



Putin Speech at Davos World Economic Forum - Open thread

Posted by [Gail the Actuary](#) on February 3, 2009 - 9:09pm

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Russian Prime Minister Vladimir Putin spoke at the opening ceremony of the World Economic Forum in Davos, Switzerland a few days ago. His speech takes a conciliatory tone and emphasizes co-operation, possibly because Russia, like everyone else, is encountering economic problems. Part of Russia's problems are no doubt due to the lower price of oil and the lack of availability of credit. (As we have discussed earlier, most recently [here](#), all of these problems seem to be indirectly the result of world peak oil.)

Putin's speech includes comments on energy security and on actions Russia taking with respect to energy. As one might expect, much of the speech relates to the world economic crisis.

Below the fold are some excerpts. The full transcript can be found [here](#).

Putin's View of the Causes of the Current Economic Crisis

In the last few months, virtually every speech on this subject started with criticism of the United States. But I will do nothing of the kind.

I just want to remind you that, just a year ago, American delegates speaking from this rostrum emphasised the US economy's fundamental stability and its cloudless prospects. Today, investment banks, the pride of Wall Street, have virtually ceased to exist. In just 12 months, they have posted losses exceeding the profits they made in the last 25 years. This example alone reflects the real situation better than any criticism.

The time for enlightenment has come. We must calmly, and without gloating, assess the root causes of this situation and try to peek into the future.

In our opinion, the crisis was brought about by a combination of several factors.

The existing financial system has failed. Substandard regulation has contributed to the crisis, failing to duly heed tremendous risks.

Add to this colossal disproportions that have accumulated over the last few years. This primarily concerns disproportions between the scale of financial operations and the fundamental value of assets, as well as those between the increased burden on international loans and the sources of their collateral.

The entire economic growth system, where one regional centre prints money without respite and consumes material wealth, while another regional centre manufactures

inexpensive goods and saves money printed by other governments, has suffered a major setback.

I would like to add that this system has left entire regions, including Europe, on the outskirts of global economic processes and has prevented them from adopting key economic and financial decisions.

Moreover, generated prosperity was distributed extremely unevenly among various population strata. This applies to differences between social strata in certain countries, including highly developed ones. And it equally applies to gaps between countries and regions.

A considerable share of the world's population still cannot afford comfortable housing, education and quality health care. Even a global recovery posted in the last few years has failed to radically change this situation.

And, finally, this crisis was brought about by excessive expectations. Corporate appetites with regard to constantly growing demand swelled unjustifiably. The race between stock market indices and capitalisation began to overshadow rising labour productivity and real-life corporate effectiveness.

Unfortunately, excessive expectations were not only typical of the business community. They set the pace for rapidly growing personal consumption standards, primarily in the industrial world. We must openly admit that such growth was not backed by a real potential. This amounted to unearned wealth, a loan that will have to be repaid by future generations.

This pyramid of expectations would have collapsed sooner or later. In fact, this is happening right before our eyes.

Putin's Proposed Solutions to the Economic Crisis

In our opinion, we must first atone for the past and open our cards, so to speak.

This means we must assess the real situation and write off all hopeless debts and "bad" assets.

True, this will be an extremely painful and unpleasant process. Far from everyone can accept such measures, fearing for their capitalisation, bonuses or reputation. However, we would "conserve" and prolong the crisis, unless we clean up our balance sheets. I believe financial authorities must work out the required mechanism for writing off debts that corresponds to today's needs.

Second. Apart from cleaning up our balance sheets, it is high time we got rid of virtual money, exaggerated reports and dubious ratings. We must not harbour any illusions while assessing the state of the global economy and the real corporate standing, even if such assessments are made by major auditors and analysts.

In effect, our proposal implies that the audit, accounting and ratings system reform

must be based on a reversion to the fundamental asset value concept. In other words, assessments of each individual business must be based on its ability to generate added value, rather than on subjective concepts. In our opinion, the economy of the future must become an economy of real values. How to achieve this is not so clear-cut. Let us think about it together.

Third. Excessive dependence on a single reserve currency is dangerous for the global economy. Consequently, it would be sensible to encourage the objective process of creating several strong reserve currencies in the future. It is high time we launched a detailed discussion of methods to facilitate a smooth and irreversible switchover to the new model.

Fourth. Most nations convert their international reserves into foreign currencies and must therefore be convinced that they are reliable. Those issuing reserve and accounting currencies are objectively interested in their use by other states.

This highlights mutual interests and interdependence.

Consequently, it is important that reserve currency issuers must implement more open monetary policies. Moreover, these nations must pledge to abide by internationally recognised rules of macroeconomic and financial discipline. In our opinion, this demand is not excessive.

At the same time, the global financial system is not the only element in need of reforms. We are facing a much broader range of problems.

This means that a system based on cooperation between several major centres must replace the obsolete unipolar world concept.

We must strengthen the system of global regulators based on international law and a system of multilateral agreements in order to prevent chaos and unpredictability in such a multipolar world. Consequently, it is very important that we reassess the role of leading international organisations and institutions.

I am convinced that we can build a more equitable and efficient global economic system. But it is impossible to create a detailed plan at this event today.

It is clear, however, that every nation must have guaranteed access to vital resources, new technology and development sources. What we need is guarantees that could minimise risks of recurring crises.

Naturally, we must continue to discuss all these issues, including at the G20 meeting in London, which will take place in April.

Putin's Views on Energy Security

Three years ago, at a summit of the Group of Eight, we raised the issue of global energy security. We called for the shared responsibility of suppliers, consumers and transit countries. I think it is time to launch truly effective mechanisms ensuring such

responsibility.

The only way to ensure truly global energy security is to form interdependence, including a swap of assets, without any discrimination or dual standards. It is such interdependence that generates real mutual responsibility.

Unfortunately, the existing Energy Charter has failed to become a working instrument able to regulate emerging problems.

I propose we start laying down a new international legal framework for energy security. Implementation of our initiative could play a political role comparable to the treaty establishing the European Coal and Steel Community. That is to say, consumers and producers would finally be bound into a real single energy partnership based on clear-cut legal foundations.

Every one of us realises that sharp and unpredictable fluctuations of energy prices are a colossal destabilising factor in the global economy. Today's landslide fall of prices will lead to a growth in the consumption of resources.

On the one hand, investments in energy saving and alternative sources of energy will be curtailed. On the other, less money will be invested in oil production, which will result in its inevitable downturn. Which, in the final analysis, will escalate into another fit of uncontrolled price growth and a new crisis.

It is necessary to return to a balanced price based on an equilibrium between supply and demand, to strip pricing of a speculative element generated by many derivative financial instruments.

To guarantee the transit of energy resources remains a challenge. There are two ways of tackling it, and both must be used.

The first is to go over to generally recognised market principles of fixing tariffs on transit services. They can be recorded in international legal documents.

The second is to develop and diversify the routes of energy transportation. We have been working long and hard along these lines.

In the past few years alone, we have implemented such projects as the Yamal-Europe and Blue Stream gas pipelines. Experience has proved their urgency and relevance.

I am convinced that such projects as South Stream and North Stream are equally needed for Europe's energy security. Their total estimated capacity is something like 85 billion cubic meters of gas a year.

Gazprom, together with its partners – Shell, Mitsui and Mitsubishi – will soon launch capacities for liquefying and transporting natural gas produced in the Sakhalin area. And that is also Russia's contribution to global energy security.

We are developing the infrastructure of our oil pipelines. The first section of the Baltic Pipeline System (BPS) has already been completed. BPS-1 supplies up to 75 million tonnes of oil a year. It does this direct to consumers – via our ports on the Baltic Sea. Transit risks are completely eliminated in this way. Work is currently under way to design and build BPS-2 (its throughput capacity is 50 million tonnes of oil a year.

We intend to build transport infrastructure in all directions. The first stage of the pipeline system Eastern Siberia – Pacific Ocean is in the final stage. Its terminal point will be a new oil port in Kozmina Bay and an oil refinery in the Vladivostok area. In the future a gas pipeline will be laid parallel to the oil pipeline, towards the Pacific and China.

Also, with respect to Russia's internal efforts related to energy security:

A promising area for joint efforts could be the sphere of energy saving. We see higher energy efficiency as one of the key factors for energy security and future development.

We will continue reforms in our energy industry. Adoption of a new system of internal pricing based on economically justified tariffs. This is important, including for encouraging energy saving. We will continue our policy of openness to foreign investments.

Putin's Final Comments

Ladies and gentlemen, the international community is facing a host of extremely complicated problems, which might seem overpowering at times. But, a journey of thousand miles begins with a single step, as the proverb goes.

We must seek foothold relying on the moral values that have ensured the progress of our civilisation. Integrity and hard work, responsibility and self-confidence will eventually lead us to success.

We should not despair. This crisis can and must be fought, also by pooling our intellectual, moral and material resources.

This kind of consolidation of effort is impossible without mutual trust, not only between business operators, but primarily between nations.

Therefore, finding this mutual trust is a key goal we should concentrate on now.

Trust and solidarity are key to overcoming the current problems and avoiding more shocks, to reaching prosperity and welfare in this new century.

Thank you.



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