confidence and boost investment in the real economy.

This will mean improving the business environment in a fundamental way so that a wide range of manufacturing firms and service providers, including SMEs, can operate profitably and effectively in Russia. This also implies that loss-making firms are effectively restructured. The Government should, in the same breath, carry through all outstanding structural reforms in areas such as tax reform, bank restructuring, industrial restructuring and land reform. Such resolute action is indeed necessary to encourage Russian and foreign investors.

Only then will Russia attract the very considerable levels of investment, both domestic and foreign, which it should be able to attract and which will help ensure lasting and sustainable economic recovery.

Finally, this effort should go hand in hand with accelerated Russian efforts to join the World Trade Organization, since WTO membership is bound to make Russia a more predictable and, hence, safer environment for businessmen and investors.

The WTO angle brings me quite naturally to our partnership, shaped ever since the early days of 1992 by our strong two-way trade. It grew 500% over the 5 years to 1997, when the EU accounted for over 40% of Russia's foreign trade.

The Partnership and Cooperation Agreement (PCA) laid a solid basis for this remarkable two-way trade expansion, since the EU granted Russia the Most Favored Nation (MFN) status. The EU became, by far, Russia's biggest trading partner.

This is still the case today in spite of the steep fall in EU exports to Russia after the 1998 financial crisis. In 1999, the EU still accounted for 33 % of Russia's trade, and Russia today enjoys a trade surplus of well over 10 billion Euro with the EU.

However, there are obstacles - and I am not thinking only of the devaluation of the Rouble. Our companies encounter a sizable number of market access problems, some in obvious violation of Russian commitments under the PCA. I am referring, for instance, to well known problems in the steel sector, the alcohol market, and in the banking and insurance sectors. These left us with no other option than to start taking legal action earlier this year. However, I am hopeful that that the open-minded Russian reply to our well-documented cases at our ministerial Cooperation Council last month will translate into increased efforts to find solutions.

As Russia's largest trade partner, our aim was - and still is - to support Russia's efforts to prepare itself for WTO membership. That is why the PCA laid a special emphasis on the need for Russia to modernise its laws, technical norms, standards and business practices. It is now more vital than ever to give priority to this process, for three main reasons.

First, most of these legislative changes are necessary anyway under Russia's WTO accession bid. Second, it lays the groundwork for the next stage of our economic partnership, which will lead us to explore the appropriateness of a future free trade agreement. Third, it will allow Russia to gain the maximum benefits from the closer economic co-operation we want to build under the EU's new neighbourhood policy.

Such a legislative overhaul is a painstaking process, but I am convinced it will pay bid dividends. This can already be seen in the case of the Central European countries currently negotiating accession to the EU. I therefore welcome Russia's agreement last month to adopt the action plan we had submitted on the protection of intellectual property rights.

We also stated recently that renewed vigour was needed to make the PCA work better. Further strengthening the role of the senior Russian minister responsible for relations with the EU would contribute to this. It is particularly important to work at success stories in those fields where we could gain from the combined strength of our industrial and scientific assets. I am thinking, for example, of making even better use of the recommendations of the EU/Russian Industrialists Round Table, which will convene in October in Moscow. I am also thinking of well-advanced discussions to build together a civil Global Navigation Satellite system. And, in the framework of our information society forum, I wonder whether we should not start thinking about how to facilitate Internet access for all schools, as we are currently planning in the EU.

The PCA goes beyond mere economic issues. It is based on our shared values of respect for democracy and human rights. It also covers areas of inter-governmental competence such as our foreign policy dialogue and cooperation in combating crime.

Why, then, did we adopt a much-heralded Common Strategy in June last year? We felt it was essential to bring our partnership into line with the new emerging dimensions of the EU - the introduction of the Euro and the significant headway made in the fields of Justice and Home Affairs and of our Common Foreign and Security Policy. Russia was the obvious choice for our very first Common Strategy, which is a new foreign policy tool under the Amsterdam Treaty.

The Common Strategy does not replace the PCA: it uses the PCA channels and is meant to reinvigorate the PCA. It also properly reformulates the overall economic objective of the PCA by calling for the creation of a "common economic and social space" in Europe.

Essentially, we identified initiatives in new areas of EU competence like foreign policy, security and the fight against crime where our Member States' involvement will be substantial. We also targeted areas where we felt that our cooperative efforts towards Russia should be enhanced, such as the rule of law and democracy building, civil society, twinning and exchange programmes as well as regional and cross-border cooperation. We did so, first and foremost, through the EU's "Northern Dimension" initiative.

I also hope we shall soon be making rapid headway together in concluding the multilateral agreement (the MNEPR) aimed at resolving the devastating problems of nuclear safety, and of nuclear waste and spent fuel disposal in North West Russia.

Another major innovation is that we are pooling all the EU's available resources to implement these initiatives. This means combining Community instruments such as the Tacis programme with the Member States' resources, so as to achieve better synergies.

The task was challenging, but some tangible results are already on the record with the full cooperation of Russia. For one thing, we have further increased the frequency and scope of our foreign policy dialogue where, quite naturally, a strong emphasis has been placed on the Balkans. Secondly, we have set in motion a cooperation programme on non-proliferation cooperation and disarmament, so far with a small budget, two projects and a task force housed within the Commission. Third, in Luxembourg last month we adopted an action plan, subsequently endorsed by Russia, to fight organized crime. Fourth, we are finalizing an action plan on the "Northern Dimension" to which Russia has made a

significant contribution. Last but not least, we welcomed Russia's submission of its own mid-term strategy for relations with the EU, which, to a large degree, converges with the EU's approach and enables us to compare notes and to have a better grasp of Russia's longer-term ambitions for our partnership.

Our partnership is, in my view, sufficiently solid to weather very real, even acute, disagreements. This leads me to share with you a few thoughts on what is termed the "Chechnya irritant" in our relations. As you know, we have never challenged Russia's right or even duty to fight terrorism and uphold its territorial integrity. But ever since the earliest days of the military operation last autumn, we have consistently raised our strong concerns over what is, in our view, the disproportionate use of force, the immense suffering of civilians and the daunting human and humanitarian problems which have resulted from this operation. We would have betrayed our most important shared values if we had not reacted then.

We consistently formulated a number of requests that Russia claims to have addressed. What we ask today, first and foremost, is that Russia resolutely carry out what it has offered to do.

First, we have repeatedly asked for access and improved working conditions for all humanitarian operators willing to provide assistance in Chechnya. This means removing numerous administrative hurdles and making adequate security arrangements for aid workers. For months we had requested that our Humanitarian Office (ECHO) experts be allowed to assess the situation in Chechnya. I am glad to say that, a week ago, Vice Prime Minister Koshman facilitated a visit by our team of experts. This is a welcome step since it is a pre-requisite for allowing the Commission to fund humanitarian operations.

Second, we believe that investigations into alleged Human Rights violations reported by all sides should be as effective and transparent as possible. Serious suspects should not be seen as above the Law. We welcome the setting up of Mr. Kalamonov's office and his cooperation with experts from the Council of Europe and the OSCE. The Commission is also currently considering supporting his office by training his staff in Human Rights investigations.

Finally, we still believe that there is no solution in Chechnya without the launch of a tangible political process, however complex and arduous this may be.

This morning we had a very frank and useful discussion with the President on all these matters. Prime Minister Guterres and I will report back to the EU Heads of State and Government at our forthcoming European Council in Portugal.

Ladies and gentlemen, we share a continent still very much in the process of reshaping itself. Both Russia and the EU have a major responsibility for its stability and prosperity. This is particularly true today in the Balkans and may also be the case tomorrow elsewhere on the continent or at its rim. This is also why we are committed to keeping Russia fully informed of our enlargement process, which I believe to be vital in fostering peace and prosperity for the years to come.

My strong conviction is that both Russia and the EU stand to benefit from EU enlargement. A large single market on Russia's doorstep, with a single set of rules and norms and with lower tariffs than those current in Central Europe, should naturally boost two-way trade and investment between an enlarged EU and Russia. The first to benefit should be our adjacent cities and regions.

The partnership between the EU and Russia is there to stay and to grow. Together we are in the business of building a new Europe for the 21st century. But we are also global partners, and in this new century we must work together with the other major actors to find just and sustainable solutions to global problems. We owe it to future generations.

Thank you.