The EU-Russia Partnership for Modernization (P4M) has been in operation for more than three years, following the adoption of a Joint Statement at the 25th EU-Russia Summit in Rostov-on-Don on June 1, 2010. The P4M was assigned the objectives to promote reform, enhance growth and raise competitiveness, building on our four Common Spaces.

This initiative has been a catalyst of cooperation between the EU and Russia, supporting our policy dialogue in number of areas of mutual interest and delivering benefits for both sides through tangible initiatives.

This report reviews progress in the implementation of the P4M since the December 2012 Summit and identifies directions for future work. Additional information on P4M projects can be found on the dedicated website www.formodernization.com.

I. Main achievements in 2013

Since the last progress report, a number of results have been scored under the aegis of the P4M, in particular:

- Adoption of the Energy Roadmap 2050, which recommends a series of steps to enhance EU-Russia energy cooperation over the coming decades;
- Agreement between CEN/CENELEC and Rosstandart to cooperate on the development of technical standards in certain industrial sectors;
- Creation of an appeal level in the Russian judiciary system;
- Launch of an initiative to protect the right of entrepreneurs from corrupt practices in the Russian Federation;
- Engagement of the European Investment Bank, European Bank for Reconstruction and Development, and Vnesheconombank in favour of small and medium sized businesses and of infrastructure projects, notably as regards energy efficiency.

II. On-going work and Dialogues

The P4M initiative is underpinned by a series of regular Dialogues in most policy areas. These Dialogues provide a forum for sharing experience and best practices; and to identify projects of mutual interest. They also offer a mechanism for addressing the bilateral issues and irritants that belong to any developed relationship.
1. Expanding opportunities for investment in the key sectors driving growth and innovation.

The EU and Russia have continued sharing experience in the field of electronic infrastructures, intellectual property law, electronic signature and copyright in a digital context. Regarding electronic infrastructures, the connection of the Russian research and education networks to the pan-European research and education network GEANT was discussed. Agreement was reached for launching joint initiatives on international roaming, spectrum coordination and a joint action on satellite communications.

The two sides agreed to explore possible cooperation in the context of multilateral fora, notably the ones of the International Telecommunications Union (ITU).

In the field of environmental protection, preservation of biodiversity, and fight against the climate change, the "St. Petersburg Initiative" was launched in April 2013 to develop interaction between the government, business and society for the conservation of the ecological system of the Baltic Sea.

The cooperation in the field of health care with a view to the possible formation of a common sanitary and epidemiological space has progressed. Exchanging experiences and information on the prevention of infectious and noninfectious diseases, pharmaceuticals, including good manufacturing practice (GMP) and clinical research of rare diseases and food safety is under way.

2. Facilitating and liberalizing trade, enhancing and deepening bilateral trade and economic relations.

Progress towards Russia's accession to the OECD is monitored by both sides. Russia's accession could open the doors to more coordination between the EU and Russia on addressing global challenges.

The bilateral Russia-EU Dialogue on financial and macroeconomic policies not only provides a forum for macroeconomic and financial developments (e.g. fiscal and monetary policy, structural reforms, financial services regulation); but also allows both parties to exchange views and compare notes on the wider international agenda. This was all the more relevant during the Russian presidency of the G20.

The significant expansion of trade between Russia and the EU calls for an effective Dialogue on trade and investment. This Dialogue has established itself as a mechanism for finding solutions and addressing the concerns of the parties at bilateral level, limiting the risk of escalation to the WTO. The Dialogue has also a preventive function, by identifying problems which could arise from legislation in the making.

In the area of customs cooperation, a roadmap for the implementation of the Strategic Framework for EU-Russia Customs Cooperation for 2013-2014 was prepared. It is aimed at solving practical issues, such as prevention of disruption of trade flows and congestion at the border (Early Warning Mechanism), elaboration of joint projects on risk management (EU-RU pilot project on exchanges of advance information, a system of "green corridors"), stepping-up cooperation in the field of risk analysis, exchange of information, cooperation with the European Anti-Fraud Office (OLAF), the convergence of the customs legislation of Russia and the EU.

Furthermore, there have been intensive discussions on the application of the Convention on International Transport of Goods (TIR Convention).
As regards technical regulations and standards, the Coordinators expressed satisfaction with the increasing approximation in certain industrial sectors, including on basic safety requirements. The agreement reached in September 2013 between CEN/CENELEC and Rosstandart is one example of the successful cooperation between the EU and Russia.

Two new projects "Approximation of technical regulation and standardization system" and "Approximation of accreditation" serve the same objective of removing incompatibilities between the requirements applicable to our respective industries.

More approximation will be needed on horizontal aspects, e.g. promoting market surveillance rather than pre-market entry control.

To avoid the creation of non-tariff barriers, it is crucial that both sides consult each other on emerging regulations. In this perspective, the Coordinators call for a swift signing of the new Terms of Reference of the industrial and regulatory dialogues.

The Coordinators expect that the establishment of Dialogue on enterprise development, business climate and internationalization of companies will contribute to the development of entrepreneurship in Russia and the EU. This Dialogue should help to create a favorable business environment, addressing notably the questions of internationalization, access to finance, administrative burden, and representation of business interests.

Effective sectoral cooperation has the corollary effects to facilitate access to industry organizations (e.g. application of the Russian Union of Entrepreneurs of Textile and Light Industry to become member in the European Association of Textile and Garment) and to promote a coordinated approach at international level (e.g. in the field of automotive industry, the EU and Russia agreed on the revision of the Geneva Agreement of 1958).

The Fisheries Dialogue pursued discussions on the sustainable management of stocks in the high seas in line with scientific advice and based on jointly agreed measures. Exchanges were initiated on the respective approaches taken by the EU and the Russian Federation to address illegal, unreported and unregulated (IUU) fishing.

Sectoral Dialogues have proved instrumental in spreading experience and supporting innovation (e.g. organic production and introduction of innovative practices in agriculture).

Besides policy dialogues and specific initiatives on regulatory convergence, the P4M also encouraged the funding of modernization projects, in particular for infrastructure and for small and medium sized companies. On the basis of the criteria set out in the Memorandum of Understanding signed among the European Commission, the European External Action Service, the EIB and EBRD in December 2012, seven operations by the European Investment Bank (EIB) received the P4M label in 2013, for a total loan amount of EUR 1,053 million. This includes two credit agreements in the framework of cooperation with Vnesheconombank (VEB):

1. EUR 200 million on projects that meet the criteria of both banks, especially in the field of socio-economic infrastructure, the environment and climate change.
2. USD 150 million providing funding for SME in Russia, as part of a fund created by KfW banking group and VEB (totaling USD 300 million).

Among the activities of the European Bank of Reconstruction and Development (EBRD), 8 projects were granted the P4M label in 2012/2013, for a total of EUR 373 million, covering municipal infrastructure, power and the manufacturing sector.
3. **Enhancing cooperation in innovation, research and development, including space and nuclear research.**

The EU-Russia scientific cooperation is thriving, on the basis of shared priorities, as demonstrated by the substantial participation of Russian entities in the EU's 7th Framework Programme for Research and Technological Development, and the development of network projects (BILAT-RUS, ERA-NET, ACCESS-RU and thematic sub-projects). This successful cooperation will be highlighted during the 2014 EU-Russia Year of Science with a series of events.

In the sphere of nuclear technology, cooperation is working well, e.g. in the field of controlled thermo-nuclear synthesis. The joint Center of Technological Services “ALVEL” in the Czech Republic functions successfully. A Memorandum on cooperation in the field of the used nuclear fuel storage containers production project with the JSC “Nuclear machine building” has been signed.

In the space sector the EU and Russia aimed at fostering their cooperation through different instruments, including EU's "Horizon 2020" program. Both sides have continued preparation of an EU-Russia Agreement on cooperation on global navigation systems, GLONASS and Galileo.

**Innovation** by Small and Medium sized Enterprise is encouraged, with the support of the Enterprise Europe Network (EEN Russia), which is currently active in 45 Russian regions. An extension of the geographical scope of this network is considered.

EU-Russia cooperation promotes the creation of an effective and efficient supporting infrastructure for small and medium companies, including clusters, with collective access to high-technology equipment, centers for prototyping and industrial design, technological competence centers, technology transfer centers. This cooperation covers 26 Russian regions.

4. **Strengthening of the legal environment, improving investment and the social climate.**

The implementation of the joint EU-Russia-Council of Europe project on the set-up of an appeal system for criminal and civil court cases is progressing well. The relevant bills have been brought to the State Duma for consideration. This reform involves the recruitment of 1500 regional level judges and of 4000 other personnel employed in judiciary system.

The three-year joint project on the accession of Russia to the The Hague conventions on child protection is nearly completed. Amendments to the Russian legislation following Russia's accession to the Convention on the Civil Aspects of International Child Abduction have been introduced. Further work is undertaken on children guardianship and on alimony collection.

Cooperation between Europol and the Russian law-enforcement authorities is going on in several fields, such as witness protection, identification of illegally acquired assets, fight against organized crime, drug related crime, cyber-crime and counterfeiting. A draft Agreement on operational cooperation is in preparation. It would enable a wider exchange of personal data. The Coordinators believe that this Agreement will boost law enforcement cooperation and hope for its forthcoming signing.

As regards the fight against corruption, a joint project between Russia, the EU and the Council of Europe was launched in October 2013 to improve the protection of the rights of entrepreneurs from corrupt practices in the Russian Federation. This project is carried out with the Presidential Commissioner for protection of the rights of businessmen (Federal Business Ombudsman) and with the regional Business Ombudsmen.
The EU and Russia also work together to improve the protection of intellectual property rights, including in the context of the Customs Union. The fight against counterfeited products, and the establishment of a court for intellectual property are discussed. An agreement between Rospatent and the European Patent Office on joint patent classification was signed. Both sides have exchanged experience on the protection of Geographical Indications and Appellations of Origin. Rospatent and the Office for Harmonization in the EU Internal Market (OHIM) have undertaken a joint project on the classification of goods and services and on applications for trademarks.

5. Promoting people-to-people links and enhancing dialogue with civil society.

The EU and Russia have continued to implement the "Common Steps to move towards visa-free short-term travel of EU and Russia citizens", adopted at the December 2011 Summit. In 2013, the stage of mutual expert missions on all sections of "common steps" was completed. The Coordinators note that at the meeting of Permanent Partnership Council on Freedom, Security and Justice January on 17, 2014, both sides agreed on the necessity to intensify the implementation of the "Common Steps", considering in particular the recommendations and proposals worked out by the EU and Russian experts. In parallel, Coordinators expect an early conclusion of the negotiations of a modernized EU-Russia agreement on visa facilitation.

As regards people-to-people links, several programmes in the field of higher education (Erasmus Mundus, Tempus, Marie Curie, Jean Monnet) have attracted a number of Russian universities and developed exchanges between students and staff on both sides. Similarly, the programme Youth in action helps foster mutual understanding among younger generations. The Coordinators encourage further academic cooperation and are in favor of outreach events targeted at the business community and other stakeholders.

The P4M also aims at promoting links and building bridges between civil society actors. In this context, the Coordinators note the 4th General Assembly of the EU-Russia Civil Society Forum in The Hague on 5-7 October 2013, and the joint efforts of the European Economic and Social Committee and the Civic Chamber of the Russian Federation in promoting civil society cooperation in the social, economic and environmental fields.

The Coordinators encourage further civil society involvement and contribution to the EU-Russia Partnership for Modernisation.

III. Directions for future work

The wide scope of P4M, ranging from energy, trade and economic aspects to rule of law and people-to-people links makes it a unique tool supporting the EU-Russia strategic partnership.

At the P4M Conference on 15 November 2013 in Brussels, various stakeholders praised the contribution of the P4M to the widening of sectoral cooperation and to the improvement of business relations between the EU and Russia.

For the future, two directions were identified as particularly promising:

- **Regulatory convergence**: Building upon a successful experience in the field of goods, convergence in technical regulations deserves to be extended to other domains. This would greatly improve market access, for the benefit of consumers and entrepreneurs on both sides. Developments in the New Agreement negotiations and its wide agenda on convergence can be supported by targeted initiatives under the aegis of the P4M, in particular for sharing experience and know-how on sectoral regulations.
- **Rule-of-law:** Improvements in the Russian business climate are a pre-condition for attracting foreign direct investment, and for the blossoming of small and medium sized companies in Russia, a key to growth, job creation, and diversification of the economy. Initiatives to modernize the Russian judiciary system will increase confidence in the legal environment; while projects to shield entrepreneurs from corruption will encourage the creation and development of businesses. The P4M will support these efforts, in full consistency with the objectives of the Russian Federation to boost its attractiveness to business.

Cooperation in these fields is fully in line with the shared strategic vision to create of a *common economic space from Lisbon to Vladivostok*. The P4M Coordinators will develop a new Work programme that reflects the strategic partnership and furthers cooperation in the wide range of issues of mutual interest.

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