

## ***DO WE NEED A STRATEGY TO FACILITATE ECONOMIC RELATIONS AND BUSINESS TIES WITH RUSSIA?***

Like plans, having a strategy is always a good thing, in particular if it is a good strategy. It helps us focus, prioritize and formulate goals. This is what I intend to discuss here today: *What kind of strategy* should it preferably be, *why do we need it*, how much is it in demand and by whom, and what is the *expected value added*.

In doing so, I shall also inform about recent developments in the EFTA-Russia process towards a bilateral trade agreement, Russia's WTO-adhesion, and how we have responded to Russia's invitation to engage in a partnership for modernisation of the Russian economy.

\*\*\*

*What kind of strategy?:* The short answer would be – a strategy structured around the four pillars of the conference organised by the Chamber of Commerce on the occasion of the state visit:

- Oil and Gas Development in Harsh Environment,
- Progressive Technologies in the Sectors of Fisheries and Aquaculture,
- Diversification of the Bilateral Business Cooperation and Transforming Technologies
- Meeting Tomorrow's Challenges with New Technology

Let me take this opportunity to congratulate the Chamber on conducting a very professional event, in all ways. We are not blind to the trials and tribulations of making it the success it definitely was.

We believe the effort deserves a follow-up, something to document the achievements, and which may serve as a platform upon which the strategy may very well be erected.

*What should be the vision of the strategy?:* We need to consider and decide on a realistic level of ambition. If we want the strategy to help bring us into more advanced, in the sense modern, relations – then we need to engage the right actors on the Russian side.

Moreover, we need to have a sober appraisal of the Russian interest in such a project. How genuine is their interest and are they willing to take on their share?

It is possible to seek to engage Russian partners within the framework of a unilaterally driven strategy. This may not seem optimal, but it has the advantage of allowing us to set very specific targets and focus on Norwegian interests.

NW Russia is already targeted by the High North Strategy, of which economic relations with Russia is a driver. Probably a business strategy needs to have a wider scope.

This we could achieve by including trade issues firmly in the strategy, in particular the EFTA-Russia process could be a vehicle for this.

\*\*\*

*Why do we need a strategy – how much is it in demand?* We have a China strategy (Aug 2007), and we have an India strategy (Aug 2009), in which economic relations are very much at the centre. But we do not have one with neighbouring Russia.

If we want to understand this apparent paradox, the crucial point is that global patterns of trade are shifting, and that Norwegian trade is shifting accordingly.

From 2008 to 2009 Europe's share of Norwegian exports has declined from 73% to 67%. The trend is continuing. In fact we have witnessed an accelerated development – the previous, similar 6% drop in trade with Europe was over 15 years, from 1993 to 1998.

This will continue, with the state of European economy in full turmoil. Norway will nonetheless remain firmly in the Internal Market – but only with one foot. The other is gradually seeking new footing in markets further east.

The global effects of trade are well documented. Generally speaking, there is a 10% year-on-year growth in trade in goods. As a thumb rule, the value of exports are doubled every 7<sup>th</sup> year. Up to now this has been one of the main drivers of globalisation.

Almost 30% of Norway's mainland GDP comes from exports.

In our case, fish and sea products, minerals and metal are bringing us on to world markets. Oil and gas is a different category and not included here, shipbuilding too. Services are a more difficult "good" to measure, and not included, but will of course only add to the picture.

The point is, the oil era is coming to a close. In few years we will export more gas than oil; gas generates less income than oil, and, to add insult to injury, gas demand worldwide is falling – not least due to new technologies for non-conventional fuels, like shale gas.

What this means to us, is that the value of trade agreements are increasing, relatively speaking. The government has decided to give priority to four bilateral trade negotiations – with China, India, Russia and the Ukraine.

Trade agreements have the effect of lowering the fences. It makes it cheaper to buy each others' products, so we do more of it – and it stimulates healthy competition.

Equally important, trade agreements are facilitators of exchange – they provide a transparent system of licences and quotas, public documentation, protect against non-tariff barriers, and customs administration and border procedures.

All of this is highly relevant for our dealings with Russia – and in other forms they are longstanding issues on the agenda of the mixed government commission.

In the case of China, the demand for a trade agreement, voiced by the business community itself, was consistent and clear, over several years. Once having decided to start working on this with Beijing, it felt natural to look at the broader scope of relations – and to formulate a strategy.

The value of our export to China is almost three times as big as to Russia. Export to Russia exceeds that to India. In terms of export figures, the differences are maybe not dramatic; the

value of export to China is above 15 billion NOK, to Russia almost 6 billion and to India nearing 3,5 billion.

The key, though, is that the Chinese and Indian markets are potentially so much bigger. Also they are dynamic emerging economies, and very advanced in certain sectors, whereas Russia's is raw material based, and in dire need of both diversification and modernisation.

\*\*\*

A puzzling fact is that the continuous strengthening of mutual interdependence structures is not matched by reciprocal increase in the value of trade and economic cooperation. European countries note the same paradox. Proximity is not enough to guarantee growth. Some hold this to ideational and cultural differences, and that common interests do not mean common values.

Whatever the reason, we must note that economic integration has not produced the results we could hope for, in fact there is a huge untapped potential in our economic relations. In 2009 the trade between the countries amounted to approx 12 billion NOK. This is not good enough.

By comparison the value of Finland's trade with Russia is 11 billion – Euros. The value of Finland's export to Russia alone equals 33 billion NOK. These are 2009 figures, already reflecting a considerable down-turn.

On our side, fish and seafood constitute 80 % of the export to Russia. Russia is becoming our biggest market for seafood.

After a continuous growth in trade in the period from 2003, there was a significant decrease (30 %) in 2009. During the first four months of 2010, we see an increase of 18 % compared to the same period of the two previous years. First and foremost we see growth in import (38 %), and this can be explained by resumed activity in the Russian aluminium industry.

While this is positive, my main point is that new things are not happening. We do more of the same, but little is new. Trade and economic cooperation are in need of diversification. This should come as no surprise; the Chamber has already put its finger on this.

For a long time we have been thinking that the more we get integrated and the stronger mutual ties we bind, the easier it will be to overcome and deal with the problems of arbitrariness, lack of predictability and rule of law and investment security.

Or – to put it differently – closer economic ties have not made Russia do the reforms that we anticipated. And frankly speaking, we do not see that the trade negotiation process will do a great deal to stimulate the needed reforms either.

So negotiating a trade agreement and mounting a business strategy cannot have as its core motive that we expect great changes to happen in Russia on the short term.

However, we may presume that in the longer term all such endeavours may help to nudge things along – and that by doing so we strengthen the arguments of the modernisers in the internal Russian debate on economic policy-making.

This debate is getting more vibrant by the day, and is led from the very top, by President Medvedev himself.

Is this reason good enough to engage? I would say yes – if we consider the potential material gains for Norwegian business, and use a strategy as instrument for making new inroads in Russia and with a view to diversifying the economic and trade relations.

\*\*\*

So - what is the picture on the Russian side? Russian authorities have approached us and requested a *partnership for modernisation of the Russian economy*. First it was mooted at the meeting of the Norwegian-Russian Government Commission in Moscow in April this year.

Secondly the idea was written into the Russian draft joint declaration of the state visit. On both occasions we responded positively. We had also noted the Russian side's intention to have innovation and business cooperation as a main topic for the state visit.

We have asked the Russians for further clarifications, and how they envisage structuring the partnership. The answer is that they want the same as with the EU. This makes things easier for Moscow – and, I would claim, for us too.

Russia wants a partnership along four tracks;

- *innovation, green industry development*
- *regulations and standards*
- *WTO*
- *visa freedom*

This was debated at the EU-Russia Summit at Rostov-on-Don only last week. The process started during the Swedish Presidency, and was launched at the Stockholm Summit last year.

Russia's initiative towards the EU is inspired by the “reset”-process with the US, but goes further in economic scope, since Europe is after all a much more important market for Russia, and since compliance with standards and regulations on the Internal Market are imperative if they want market access for their products.

At Rostov, President Van Rompuy declared that in the case of EU-Russia, it was not the “reset” but the “forward” button that was pushed.

Anyway, we are speaking of a comprehensive and complicated process. Agreement on a new Partnership and Cooperation Agreement is still far away. And as the EU Commission sees it, there are few visible signs of the steps needed in order to proceed with WTO-adhesion.

This is important to note for two reasons: One is that EU Internal Market regulation will become more of a factor in Norwegian Russia policy-making. Second, progress on trade and modernisation hang closely together. No real modernisation of the Russian economy can be envisaged unless advances are made along both tracks, and with some overall direction.

\*\*\*

I need not emphasise enough how it is in the interest of Norway, a small and export oriented economy, that Russia joins the global trade regime.

It is because we want to support and stimulate the pro-WTO forces in Moscow that we have decided to engage Russia in the EFTA free trade process. A preliminary study has been conducted, and shows that trade liberalisation has a considerable effect on exchanges.

It needs to be noted that we conduct such bilateral trade agreements as a supplement to WTO, and not to supplant it. National trade policy priority lies with the global trade regime.

The EFTA-Russia agreement will enter into force only when Russia joins the WTO. That may still be some way off into the future, but we think it is of great use for Norwegian business that we have everything settled bilaterally and are ready to go once the WTO-membership is in place.

The customs union with Kazakhstan and Belarus has necessitated new rounds on our side, to determine whether we could also enter into negotiations with them individually. All necessary hurdles have now been passed, but the EFTA group needs to agree too. Iceland has a mandate to negotiate with all three, but not as a union. Switzerland will soon be ready, we expect.

Russia means so much to us that we are willing to go that extra mile.

If Russia manages to comply with the technical and other regulations and standards that govern the Internal Market, this is good news – also with a view to early WTO adhesion.

In our dialogue with the EU Commission on this, we have underlined the importance of the regulatory aspect and standards beyond those of a purely technical nature.

It is essential that the partnership for modernisation includes stable framework conditions, predictable rules and practices and investment security.

While we would be pleased to assist Russia in modernisation of their economy in any possible way, we would think it better to rephrase the partnership ambition somewhat, towards *modernisation of our economic and trade relations*.

This makes it more of a two-way street, and is, indeed, closer to the spirit in which we are normally working.

What we need from Moscow in order to proceed is a Russian focal point – an institution which is the point of contact and with whom we can work. It is fully possible to have more than one point of contact.

We foresee that the Norwegian Confederation of Enterprise could work with their counterparts the RSPP, if they are committed – and that remains to be seen.

On trade issues we need to work directly between governments, and here the contacts with the Ministry of Economic Development are well established and running smoothly.

On innovation and new technology, diversification and business contacts in general, I would imagine that there is a role for the Chambers of Commerce and that your network meetings could be instrumental.

The Norwegian-Russian Chamber of Commerce is a tremendous resource for us, because it is an organisation that speaks directly from the interests of their members, and draws on their considerable competence and experience.

\*\*\*

In terms of conclusion, some words on the potential *value added* of a business strategy:

I have made the case for bilateral and multilateral *trade agreements*. I have also made the case for the need to *modernise economic relations*. To me this implies that there is a strong argument in favour of a comprehensive approach; that is, a targeted business strategy.

The one thing we cannot assess precisely yet, is how much the business community really wants it. Business itself must help us out on this.

We need you to state the case and assist in doing the job. If you leave the job to government officials, all you will get is a dialogue and watered out document between governments. This is not what you are looking for.

To return to where I started, I think you have the main body of a possible strategy in place already. The four pillars of the conference in April could in my view carry a strategy.

If you decide to make some sort of a comprehensive summing-up, to be published and shared with members and Russian partners, you would be well on the way towards laying the ground work of a strategy. I am convinced that the thematic, four-pronged approach of the conference could in fact “lift” the strategy and provide the necessary substance.

From the government side, what we could contribute would be the political framework and goals. We would include trade processes. We could make use of the considerable resources represented by the Government Commission and its Working Groups and the ongoing dialogue we have on strengthening of existing and entering into new bilateral agreements.

What we could also do, is to have a hard look at how the public agencies – Innovation Norway, SIVA and the Research Council – are performing on Russia. We could also possibly consider what the Finns have done in St Petersburg; that is, set up a one-stop-shop where any Russian may reach any of the public agencies in one and the same place.

On many occasions Russian authorities have voiced an interest in learning more about how we have set up the public agencies and how they work, in particular how they execute policy and spend public money, including seed money and venture capital, and steward investment programmes and incentives. Maybe a dialogue on this could be part of a partnership, and included in a strategy.

On its side, Russia is establishing particular economic zones with special objectives and authority. We need to develop more knowledge about how they work and how they can facilitate business cooperation projects. We also need to know them well to avoid any pitfalls.

We must be good at corporate social responsibility and decent work, in such different respects as social inclusion, gender equality and anti-corruption. We must get the message across that this is also about increasing the business margins and opportunities in a global market that is making stronger demand on standards; that this is about modern business in modern society, and that sensible conduct makes good business sense too.

\*\*\*

The worst way to answer a question is by rephrasing it and turning it back to the sender... I am afraid this is what I have done.

The value added is a bit like the famous pudding – the proof is in the eating. In other words, we would have to develop a strategy before we know if we succeed. Therefore we need to believe in the recipe – the initial writing of which I turn over in your competent hands. There is no reason to start cooking before we know if anyone has an appetite for the meal.

Thank you