

PRESIDENT VLADIMIR PUTIN: Good day, dear colleagues,

You could say that our meeting today is now something of a tradition. Every year we get together here at the Kremlin to review the year's results. This year we decided to get together inside the Kremlin walls rather than outside, because holding a live broadcast involving a large number of people is not very convenient when it's winter outside. Our country is a cold place at this time of the year, after all. This does not mean to say we will no longer meet in the way we have done in the past, but rather, we will organise this kind of meeting at a more clement time of year. As for today, let us look back over the past year. For my part, I will answer any questions of interest to you.

But I shall begin, of course, with a summary of the year's results. Some of the figures you already know, while others will perhaps be new. Please forgive me if I repeat myself.

The first figure is well known. Of course, more precise calculations still have to be made but we expect that average GDP (gross domestic product) growth this year will come to an approximate result of 6.8 percent. This corresponds more or less to the average growth rates the Russian economy has seen over the last five years. Per capita GDP comes to around \$4,000 this year. This is more than double the result for 2002 and more than triple that of 1999.

Fixed capital investment in 2004 was up by more than 10 percent – a little less than last year but still not a bad result. Our imports of goods increased by almost 25 percent. We have had a record trade surplus of almost \$80 billion over recent years as we have been exporting almost twice more than we import. When I say that our exports have increased, I mean not only in terms of value but also in terms of physical volume. The country's gold and foreign currency reserves have increased by almost 70 percent and are now approaching the \$120-billion mark. This is a record result not only in the history of the Russian Federation but also in that of the Soviet Union.

One important fact to note is that our gold and foreign currency reserves now exceed the size of our state foreign debt for the first time. This means that Russia is now a net creditor. This economic growth we have seen has helped raise people's real incomes, that is, and I stress this point, real incomes not counting inflation and price rises. Real incomes have risen by 9 percent and pensions have increased by approximately five percent. Wages, according to various calculations – unfortunately, even I do not have the exact statistics – have increased by somewhere from 10-12.5 percent. We know for certain that they have increased at least by 10 percent.

Unemployment is down and the unemployment rate is now around 7.4 percent. But we should keep in mind that in absolute terms this still represents a large number of people – 5.5 million – and this is, of course, an issue that will require the government's ongoing attention.

The situation has been quite good in the area of state finances. We have had a federal budget profit for the fifth year in a row now. Our stabilisation fund has now reached a

total of more than \$20 billion. At the same time, state foreign debt has decreased since 1999 three times and its share of GDP has fallen from almost 60 percent to 20 percent.

One of our achievements this year has been that two world's leading ratings agencies have given Russia an investment-grade rating. These assessments do fully reflect the real economic situation. In previous years, our country received around \$4 billion a year in direct investment, but in 2003 that figure was up to \$6.2 billion and this year it comes to around \$10 billion.

This, of course, is still not enough, but there is a definite positive trend at work here.

These results will all enable us to move on to the next stage of resolving our social issues. As you know, the minimum wage is set to rise from January 1, 2005, from 600 roubles to 720 roubles. This will lead to a corresponding 20-percent wage increase for all public sector workers at all levels. The minimum wage is set to rise by a further 11 percent to 800 roubles from October 1, 2005. public sector wages will also rise by 11 percent. In nominal terms, we have planned to raise public sector wages by a third in 2005 with inflation of 8.5 percent, which will result in a wage increase of around 22.9 percent in real terms.

I must say that we began planning for these wage increases to take place over two years. The minimum wage should rise to 1,100 roubles by May 2006, which represents an increase of around 83 percent over 18 months. Of course, it would be good to go even further, but the trend, I repeat, is a positive one.

That is what I wanted to say just for start. Now I am ready to take your questions. Please, go ahead.

A. VERNITSKY (Channel One): Mr President, you have given us some of the year's economic results. What about the political results of the year? How do you see this year as having gone?

VLADIMIR PUTIN: This year was not an easy one neither for our country nor for the world in general. We know what a tense situation prevails in many regions, and not just in the Middle East or in Iraq but in other places as well. Despite the problems, however, the year is ending and it is ending on a positive note. Without any doubt though, I think that here, at least for me, and I think for practically all our people, events such as the tragedy in Beslan will have very much marked our memories of this year.

In this connection I want to say that we will continue to give the necessary attention both at home and on the international stage to fighting terrorism and strengthening our law enforcement agencies and our entire political system. You know about my proposed changes to the way the heads of the regions are elected. This law has now been passed. Of course, we still have to put in place the mechanisms in practice, mechanisms that would ensure a situation where the regional heads would feel their responsibility towards

the country as a whole while at the same time being sensitive to the problems of their regions.

Finally, we are moving towards a parliament that would be elected based on party lists. Here too there are issues we must work through in order to ensure that these new proposals will be of genuine benefit to the country in practice and will enable us to build a more balanced political system and encourage the development of a multiparty system in the Russian Federation.

A. TUMANOV (Vashy 6 Sotok newspaper [gardening publication]): Mr President, at the last press conference I was also sitting here in the front rows and I asked you, if you remember, about people who keep gardens and vegetable plots in the country. On that occasion you gave a lot of figures and said how much agricultural produce all these people actually produce on their plots of land. You know all the facts and were well prepared. I don't know if you have been informed or not, but the situation today is that...

VLADIMIR PUTIN: I also used to work in the vegetable plot.

A. TUMANOV: Yes, you spoke about that.

VLADIMIR PUTIN: At least, my parents were very active gardeners.

A. TUMANOV: You were very widely quoted after you said that you had to "slave away" in the garden.

VLADIMIR PUTIN: Did I say that?

A. TUMANOV: Yes, you did indeed.

But anyway, the situation now is that bureaucrats have got gardeners and vegetable plot-owners in such a tight squeeze that people are just abandoning their land, abandoning their gardens. The problem is that if you own a plot of garden land, it's impossible not to end up selling and whole garden cooperatives are abandoning their land now.

VLADIMIR PUTIN: Why?

A. TUMANOV: Because it's all so expensive these days. Transport costs are expensive and the bureaucrats are imposing every sort of tax imaginable. They have decided to start protecting the environment. And how do they protect the environment? Impose taxes, and that's as far as it goes. It isn't profitable anymore to keep a garden. But there's nowhere for people to turn to. The miners have somewhere to turn to, the Orthodox have somewhere to turn to, but gardeners have nowhere to go, not a single organisation to represent their interests. Now you are setting up this Public Council and we have some hope that maybe there will be someone there who can somehow represent the interests of gardeners and vegetable plot-owners. Maybe a new law will be passed. What interests me is how will this Public Council be formed? I have read the law, but the thing is that there

are rumours now that the Public Council will be composed of officials who have somehow caused displeasure and that it will serve as a place to get rid of them, a sort of exile for them.

VLADIMIR PUTIN: No, we haven't planned any such exile.

Concerning people who keep gardens and their activities, you said some very telling words when you stated that "it isn't profitable anymore". It is becoming unprofitable and, of course, with energy and transport costs on the rise, it is not easy, all the more so for the elderly people who make up a large number of those involved in gardening. But it is also becoming unprofitable because there are ever more goods on the market, and often quite profitable products at reasonable prices. In the end, it becomes more expensive to grow your own household vegetables than to buy the same vegetables from wholesalers. But I do think nonetheless that the state should think about how to support these activities.

We will most probably talk today about benefit payments. As you know, a social benefit package of 450 roubles has been planned, but in reality it will mean better figures because this also involves rail transport, suburban rail transport and suburban transport in general. I hope that this measure will improve the situation somewhat, though I do not rule out that the Public Council and also the State Duma will have to look into the matter you have raised in more detail.

A. GAMOV (Komsomolskaya Pravda newspaper): Mr President, just as important an issue as gardens is that of administrative reform. How do you conceive administrative reform? In what ways have your hopes been fulfilled and in what ways not? And why, in your view, is administrative reform progressing so slowly in the cabinet? Thank you.

VLADIMIR PUTIN: Administrative reform is progressing slowly not just in the cabinet but in the country as a whole. Overall, I am ready to share a smile with those of you who hoped for great and radical change and have not seen this change, great and radical, take place. But let's take an objective look at the situation. Over a very long period in its history this country existed and developed as a super-bureaucratic economy and a super-bureaucratic state where officials gave themselves the right to decide everything for everyone. This became part of life not just in the minds of the officials themselves but in the minds of the people in general, even those who had nothing to do with the bureaucracy. Everyone became accustomed to waiting for the bosses to make the decisions. It is true that administrative reform is not a rapid process, but we are moving in the right direction, I think. Of course, the government has not done enough yet, but it has begun moving in the right direction.

The question now is what to do to keep moving in this direction? We need to work out assessment criteria for the authorities' performance at the different levels of power, from the federal government down to the municipal officials. As has been said on many occasions in the past, we need to base our assessment not on how much money this or that body receives, but on what results its work achieves. I hope we will come back to this, but at any rate the principle is that we should not pay for the mere fact of a body's

existence but for the quality and amount of service it provides to the population. The government is currently working on the complicated task of drawing up these criteria for all different sectors, including in law enforcement. That is the first point.

Second, one thing we absolutely must do if we are to achieve any real success in this area is, as I have said in the past, to gradually withdraw the state from areas of the economy where its presence is not justified. This, incidentally, is one of the main thrusts of the fight against corruption.

G. ANISONIAN (Noyev Kovcheg [Noah's Ark] newspaper): Mr President, today more than ever it is clear that we need to pay particular attention to Russia's policy regarding the countries of the South Caucasus, in particular Armenia, which is essentially under blockade. How much of a priority is this in Russia's foreign policy? Thank you.

VLADIMIR PUTIN: Russia has been present for centuries in the Caucasus in general, in the North Caucasus. Of course, Russia also has interests in the South Caucasus. Naturally, these interests have to be coordinated harmoniously with our friends and colleagues in Georgia, Armenia and Azerbaijan. We have an active policy in this area. Armenia is one of our strategic partners. You know that we have practically no problems at all in our bilateral relations. There is the problem of settling the Karabakh issue. We have formulated our position on this issue as on other issues of this kind. I can state it once again.

We are willing to act as mediators and as guarantors of agreements that may be reached and that I hope someday will be reached between the parties to this conflict, in this case Armenia and Azerbaijan. We do not want to become an unwelcome partner for one or other side in the long term. We do not want to take on this responsibility. The countries concerned must reach their own agreement and we will act as guarantor and mediator.

As for other areas of our relations, economic relations, for example, they are developing quite well. Armenia has taken some real steps towards Russia and Russia likewise towards Armenia. I am thinking here of the settlement of all our debts and their conversion into corresponding investment. I would like the governments of both countries to be more energetic and strive for even greater success. But we are heading in the right direction. Also, Armenia is one of our partners on the international stage as well; I am no longer talking about the South Caucasus here, in general, we have always coordinated our foreign policy efforts quite effectively. I would be pleased to see relations with Armenia continue to develop in this way in the future. We have a military base there and it is functioning well. The main thing is that the local people are happy with its activities. Many people have found employment at the base and it will continue to operate.

V. TEREKHOV (Interfax): Good afternoon, Vladimir Vladimirovich, I have a question about the energy companies. They are a component part, perhaps the most important part, of our economy and social development. In this connection my question will contain three sub-questions.

First. Do you think our energy companies bear a sufficient social burden? In other words, do they take part in solving burning social issues in the country?

Second. Are our minerals used correctly, according to science principles, rather than take now, make profits, with no thought for tomorrow?

And third. Naturally in the wake of serious events that occurred tonight, when Nefteyugansk passed into the ownership of a state company. Will you comment on all this?

VLADIMIR PUTIN: What was the second sub-question?

V.TEREKHOV: The first dealt with social matters. The second with the use of minerals, whether it is predatory or not.

PUTIN: I see.

Now concerning the burden on our energy companies. After a series of decisions this burden was redistributed, not in favour of the energy companies. In general, they are performing well, making progress, increasing their capital and developing at a good pace. All our energy companies – I wish to emphasise this – have increased their production. If memory serves me correctly, the oil companies raised their output by 5.2%, and the gas ones, I think, by 3%. And all of them have stepped up supplies of energy resources to foreign markets.

So the overall growth pattern is very positive. Following the adoption of a series of decisions designed to give priority development to the manufacturing in the economy, the tax burden was slightly redistributed. Not a great deal, but, I repeat, not in favour of the energy companies. The burden on them increased, and so, naturally, did their contribution to the national budget, a contribution which was and remains very high.

As far as the modern production techniques are concerned, I consider your comment is just. Companies, on the one hand, and the state, on the other, must see to it that production methods are not of a so-called colonial type when, as you justly remarked, you grab the tops and leave the roots. But to a considerable extent this responsibility rests with the state and, I repeat once again, with supervisory state agencies.

And lastly, both the state and the companies should pay more attention to mineral prospecting. These minerals are not inexhaustible, but I think, no am sure, that Russia's potentialities here are underestimated. We should focus more energetically on exploration and opening new deposits, especially in Eastern Siberia. There are no particular concerns about currently available resources, because, even according to the most averaged data, what has been explored, bearing in mind the rate of its exploitation, can be used for a comfortable 45 to 55 years. And that without any serious and active prospecting. But, I repeat, it is happening. And I would like to see it intensified. This is the main thing. Here

both the state can give an impetus, and the companies themselves are perfectly aware of this, I think.

Now regarding the acquisition by Rosneft of the well-known asset of the company – I do not remember its exact name – is it Baikal Investment Company? Essentially, Rosneft, a 100% state owned company, has bought the well-known asset Yuganskneftegaz. That is the story. In my view, everything was done according to the best market rules. As I have said, I think it was at a press conference in Germany, a state-owned company or, rather companies with 100% state capital, just as any other market players, have the right to do so and, as it emerged, exercised it.

Now what would I like to say in this context? You all know only too well how the privatisation drive was carried out in this country in the early 90s and, how, using all sorts of stratagems, some of them in breach even of the then current legislation, many market players received state property worth many billions. Today, the state, resorting to absolutely legal market mechanisms, is looking after its own interests. I consider this to be quite logical.

E.ORLOVA (Volga television company, Nizhny Novgorod): Next year Russia will mark for the first time the Day of National Unity to commemorate the liberation of Moscow by Nizhny Novgorod militias. Are you not going to visit Nizhny Novgorod to celebrate the holiday with its population?

And another small question. You have already touched upon the subject of administrative reform. But a number of State Duma deputies are proposing their own procedure for appointing officials, including the mayors of large cities, for example, Nizhny Novgorod. What do you think about this initiative? Thank you.

VLADIMIR PUTIN: Thank you for your invitation to visit Nizhny Novgorod. It would give me great pleasure to visit this city on the holiday and on ordinary days. Nizhny Novgorod is one of the largest cities in Russia. It is a major metropolis where many industrial facilities are concentrated, and it is an extremely interesting and beautiful city in general. I have been there and would love to go there again.

As to appointing city mayors, first, I believe we must remain within the framework of current legislation. Second, we must be careful not to break the balance between people's political activity and the state's role and power in this sphere. Current legislation ensures this possibility.

As to municipal authorities. If people living in a certain area believe they should organise their local government bodies and municipal authorities to ensure better interaction with the governor and thereby a better approach to addressing social issues, we believe they can seek extra assistance from, for example, the regional budget to resolve education, health care and social security issues. In that event they can hold a referendum and choose a different approach to forming municipal bodies. For example, they can opt for arrangements similar to the gubernatorial ones, direct appointment arrangements or some

others. However, the current system must not be amended without the relevant decision from the people living in the area in question. This is the first point.

Second, the governors do talk about the need to have greater influence on capital cities, or rather large regional centres. However, they do not seek, and they have never asked me about this, jurisdiction over all municipal bodies. They do not need this, as this will overload the regional government level, which is something nobody wants to see happen.

A. PASMURTSEV (Suvorovsky Natisk newspaper issued in the Far Eastern Military District, Khabarovsk): Vladimir Vladimirovich, you have emphasised many times that a highly professional army alone is capable of ensuring national security in the 21st century, including countering terrorism in the North Caucasus and, probably, in other regions. However, the job of the professional military, both soldiers and officers, particularly those who carry out their military duty in Russia's remote areas, must be appreciated appropriately in terms of remuneration and social guarantees.

What do you think must be done, probably in the near term, to resolve these pressing issues?

VLADIMIR PUTIN: Of course wages should be raised! And we must settle the housing problem as well. These are two major problems. First, we shall continue work to create a professional army. I should say, and this is no secret, that we are not seeking to have a completely professional army. However, combat ready units must be professional. The chief objective in the first phase is to stop sending conscripts to serve in "hot spots," including, and above all, in this country. I mean the North Caucasus, Chechnya.

From January 1, 2005 there will be no soldiers drafted by the Defence Ministry serving in the Chechen Republic. Starting from January 1, 2006, there must be no conscripts serving in the Interior Ministry troops. The 42nd division deployed in Chechnya becomes fully professional, while by late 2007 we must have all combat ready units transformed into professional ones.

If a contract serviceman (a private) in the North Caucasus, or Chechnya, to be more precise, gets 12,000-15,000 roubles a month, then servicemen in other regions of the country will get half of this sum or even less. This is too little.

We discussed this issue in detail at a recent session of the Security Council. The defence minister is most energetically raising the issue in the government and with me, of course – it would be strange if he did not. The economic block of the government has been set the task to solve this problem so that servicemen, as we agreed before, would not differ from civil servants in terms of remuneration, or would even get slightly more. This is the first point.

Second, about housing. You know that we have drafted a new mortgage system, primarily for Defence Ministry servicemen. I hope that it will work; there is no reason to think that it will not. It will work. As for those who are not covered by this scheme, who

have served for a long time in the army, there is no alternative to allocating housing to them by the old rules and to grant additional funds for the construction of service housing.

We shall tackle all these problems.

V. ROMANENKOVA (ITAR-TASS): The government recently held a very difficult session, in particular on doubling GDP. Are you satisfied with the work of the cabinet and the premier? Can you describe them as a team, as Putin's team? What ideas do you expect from them next year? Thank you.

VLADIMIR PUTIN: I think that I have a team there and a team here. I expect you to support everything good that is being done in the country, at the very least, and to constructively criticise the mistakes we make and sometimes fail to notice. The government has given you a wonderful chance to see how it works, from the first minute to the last.

I do not think it was a very sound decision, because it is very difficult to work in front of the cameras. When the cameras are on, you want to look good but your head turns off. So, I hope that the government will conduct part of its work, its weekly sessions behind closed doors – not because it may have secrets from you, but so as to discuss and debate problems openly and frankly, probably arguing more heatedly than when you tape their sessions. I see nothing terrible in these disputes. I think they [the cabinet] are people who think in the same frame. And there is nothing strange in the fact that the cabinet members want to achieve common goals but have different approaches to how to do this. On the whole, they are people who think alike, in the same categories, and in this sense they are certainly a team.

As for yesterday's agenda, I am perfectly sure that the country needs everything the government prepared for a mid-term programme. What do I mean? Look at the documents that were drafted and approved as the basis [of the programme] yesterday. They are concerned with ensuring property rights, the need, as I have said here, to elaborate new criteria for assessing the work of the executive authorities, and to provide funds based on end results in the case of budget-financed organisations. In fact, the idea is to reform the health service and education, to diversify the Russian economy and propel it towards innovative development, and to continue reducing the tax burden, not to mention the reduction of the unified social tax. This is a serious reduction from 38% to 26%. It is a very big cut.

But the programme also stipulates the need for more clear criteria for collecting VAT in capital construction, which is crucial for investment as such. The mid-term programme sets major social tasks, such as reducing poverty. The number of people below the poverty line fell from 22% to 18% this year. The figure was 30% in 2000 and 2001, which means that this is a positive trend. And yet, it is too high for Russia, which has rich economic and intellectual resources. The programme also mentions the growth outlook for the middle class. And the number of people below the poverty line must be cut to 5%.

It also speaks about the development of the mortgage system, which actually means the solution of the housing problem that hung over the Soviet Union throughout its history and is bothering us to this day. The current figures show that 40,000 mortgages have been granted this year. The task is to increase them to a million within two to three years, which I think is a realistic task.

You know that yesterday the government approved a block of laws on this issue – the new Housing Code and the Code of City Designing and Building, which are designed to de-bureaucratise the system of granting land plots. I view this as an element of combating corruption, at least in the crucial housing sector. A number of other laws were adopted, including, I think, seven laws on mortgages. But all of this has been incorporated in the mid-term programme which the cabinet debated yesterday in your presence. I think the country needs this document and hope that it will be approved without delay.

QUESTION: (Japanese agency): Vladimir Vladimirovich, a question about the peace treaty with Japan. Foreign Minister Sergei Lavrov has proposed resolving the territorial issue by transferring two islands to Japan on the basis of the 1956 Declaration, whereas Japan wants four.

VLADIMIR PUTIN: In fact, we have got even more of them.

JAPANESE AGENCY: Is a compromise possible? What is your position? And when are you going to visit Japan, before or after May 9, Victory Day? And if a compromise is not reached, will you cancel your trip to Tokyo? Thank you.

VLADIMIR PUTIN: Above all, I would like to say that our relations with Japan are developing, in my view, very well. Our trade turnover is growing. We maintain regular contacts at the political level. And it is very painful for us that the peace treaty issue remains unresolved, because it is in both Japan's and Russia's interests to find solutions as soon as possible to all the problems interfering with the development of our relations. I repeat: I am convinced that Japan is no less interested in this than the Russian Federation, given the interest of both Russia and Japan in developing primarily economic ties.

As to the statement from our minister of foreign affairs, then as far as I understood, he did not put forward any islands. (Applause). Why are you applauding? He mentioned the 1956 Declaration. Mr Mori and I studied this document in detail and I have a clear recollection of what is written there. I try to read the documents with which I have to work.

The 1956 Declaration was ratified by the Soviet Union, and it was ratified by Japan. Therefore, I find it somewhat strange that you say to me today 'We do not want two islands, we want four.' What for was the document ratified then? The Russian Federation is the legal successor to the Soviet Union and we, of course, shall try to honour all the international-legal commitments that the Soviet Union assumed, however difficult this may be for us. The Soviet Union received four islands or, as we say, returned four

islands, because we considered always them ours after World War II. The Soviet Union signed the 1956 Declaration and ratified it.

Article Nine reads that an obligatory preliminary condition for a potential transfer of the two islands is the conclusion of a peace treaty, which clearly means resolving all further territorial disputes. If Japan ratified this Declaration, why is the Japanese side raising once again the issue of the four islands? This is the first point.

The second point is that I, as a person with a legal background, would turn your attention to the wording. It is stated there that the Soviet Union is prepared to transfer two islands. No mention is made of the terms on which to hand over, when to hand over, and whose sovereignty extends to these territories. These are all matters for our close scrutiny and joint work with our opposite numbers and, I would say, friends from Japan. Because, it is only with such a level of relationship and by maintaining friendly relations that one can solve such complex issues inherited from the former times.

I.MAXIMENKO (Peterburg television company): Good afternoon, Vladimir Vladimirovich. In a recent interview, Mr Kwasniewski said that the United States would prefer to have a Russia without Ukraine, than a Russia with Ukraine. Will you comment on this remark? And what is your opinion?

VLADIMIR PUTIN: You see, my fellow townspeople are asking the right sort of questions.

I was extremely surprised when I saw this interview with Aleksander Kwasniewski. Aleksander and I are on very good terms. He is an experienced person. He is still remembered in Russia, not by me personally, but by others from joint Komsomol work. I have the impression this remark was made not by an incumbent president, but by one who is seeking a job because his powers are expiring soon, because I do not think this remark was correct. First, for the serving head of a state – a very reputable state respected across the world and our neighbour – to comment on the policy of another country is not very apposite, in my view. But, of course, we took note of what was said. What does it mean a Russia without Ukraine is better than a Russia with Ukraine? To begin with, as you know, we are developing relations in the post-Soviet space in an exclusively civil and proper manner. Russia did not take the Yugoslavian path. Russia did everything for the post-Soviet states to gain an independent foothold. We are developing relations with all our friends and partners in the former Soviet Union not just at the level of good-neighbourliness, but on the basis of true equality, with complete respect for the past and future of these countries, with responsibility for the future development of our inter-state relations. If it is said that a Russia without Ukraine is better than a Russia with Ukraine, we need ask what is meant by this.

I repeat, we were not going to annex anyone. That is the first point. Second, if this is read as a wish to curtail Russia's scope for developing its relations with its neighbours, it means a desire to isolate the Russian Federation. I do not think this is the purpose of American policy, although we will have a meeting with President Bush, it is scheduled

for the near future, in the New Year, and I will certainly ask him if this is really the case. If it is, then the position on Chechnya becomes more understandable. This means that there too they are following a policy to create elements rocking the Russian Federation.

But it seems to me Poland has things to attend to at home: unemployment there is running at 20% (I said we have 7.4% and Poland, 20%). In 1993, Poland's sovereign debt stood somewhere at 47-plus billion dollars. For political reasons, it was cut back by 50%, but today Poland has already run up a debt of 92 billion euros – this is more than 100 billion dollars, considering the euro-dollar exchange rate. "You should think closer to home," as they say in a well-known joke.

P.PAUTOV (state television company in Omsk): Mr Putin, I want to follow up that question. In Omsk you met President Nazarbayev and know how our border territories are interested in cooperation. What has been mentioned now is also a cause of great concern. Please comment on the Kazakhstan dimension in EurAsEC as a whole.

Thank you.

VLADIMIR PUTIN: Please specify what causes your concern?

P.PAUTOV: My concern is that there are attempts to subjugate Russia's interests in the post-Soviet space to someone other's interests. We are very enthusiastic about cross-border cooperation. Thank you.

VLADIMIR PUTIN: Thank you for your question.

Indeed, you know that as far as all post-Soviet space is concerned, I am concerned above all about attempts to resolve legal issues by illegal means. That is the most dangerous thing. It is the most dangerous to think up a system of permanent revolutions – now the Rose Revolution, or the Blue Revolution. One should get used to living according to the law, rather than according to political expediency defined elsewhere for some or other nation – that is what worries me most. Certain rules and procedures should mature within society. Of course, we should pay attention to, support and help democracies, but, if we embark on the road of permanent revolutions, nothing good will come from this for these countries, and for these peoples. We will plunge all the post-Soviet space into a series of never-ending conflicts, which will have extremely serious consequences.

You know – I may be digressing but I will take the opportunity offered by your question – I am troubled by these double standards we so often talk about. What do we mean when we speak about double standards? There will probably be other questions about relations with the United States and the European Union, but nevertheless I will take your question as the point of departure. You know there is much talk about elections, Ukraine's elections, and incidentally I mentioned them, and am going to repeat my words again, as there are many journalists here, including foreign journalists.

Afghanistan held elections. We know these were the first elections there, and we supported them, they were essential. But was everything all right there? Sackfuls of fingerprints from the voters had been collected across the country, and according to our information, they were brought in for two or three weeks even from Pakistan. Who did the counting, who compared and checked the fingerprints? Who did all this? First it was said the ink was indelible, but the opposite turned out to be true. Okay, let it be, for God's sake.

Kosovo also had elections. Over two hundred thousand Serbs fled their homes and were unable to take part in the elections – and that is okay, the elections were democratic. Perfect!

Now Iraq is preparing to go to the polls. Perhaps things will not go so far, but the initial idea was that the OSCE would monitor the ballot from Jordanian territory. But this is a farce. Do you understand? Everything has been turned upside down.

But when we proposed monitoring elections in the Chechen Republic – no, they said, this cannot be done, because the conditions are not ripe, although hostilities ended a long time ago, and there are bodies of authority and administration. And with Iraqi territory 100% occupied, it is possible to hold elections! Between June and November in Baghdad alone, 3,500 civilians were killed, while in Falluja no one calculated the death toll. According to our information, just yesterday fighting raged in nine cities and large populated areas – indeed, the conditions are normal, and people can go to the polls. But not in Chechnya! We consider it unacceptable to approach in this way the solution of issues of interest to everyone.

There is a lot of talk about human rights. Take Macedonia. The European Union has suggested that in southern Macedonia, where 20% of the Albanian population reside, they should take part in the work of bodies of administration and authority in the same ratio, no less than 20%, including in law enforcement and the police. Romania is now preparing to join the European Union, and it, too, is given about the same terms on ethnic minorities. Is that good or bad? I think it is good and correct. But when we say to our counterparts: Look, Riga's population is 60% Russian, let us introduce the same standard there. 'Oh, no, the situation is different', they say. But what is different? Are people second class there? What is different about the situation? It is high time to stop mocking common sense.

As far as EurAsEC is concerned, I should say that we have focused and will continue focusing on the development of relations with our closest neighbours in the economic sphere. EurAsEC is an organisation that provides a good basis for integration processes in the former Soviet republics, and has prepared the creation of another structure – the Common Economic Space – something Russia, Belarus, Kazakhstan and, as of today, Ukraine (however, we should wait and see whether it will retain its plans after the elections) are resolved to promote. At any rate, we hope that these trends will be maintained and we shall continue this joint work.

D.LEWIS (FOX television): Mr President, can I ask you a question? You have entered your second presidential term, as has President Bush. Do you think your relations have changed ahead of your meeting next year? Do you think your relations are progressing?

And one more question. Washington's criticism in relation to your adherence to democratic principles, will it influence your upcoming meeting with President Bush next year?

VLADIMIR PUTIN: I am satisfied with the way our relations with the United States as a whole are developing. The United States is one of our priority partners. We have implemented a great deal of joint projects in the economic sphere. We are, undoubtedly, partners in addressing a series of pressing modern-day issues, above all in countering terrorism. I would even say we are more than partners, we are allies in this sphere. The United States and Russia are the biggest nuclear powers, and therefore, we bear a particular responsibility in terms of arms control and the non-proliferation of the weapons of mass destruction. These underlying issues that make the core of our relations with the United States must not be forgotten against the backdrop of recent momentary, scandalous developments that are tactically designed to attract public attention. I believe these issues, our countries' national interests make the basis of the relationship between President Bush and myself. Our opinions do not always coincide, and we have acknowledged this in public on many occasions, but I trust him completely as he is my partner, and I know that if we reach an agreement, he will work to implement it. I do the same myself.

As to our differences on certain issues, for example, the US administration or public's attitude to political processes in Russia, I should say that we are not happy about everything that is going on in the United States either. Do you think that the US electoral system is absolutely flawless? Shall I remind you of some election (scandals) in the States? Do you know that the OSCE commission that monitored elections in Ukraine, Afghanistan and the US made similar, organisation-related claims to the US. For example, the OSCE criticised American organisers for preventing monitors from visiting some polling stations. There were even instances of voter intimidation. As to the accusations of disproportionate, unequal access to the media, I believe incumbent politicians always have an advantage, as they are more often shown on television while carrying out their duties. Is this not clear? Everybody understands it is. We do heed constructive criticism, but do not pay attention to instances of, as they say, muddying the waters.

M.SIMONYAN (Rossiya channel): Vladimir Vladimirovich, your presidential term expires in a little more than three years. What are your post-presidential plans? Are you thinking about this already? For example, will you stand for president in 2012?

VLADIMIR PUTIN: Why not in 2016? I will hopefully remain in good shape.

SIMONYAN: And in 2016.

VLADIMIR PUTIN: Of course, I am thinking about my life, my private life after 2008. But now I am, certainly, not thinking of standing for the high position of the President of the Russian Federation in 2012, 2016 or even later. However, I am thinking about how we will pass the critical line of 2008. It will be a kind of milestone for the country. We must do everything to ensure democratic presidential elections.

V.SMEYUKHA (Kubanskiye Novosti, Krasnodar Region): Vladimir Vladimirovich, Kuban has found itself in between two “citrus” revolutions. Many statesmen, among them Krasnodar Governor Alexander Tkachev, have spoken out on the matter, particularly on political developments in Abkhazia. Does Moscow intend to use its influence to determine Abkhazia’s status after the presidential election there? Thank you.

VLADIMIR PUTIN: But I am told here that today is the birthday of governor, Alexander Tkachyov. Send him my warm greetings and congratulations.

As to Abkhazia, it is a territory and it is a nation with whom we are bound by relations dating back centuries. We proceed from the thesis of Georgia’s territorial integrity. But we consider that all points at issue, including acute issues like the Abkhazia or South Ossetia, should be settled peacefully, through negotiations with the interests of all the peoples living on that territory taken into account.

Let us not forget... Look, why should we pretend not to notice processes going on in the world and in Europe? Yugoslavia has disintegrated, and the entire world has recognised the new independent states. Everyone said repeatedly: no to Kosovo’s independence, Kosovo will never be independent and should remain part of Yugoslavia. But what is going on in practice? Kosovo has seceded in fact, and everybody pretends that they do not see this and have heard nothing about this. They agree to it. I would like to repeat once again that we are in favour of Georgia’s territorial integrity, but on the condition that the interests of all people living on its territory are taken into account. We shall develop our relations with Georgia and shall hope that we can use our influence and our friendly relations that are developing with the Georgian leadership, as well as the traditional relations of friendship with Abkhazia, to ensure that the conflict is resolved. And as regards the political situation in Abkhazia, we welcome the political understandings reached recently between the political forces there, and we proceed from the fact that the situation there is returning to normal and, which is the main thing, that people there will no longer suffer from these political cataclysms. The territory is small, and so is the population, and they have a very vulnerable economy. We are prepared to be close and support the development of that economy.

R. NIKURADZE (Georgian TV company Rustavi-2): You mentioned double standards. Would you, please, explain to me how you could send to Abkhazia Deputy Prosecutor General Kolesnikov and other senior officials contrary to international law and principles, thereby predetermining the election results in Abkhazia and evoking the anger of not only the Georgian leadership but also of the whole West? Thank you.

VLADIMIR PUTIN: You said “not only the Georgian leadership but the whole West.” You at once combined all the Georgian leadership with the West. Is this because it gets its salary from Soros? But I think this is not the point. The point is a desire to use some levers of power to solve the problem. If we are talking about this, then we are against, as I have already said, this way of resolving conflict issues.

As for the trip by the officials, I will not pretend that they were there solely as private individuals. But all our actions were designed to settle the internal political conflict on that territory. At the same time, already replying to the question put by your Russian colleague, I have said and want to confirm this that for Georgia, in my view, the most important thing is that we are in favour of maintaining the territorial integrity of Georgia and we proceed from this. It is unlikely that Georgia wants an armed conflict to break out in Abkhazia. Who wants this? Is Georgia interested in this? Of course not. So, we proceed from this. The fact is not that we work against Georgia, in trying to resolve the situation there, but we work to provide conditions for solving this difficult conflict problem between Georgia and Abkhazia in the future. This is the first point.

And second point. With these actions – I absolutely disagree with you here – Russia in no way anticipated the results of the elections. What did our mediators between the different sides in the domestic conflict achieve? They only prevented a possible armed conflict and pooled their efforts. What is bad and what is anti-Georgian in this? I don’t see anything of the kind.

V. KONDRATYEV (NTV): Vladimir Vladimirovich, I would like to go back to Russia’s domestic affairs. You touched upon the question of a multi-party system in Russia. In this connection I have this question to ask you. You said that you were not going to represent any party primarily as a non-partisan president. But your successor will possibly adhere to the same position. So, will not a construction created in Russia, when political parties are in fact denied the possibility to form power bodies, both presidential and governmental ones, be maintained in this way? In this connection I would like to ask you whether you have plans, in the process of the continued development of the multi-party system, to head or to join any political party? If United Russia does not satisfy you in some way, may be it would be worthwhile thinking about forming a new party under your leadership?

VLADIMIR PUTIN: Is it a proposal?

V. KONDRATYEV: It is a question.

VLADIMIR PUTIN: I believe today the president in Russia is not only the guarantor of the Constitution, but also a moderator in various disputes between parties. An institution of power, a stabilising element in the country. Therefore, I do not think it is time for the president to become a member of a party. However, I do not rule out that this may happen in the future.

As for me personally, I certainly think about different models, but have not come to a final decision yet.

Y.VOLISOVA (Seti-NN TV Company, Nizhni Novgorod): Vladimir Vladimirovich, do you not think that your latest initiatives to appoint governors and increase membership in parties somehow undermine democracy in the country and reduce people's opportunities for participating in democratic reforms?

VLADIMIR PUTIN: As far as democracy in the country is concerned, it is well known that democracy means power for the people. Long ago it existed in ancient Rus in a direct form (both in ancient Novgorod and in Pskov). It was the so-called popular assembly, or Veche, when everyone gathered on a square and decided their key problems together. But today we cannot gather together 145 million Russians, so that he who shouts the loudest will be right. This was the case in the Novgorod Veche, but today it is impossible.

Every country chooses a path for development which is best for it, including the organisation of its political system so that people have an opportunity to influence decision-making. Let's speak frankly: today governors are elected, but are they so dependent on people who elect them? Of course, they need to go to elections and they have to think about this. But with modern election methods, unfortunately, this system in this country, as well as in many other places, does not work very effectively. And how to ensure that a governor, as I have already said here today, is sensitive to regional problems, but at the same time closely connected with national interests is a complicated question.

I believe that it is an optimal decision, taking into account the vast territory of the Russian Federation, the huge number of nationalities and ethnic groups on our territory with their own ways of life and political traditions, as well as, unfortunately, the threat of terrorism and disintegration.

You know, for example, in Dagestan, with a population of two million and over 33 ethnicities, with four or five out of them considered major ones, we have for decades witnessed the following situation: if a representative of one ethnicity is head of the republic, then head of the government must represent another ethnic group, and head of the parliament a third one. People there watch closely even which ethnic group holds the seemingly secondary posts of heads of departments and agencies. It is similar to what we see in Lebanon. But this has been this case for decades and the system is unlikely to work effectively otherwise, for then representatives of this or that ethnic group will feel offended and removed from power. But we cannot use one system for one constituent member of federation and a different one for another; we must have a single system for everyone. I repeat once again, I believe that the proposed system, when local legislatures, elected by direct secret ballot by a region's population, vote for a governor proposed by the president, is optimal with view to Russia's territory, many ways of life and many ethnic groups living in the country. Still less does it violate the fundamental principles of democracy established in the Constitution of the Russian Federation.

N.GORBUNOVA (RIA Novosti): I will develop my colleague's question. At last year's press conference you said that one of Russia's problems was a lack of genuine modern managers. What is the current situation in this respect, who are the potential replacement, where will you, the authorities, find 89 highly professional honest governors?

VLADIMIR PUTIN: But they have been found somewhere, we do have them now. Of course, there is a certain danger that you have rightly pointed out: will it be too bureaucratic? Will some Moscow structures simply offer unacceptable, useless or maybe even harmful governors for a region? But I proceed from the premise that the candidates must be approved by local parliaments. After all, this is quite serious. I cannot vouch for absolutely every regional legislature in the country, but I know many of them and you cannot think they are a soft touch. If a person is unacceptable, deputies will never vote for him.

So we should elaborate the system of forming regional governments through a system of electors, whom the people will elect by secret ballot. The role and significance of regional parliaments will grow substantially because of this. As for the search for candidates throughout the country, after the last government reshuffle only 38 of the 83 top government officials retained their positions, as far as I know. So, [the remaining 45] have been found somewhere? I think that if we introduce a system of selection by competition, other modern systems of searching for and training human resources, we shall certainly find enough professional, honest and patriotic people in such an intellectually rich country as Russia. I think there are enough of them.

A. BARSHCHEVSKAYA (TVC): A famous Russian writer wrote 150 years ago that Russia had two problems: fools and bad roads. I am not going to ask if we have solved these problems. I think Russia has one more serious problem, corruption. This question may be a repetition of what you have said above. Still, what is your vision of solving this terrible problem?

VLADIMIR PUTIN: First and foremost, the state should withdraw from the economy where its presence is absolutely unjustified, where officials get the so-called status rent, meaning taking money just for holding their seat, where they hinder the development of small and medium business, and so on. This certainly is a complicated task, because everything has always been done at the level of bureaucrats in Russia, which had a planned economy. But we must tackle this problem. These fundamental changes should be accompanied by reforms in law enforcement, the selection of personnel – which we have already discussed, and by raising the prosperity of officials so that they value their job.

You know that we have greatly increased the salaries of top officials. Some people criticised us for doing this, but I think you will agree that it is unthinkable for persons who deal with billions in state money to receive a miserly salary. It is an abnormal situation. When the welfare and possibly the very lives of millions of people depend on the decision of an official, he or she should not be paid a pittance. So, I believe that our decision was correct, but it should cover all of our officials, including municipal ones.

This block of problems, including those concerned with harsher criminal prosecution – though there should be certain limits that we must not cross here – all of this, plus the creation of an atmosphere of social intolerance of such crimes should produce a positive effect.

A. TSIOLIS (Mega Channel, Greece): You have recently met the Greek and Turkish premiers and probably discussed Cyprus. What do you think of the statement that Russia would not veto UN Security Council decisions on Cyprus, though most Cypriots are against the plan of the UN Secretary General? Many people explain your decision by the fact that you have very good economic relations with Turkey. I would like to know if Russia's stand is changing in this direction. Is this possible?

VLADIMIR PUTIN: There is one way that would solve all the problems: Let us energetically develop economic relations with Greece too. And this would remove such suppositions and concerns.

You know that nearly two million Russian tourists, though I may be wrong with the exact numbers, visited Turkey this year. This is a good figure. Russia sends the second largest number of tourists to Turkey after Germany, and it may be even moving ahead of it. This is serious part of the Turkey economy. And why is that? Because Turkey introduced a normal, humane visa system for Russian tourists. I used it too, some 8-10 years ago. I came to the border, had my passport stamped, and nobody even asked me where I was going to live. I paid about 10 dollars and was free to go. I had a hotel room and spent two weeks there. But it is impossible, or rather, very difficult to go to Greece – and this is not us who should be blamed for this.

We have very good relations with Greece, but our economic relations should be upgraded to the standards of our political ties. Our military-technical cooperation with Greece is developing better than with another NATO state, Turkey. This also points to a confident nature of our relations. We do not intend to curtail or reduce them, but Turkish contracts account for \$12-14 billion in the contract portfolio of the construction sector of the Russian economy. And where are the Greek companies? Who stops them from working actively on the Russian market? We shall welcome and encourage the development of our economic relations, and I think that we should not reduce economic ties with Turkey but develop economic contacts with Greece. This is the first point.

Second, about Cyprus. We have always proceeded from the assumption that only Cypriots, both Greeks and Turks, can determine their future. It is true that we vetoed the UN Security Council decision during the voting you mentioned, and we did it to preclude any [outside] pressure during the referendum. Today we support Kofi Annan's Cyprus plan. We believe that the Greek part [of the island] has additional instruments now that it has joined the EU, while Turkey is only thinking about joining it. Cypriot Greeks can use these instruments to solve acute problems on their island. I repeat and stress – like in all other conflict zones, including in the former Soviet states, we proceed from the belief that

these problems must be solved by the people who live in the said territory in the interests of everyone who live there.

A. ZHESTKOV: You are often asked about freedom of speech in Russia. What do you think about attempts to regulate the Internet in this country? Do you think there is a problem with freedom of speech in Russia, and if so, where is it most accentuated, in the capital or the regions?

VLADIMIR PUTIN: The main characters in a famous Italian film say, 'A real man must always try, and a genuine girl must always resist.' The same goes for the media and the authorities. The authorities have always tried to ensure their interests, reduce criticism, and so on, while the press and other media have always found out everything they could to draw the attention of the authorities and society to the current authorities' mistakes.

In fact, this is a fundamental principle of democratic society. We are neither better nor worse than other countries in this respect. For us, the problem is the economic rather than political constituent.

Let me repeat it once again. In my opinion, we must ensure an economic base for the media's independence. We must advance along this very road.

As far as the Internet is concerned, we know that this is not just our problem. Take the problem of pedophilia on the Internet in western European countries and other crimes. However, crimes are one thing and freedom of information another. I am very much against taking any steps that would limit the freedom of information on the Internet under the pretext of the fight against crime. The Internet is the most democratic way of disseminating information. Whether you like it or not, you will read anyway what people think about you. If you are clever enough, you will always understand to what extent this or that opinion is predominant.

For this reason, I would be very cautious about any possible limiting of distributing information over the Internet.

M. VOLKOVA (newspaper Rossiiskaya Gazeta): Mr President, I have two questions for you.

In your first presidential address you spoke of the threat that Russia would disintegrate and as an antidote you proposed implementing federal reform and changed the way the Federation Council was formed, sending the governors back to their regions.

At the beginning of your second term you again spoke about this threat of disintegration and even said it had intensified. Does this mean that the policies you followed for the past five years did not fulfill their hopes?

Second, many experts who have studied the proposals you made on September 13 said that they are somewhat incomplete. The changes to the way regional heads are elected, is

this a self-standing measure or is it perhaps the first step towards forming a non-federal state? Thank you.

VLADIMIR PUTIN: I will begin with the second part of the question.

First, I do not think that we should move towards a non-federal state, and all the more so not towards a state of the Soviet type. This would not give us the favourable conditions we need to develop our economy and it would limit the public's ability to have some control over the authorities.

Second, regarding the Federation Council, its formation and the threat of disintegration of the state, I think that, unfortunately, we have still not emerged from this phase, from this danger zone. We have had to take a lot of steps in haste and the proposals for changing the way the regional executive authorities are appointed certainly are aimed at creating a more stable situation in terms of maintaining Russian statehood. That is certainly the case.

As for the Federation Council and why certain decisions were taken back then and what is being planned now, I remind you that the regional heads were full members of the Russian parliament. What does that mean in practice? In my view, it means that there was complete overlapping of two branches of power – the executive branch and the legislative branch. This led to a situation where these high officials who already had all the political and economic power in their regions in their hands were also members of the national parliament and made full use of the parliamentary immunity this gave them. I saw nothing good in this in terms of the honesty of the decisions taken and executed. On the contrary, I saw in this a certain threat for the country and for society, and that is why I made the proposal I did back then, to change the way the Federation Council is formed. The majority of regional heads completely surprised everyone by supporting the proposal because they realised that they had entered a rather dangerous area of criticism on the basis of the points I just mentioned.

Today it is proposed that we adopt a different system for appointing and forming the executive bodies of power in the regions, that is, to be more direct, a system that will give the President greater influence in appointing the regional executive authorities, and I think this is a justified decision and would like now to draw your attention to one circumstance that we have not really discussed in any detail yet, that is, the changed procedures for electing the State Duma based on party lists with the aim of balancing the political system and ensuring that genuine independence develops between the executive and legislative branches of power. Why? Because it is no secret that in Russia today people standing for election in single seat districts generally have no hope of getting into parliament without the help of either some economic clan or other or the regional governor, and everyone knows this to be a fact.

But if the President gains greater influence over the appointment of the regional governors, than the President should be limited in his ability to influence, through the governors, the formation of 50 percent of the country's parliament. I think that this is an

element that will bring balance to the political system. If this does go ahead, and there is nothing to stop us from going ahead – the laws have already been passed – then we will be implementing in full the requirements of the Russian Constitution, which calls for a unified system of executive power in the country.

In this case we would be able to really talk about a broader government. If this is so, then for the head of state, for the acting or future heads of state of Russia, there would be no real difference between a governor and a federal government minister. I think that when it comes to deciding issues of real importance for the regions such as the adoption of the state budget and other issues of this kind, it would be quite feasible to find a way in which the regional governors and heads of the republics that make up the Russian Federation could become far more involved and have some direct participation. How can we do this? We would have to discuss this with the regional heads themselves and with legal specialists. In any case, we can find a solution in this area too.

So there is no contradiction between what was done four years ago and what is happening now. This is all part of our political system's development and the search for the optimum solutions. In this situation, the members of the Federation Council working on a permanent basis will, of course, continue working in this capacity.

V. SANFIROV (radio station Mayak): Mr President, this year you have visited Latin America, China and India and practically everywhere you have criticised Washington's position regarding building a unipolar world. I can even quote your words. In Delhi you said at the beginning of this month that, "attempts to transform the multifaceted world God created along the barracks-like lines of a unipolar world are extremely dangerous".

In this context, what steps is Russia taking to build a multipolar world? Have you found understanding among your foreign colleagues?

VLADIMIR PUTIN: Yes, of course, we are happy to see that the vast majority of those participating in international communication support this theory of a multipolar world. We think that the international relations of the future should be democratic and should take into account the interests of all the players on the international stage on the basis of the principles of international law.

This vision and consolidated position is shared by many of our partners, by the overwhelming majority, I would say, by practically all of them.

D. Rayed (newspaper Al Hayat): Mr President, in your view how are relations between Russia and Iraq developing since the Iraqi Prime Minister's recent visit, and do you think that the upcoming elections in Iraq will help normalise the situation there?

Thank you.

VLADIMIR PUTIN: Our relations are developing well. You know that we have traditional and long-standing relations with Iraq. Many of our companies have

traditionally been present on the Iraqi market, in the energy sector and in machine-building, and were working there right up until recent months when the situation there worsened suddenly. Our companies are ready to go back there as soon as their employees' safety there can be assured.

You know that Russia has written off an unprecedented amount of Iraq's debt, although we think that Iraq is able to pay these debts itself. Iraq is not a poor country, not one of the economically underdeveloped nations. It is a country with mid-level economic development. But we agreed with our partners and decided to go along with their wishes and the wishes of the Iraqi leadership given the specific and unfortunately unfavourable developments in Iraq linked to the military operations and the suffering experienced by the Iraqi people. When we joined the Paris Club we agreed to write off something like up to 60 percent of such countries' debts and within the Paris Club we have now also decided to write off (as have all the others) 80 percent of the remaining sum, so we come to a total writing off of close to 92-93 percent.

As for the elections, I very much doubt whether it is possible to ensure they will be democratic when the country is completely occupied by foreign troops. Overall, though, we welcome this desire on the part of all the participants in the political process in Iraq to normalise the situation, and we think that if the conditions can be created and if there will at least be no active military action there, then any political processes will be beneficial.

O. SOLOMONOVA (Trud newspaper): Could you comment please on the government meeting yesterday at which there was an interesting moment when they said they hadn't found the answer to what would double the GDP.

VLADIMIR PUTIN: They will find them.

O. SOLOMONOVA: Find what?

VLADIMIR PUTIN: Find the answers. Of course they will find them.

O SOLOMONOVA: Find the answers? But there are already methods that have been tried and tested perfectly well in other countries that have achieved successfully economic development through high technology. You are also always saying that we need to introduce more high technology, but there are ways to encourage this, ways that have been tested successfully in other countries, for example, by lowering the tax burden in promising sectors that have the high technology prospects. What do you think is stopping the government from making use of tried and tested international experience?

VLADIMIR PUTIN: I think that what is stopping the government from making use of international experience is our own experience over recent years when providing this or that tax break has resulted in losses of many billions for the Russian economy and the budget and when these tax breaks have been abused or used in group interests rather than in the interests of developing this or that sector of the economy. This negative experience is the obstacle today.

But I think nevertheless that the government will continue to do all it can to make the Russian economy more innovative. I already said, and you know this, that we redistributed the tax burden somewhat to make things easier for the processing sectors and we will continue following this policy. We are still actively discussing the idea of creating high technology zones. One of the main tax aspects in high technology businesses is the single social tax because companies' payroll costs in this sector are their main expense. There has been a considerable decrease in the single social tax but perhaps this is still not enough for IT firms working in the high technology sector. I think, therefore, that the government will have to decrease the single social tax further still for companies working in the high technology sector, at least, those involved in the creation of the special high technology zones. At the same time, all the necessary conditions will have to be in place to avoid abuse. That is the first point.

Second, decisions need to be taken to create better conditions for the companies working in scientific research and development. These decisions are currently being prepared and I hope they will be taken very soon.

B. NISNEVICH (Kaliningradskaya Pravda): Duna television company is also putting a question with me. In your view, what problems still have to be settled with the European Union, including regarding Kaliningrad Oblast? Another question, there are still problems concerning the federal centre, you see. If you recall, in 2001, you instructed the Security Council on federal policy regarding Kaliningrad Oblast, then the State Duma took a decision that such a policy is needed, and then so did the Federation Council, but there is still no document to the effect today. Will there be a document that could serve as the basis for further legislative action?

Finally, we are very much hoping that you will come to our city's 750th anniversary celebrations, preferably with Mr Schroeder and perhaps also with the Presidents of Lithuania and Poland.

VLADIMIR PUTIN: I think that we do indeed need to celebrate the 750th anniversary of Konigsberg-Kaliningrad, and we most certainly shall. The question as to how and who will be invited remains open for now. But the greater the representation, the better, I think.

As for the development of Kaliningrad as an enclave region, given its specific enclave situation, I think that we should continue looking at coming up with some potentially more effective ways of developing the region. Despite all the difficulties I mentioned in the area of abuses of preferences, I think the government should look at how to develop the Kaliningrad region given its specific situation.

Concerning our relations with the European Union on the Kaliningrad issue, on the main issue, that of passenger transit, we have worked out if not the final settlement then at least the main parameters with the EU and we are generally satisfied.

There are still many problems to be sorted out in the area of freight transit. Our colleagues point out that transit and the volume of freight is growing despite the new transit rules, but if these restrictions were not in place perhaps, probably, in fact, freight traffic would have increased even more. That, of course, upsets us because we both, we and our neighbours, have an interest in seeing trade and freight traffic increase.

Our Transport Ministry, for example, has just signed a document with Germany on setting up a joint company to work in rail freight transport. Approximately 70 percent of our freight is shipped by rail while in Germany the figure is only 2 percent. Of course, the German railways are interested in having freight traffic across their territory increase because it is economically advantageous. But we have to eliminate the bottlenecks in our cooperation in this area. There are no objective reasons for keeping them in place.

We discussed the passenger transit issue. You, as residents of Kaliningrad, know no doubt that one of the concerns voiced by our Lithuanian partners was that a large flow of refugees and illegal immigrants could arrive in their country. We looked at the figures for 2002 and 2003 on how many illegal immigrants arrived in Lithuania from, say, the trains running between Moscow and St. Petersburg and Kaliningrad across Lithuania. I don't remember the exact figure but I think it was something like 50. Only 37? Well then, 37, and most of these were Pakistanis who left the train in Vilnius where the train makes a stop at the request of the Lithuanians. Well, let's cancel this stop if you don't want it.

We will continue our dialogue with our partners in Lithuania and with the European Union as a whole. On the proposal of Mr Barroso, the new President of the European Commission, we have agreed to set up a special working mechanism, something our European colleagues had previously declined to do, but now they themselves have come forward with this initiative. They have realised, it seems, that we will not be able to solve this problem unless we specifically focus on it. We welcome this proposal and will work hard to settle all the issues in this area.

Y. BOBROVA (Zhizn newspaper, Moscow): I would like to congratulate everyone on the upcoming New Year and soften the atmosphere a little by asking you what family traditions you have for celebrating the New Year and what traditions you have had to sacrifice since becoming President? What has changed for you in this respect?

Thank you.

VLADIMIR PUTIN: I would better not talk of sacrifices. As for our traditions, they are little different from those of any normal Russian family. We usually celebrate the New Year at home. Our children have grown up now and they want to celebrate with their friends and we don't stop them. If one of them is home, then we all celebrate together, and if not, then we will celebrate it with my wife.

I. VOLKOVA (Novoye Slovo newspaper): The law under which social benefits will be replaced by cash payments takes effect from January 1, 2005. This law caused a big stir, shall we say, in the regions. Beneficiaries have a lot of concerns regarding this reform. In

particular, I want to mention the case of people in the far north. They are worried, of course, by what will happen to the system of compensation and guarantees for people in the far north. Draft federal laws on a district system in the far north are currently being worked on as is a new draft of the law on guarantees and compensation for people living and working in the far north and areas considered as having the same status.

In this respect, my question is, what does the future hold for people in the harsh northern regions? Will the benefits people in the far north receive be maintained in full, or will they be reviewed?

And one other thing, everyone wants you to come and visit them, and we say, come and visit us too.

VLADIMIR PUTIN: Thank you. It's cold where you come from.

I. VOLKOVA: So what?

VLADIMIR PUTIN: What's the temperature in Yakutia at the moment? In a few towns in Yakutia it is minus 45. 52? That's terrible. Nevertheless, I always go where it is needed, including to the north where I have been on several occasions and intend to visit in the future.

As to the important block of issues you mentioned, the replacement of in-kind benefits with cash payments. Of course, I understand people, that they have given the government's proposals a cautious welcome, but this is because the state has let down people before, saying one thing but doing something else or nothing at all. But keeping the old system of benefits for people who need state support would also have been impracticable, because great sums were allocated but did not reach the people in full. And then a great deal of what the state promised never happened.

Take medicine. What was the system? Money from regional budgets, and through regional budgets from the federal one was often sent via various channels and using different methods to pharmaceutical companies, or to be more precise companies involved in buying and selling medicine. As a rule, people entitled to free treatment could not receive it.

What happened in practice? An elderly person comes to a pharmacy and produces his prescription, but is told he cannot be given his medicine for free. There is nothing for prescriptions, but there is if you pay. The person pays the money for his free medicine, but he is still asked to leave the prescription at the pharmacy. With this kind of system, there would never be enough money, because more than half is stolen. In the market system, the old ways of distribution, and state support had started to work ineffectively. This is the crux of the matter.

I would like to draw your attention to the fact that the state has never given such large funds, I would even say enormous funds, to support the weakest sections of the

population and benefits. The federal budget will allocate six times, not 20% or, 30, 40 or even 50%, but six times more money to this end. Until 2006, the main parameters – medicine, transport and treatment in sanatoria – will be maintained as benefits in-kind. Why? Because if a person receives a certain amount of money, and then leaves out of this money 450 roubles on these benefits, then receives them, he gets more than the 450 roubles. From January 1, 2006 people will choose between in-kind benefits and cash payments.

I would also like to draw your attention to the fact that people should decide on this issue in May 2005. And this is already bringing to life, I would say, a competitive environment from the standpoint of these benefits, because even now those, for example, health centres that deal with benefits are already thinking about how to lower their prices and improve service. They want to retain these people as potential customers. And in contemporary conditions, I think that this system is far better grounded and targeted, which is the most important thing.

As to northerners, then no serious changes here are envisaged. The only thing that I would consider right is to go back to the system, to create conditions where people living in other regions could receive pensions earned in the north. I think that we need to return to this. The Finance Ministry, of course, is avoiding the issue, suggesting that it would have to spend a great deal of money on these aims, but this would still help people who had worked for many years in a difficult climate to gradually leave these regions, and the social burden, the state burden in the social sphere would decline. In the final analysis, the state is interested in this.

Nevertheless, I would like to say one thing. Of course, there are categories of claimants that are supported by regional budgets: repressed people, home front workers and labour veterans. Regional authorities, of course, should pay greater attention to ensuring that these people do not end up in a worse situation than other claimants. You know, I recently met one distant relative, who is already a pensioner. And she told me that she was okay because she had a son, but her friend who was also a pensioner had a very small pension. These are people from intelligentsiya, former university teachers. First, the price of medicine is always going up, it's expensive for her; even using city transport is becoming more and more expensive. In this sense, of course, all the levels of authority, both the federal and regional – must pay attention to these claimants.

I should say that I mentioned the fact that the federal budget has increased its expenses by six times, but this should prompt regional authorities to do the same. I was told today that even such a less affluent territory as the Ulyanovsk region had increased spending on this category of claimants by three times. I hope that other regions will pay attention to this.

V. STUPNIKOVA (Novaya Kamchatskaya Pravda, Petropavlosk-Kamchatskiy): There is the question about the Russian granary – about the Okhotsky Sea, the western Kamchatka shelf where Rosneft intends to start drilling in 2005. It is going to drill in a zone where Pollack spawn which all the countries in the Far East eat and the Kamchatka crab, which

not only the Far Eastern countries consume, but also all of Russia. There is also Kamchatka crab in the Kremlin.

VLADIMIR PUTIN: I think the Japanese eat these crabs, but not all of Russia.

V. STUPNIKOVA: Russia also eats them but the point is that currency earnings from this crab for Russia might disappear next year. Ships are even banned from passing through this zone, and only you can solve the issue of the western Kamchatka's shelf life and death, because the government took the decision to allow Rosneft to start drilling there. What measures can you take as president? How can you help us? Thank you.

VLADIMIR PUTIN: You know, I am of course a big boss, but I do not think that I have the right to decide absolutely everything, substituting for specialists, in this case in the environmental sphere. There is always a conflict of interests between economic development and the environment. Always and everywhere, and particularly in such sensitive cases as work on a shelf. So, I will simply take your question as a problem and ask the government to study it, particularly the environmental services, to ensure that this issue is given more thorough consideration. Let them return to it another time.

At the same time, I would like to draw your attention to the fact that I do not know which technologies are being applied or will be applied in the Far East. I have been to the Caspian and have seen how one of our biggest companies works. No one in the world has drilling technology that can simultaneously offer environmental protection. But our companies have it. I repeat: thorough consideration should be given to this region, to this shelf, but unlike many international companies we have the needed technology. And if we are to conduct economic activity there, then all the necessary environmental standards should be observed.

V. TIMOSHENKO (Golos Ukrainy, Ukraine's parliamentary newspaper): Vladimir Vladimirovich, the Ukrainian theme is a popular one today, in Russia and elsewhere. Yesterday, one of the presidential candidates, Viktor Yushchenko, announced at a press conference that he would visit Moscow first if he were elected. Do you welcome this initiative? And, in your view, what problems might you discuss with him?

VLADIMIR PUTIN: Let us not anticipate the election results. I think this would be improper to do. Although we know data from the polls. Mr Yushchenko and myself are personal acquaintances, and when he was chairman of the Ukrainian government, we were in touch, and always had normal business relations. I have not heard of this statement of his, but, of course, we will always be glad to receive in Moscow a leader who wins the confidence of the Ukrainian people.

We have extensive trade and economic ties. In the first 11 months of this year they surpassed the 16 billion dollar mark. It is a record for our trade and economic relations. This is a very big volume. Let alone that we have mentioned it many times and know it well that the extent of cooperation between Russian and Ukrainian enterprises is such as does not exist between us and other countries, not a single one. And what is to be said of

the humanitarian ingredient? Perhaps one family in two, or maybe one in three in Ukraine, has some friendly or kindred relations with Russia. Ethnic Russians alone make up 17% of Ukraine's population, according to official figures. The actual figure, I think, is bigger. And it is practically a Russian-speaking country. This is very close to us and understandable.

An aspect we have repeatedly discussed with our opposite numbers in Ukraine and Europe is very important. We all know, because this has been repeatedly articulated by most diverse statesmen of Europe, that in the next 15 to 25 years no one is even considering the possibility of admitting Ukraine to the EU. Turkey is on the agenda, and the negotiating process, as has been announced, will be at least 15 years. That is of no contemporary interest for Ukraine. But we all must live today. And tomorrow, and in the course of 15 to 20 years. Not only we, but also Ukraine must live, and live well.

I have mentioned, for example, Poland, which joined the EU. Do you know IMF assessments? They are sceptical where the Polish economy is concerned, despite its EU membership. And I repeat, although it had half of its debt written off, it has built it up again many-fold. So entry itself does not solve any problems. What is more, present-day European Union standards in the economy and the social sphere are very difficult for developing economies. So it is by no means certain if this benefits you today or not. It needs calculating thoroughly, with a Felix machine, there is such a device, and with a pencil in hand.

But what do I see as important for us? For us and for you? You know that Russia is building together with the European Union four so-called common spaces. And the first and most important of them is an economic space. But we are planning to do the same within the CES (Common Economic Space) between Russia, Ukraine, Belarus and Kazakhstan. What does it mean? It means that we are harmonising relations within Greater Europe. This has nothing to do with any Russian aspiration to subjugate or absorb somebody. That is rubbish. And in this sense harmonisation of economic relations within the greater Europe, far from preventing, actually creates favourable conditions for the advance of all our countries, Ukraine included, to general European standards. And at some stage, I do not rule it out that if the European Union so wishes, and Ukraine also wishes, more favourable conditions will be created for it to integrate into the European Union than now. This is the rub, and this is what should be aired, instead of scaring each other from both sides with some threats.

As regards a visit by Mr Yushchenko I want to repeat once again that we have very good relations with him. What is troubling us, I repeat are attempts to solve political issues by unlawful methods. And, it seems to me it is absolutely unacceptable to change the ground rules in the course of some or other processes. That is like opening a football match with one set of rules and finishing it with another. That's nonsense. But in the ultimate analysis, I repeat, we will accept any decision made by the Ukrainian people, and will work with any leader.

The only thing we are looking to is that those surrounding Mr Yushchenko will not include ones aligning their political ambitions on anti-Russian, on Zionist (a slip of the tongue —anti-Semitic) slogans and so on. In my opinion, this is absolutely inadmissible. We do not, of course, ignore such remarks, we note them and hope that common sense and national interests will prevail over immediate political interests.

G.GERASIMOV (Tulskiy Izvestia): Mr Putin, you said today that the press should be economically independent, which is the best guarantee of freedom of speech. But there is also a regional media and especially a district media, which cannot be economically independent. Today deputies of the Tula regional Duma are meeting to decide to abolish support for it.

Tell us what is in the mainstream of state policy — is the regional and district press to die — or will the state be supporting it?

Thank you.

VLADIMIR PUTIN. No, I don't think it is in the mainstream of state policy, and if a regional and district media cannot today survive without public support, this support should be provided. But it is necessary to look for mechanisms to ensure that this support on the part of the state does not curb freedom. Such instruments exist in the world, they are tried and tested, and they should be adopted on a wider scale in our political practice.

I. ZHIGANOVA (Saratov): Mr Putin, one TV channel once said that in this country there is something like 1.5 million functionaries. Now, as part of a municipal reform, at least in our region, the job of carving out districts was finished, and there will be approximately 430 of them. It means the army of officials will be increased. Could the principle of "better fewer but better" be applied here? That is one aspect of my question.

The second one concerns elections to the State Duma that will be under party tickets. Do you think these municipal districts will also have elections in the course of 2005? There are proposals to elect on a multi-mandate system, or on a mixed one, i.e. with due account taken of party affiliation. What do you think is the better option? Thank you.

VLADIMIR PUTIN: Of course, "the fewer the better" principle should be applied in this field. The only question is how to accomplish this fast and effectively. I have said that I consider it possible to have competition and use some other modern methods of personnel selection. As regards elections of representative bodies of power in municipalities, I think the broader the choice in a municipality, the better. How to achieve this is to be decided in the localities. It appears to me that the less federal authorities interfere in this process, the better.

Now about enlargement of regions. We will not be pushing forward this process, but I want to remind you that it is completely within the competence of the regions themselves. In some cases, it is of course well substantiated, as is the case in Perm now. But, of course, if small constituent members of the Federation are self-sufficient economically

and it serves the interests of people living there, the interests of keeping up their social feel-good sentiment, this is often substantiated. I repeat: we will not artificially forcing up this process. And in general I do not think this is the main line of development on the domestic scene and in building up Russian statehood. We do not need three, four, or five huge regions. That is neither here nor there. But I repeat where there are grounds, economic ones above all, we will support such processes.

QUESTION: I am from the Khanty-Mansi autonomous area, so Vladimir Vladimirovich, my question concerns oil. You talked today about high rates of oil production, and also that our reserves will last us for the next fifty years. Indeed, oil companies are trying to produce more oil, because it fetches high prices...

VLADIMIR PUTIN: No, I want to correct you. I said for half a century as a minimum, given the present-day conditions — if we forget about the need to do the prospecting extensively. Actually it is much longer.

QUESTION: In this connection I would like to ask the following question. Companies are producing more oil because of high prices, doing their best, and of course ignore geological prospecting. And today's oil and gas production is not compensated for by reserves, as many experts are saying. Besides, because of inadequate legislation, oil companies are no longer allowed access to new fields. Hence the question, when will stimulating decisions be made of fundamental importance for the oil branch? Of course, high technologies are good, but without an oil sector it will be difficult to give the national economy enough momentum to double GDP. Thank you.

VLADIMIR PUTIN: You know I will answer you in most general terms. My assumption is that we must no doubt diversify the Russian economy, but not to kill in the process the goose that lays the golden eggs. We must and will encourage companies to invest heavily in geological prospecting. The state, too, should take note and participate in the process. I hope legislation in the pipeline — a new Water Code and a new Forest Code — will help accomplish this task, and will not detract from its attainment. I know of oil people's concerns due to swamplands, the possibility of working there, and so on and so forth — there are many such concerns, and all of them will be looked into carefully and taken into account when making a final decision.

V. LOSHCHANOV: Vladimir Vladimirovich, much has been said today about oil. Perhaps we will recall coal? Last week, we produced the 150-millionth ton of this fuel. Will the country's energy pattern change? And are there grounds behind rumours that regions will be enlarged in the near future?

VLADIMIR PUTIN: As regards the energy pattern, it would be right if we changed it gradually. But I think it is more of an economic category than an administrative and directional one, because today the gas price inside the country is somewhere around \$35 per thousand cubic metres. It is just approaching the zero cost-benefit mark, while on foreign markets we generally sell it at prices of about \$150, \$145-147 per thousand cubic metres.

The difference is glaring. Hence the striving of all consumers to use the services of Gazprom, which puts the company in a very difficult and tense situation.

In a way, this is the subject of our acute debates with colleagues in the EU, at least during the discussion of issues regarding our accession to the WTO. We have agreed that we will raise prices, but gradually, taking into account the energy-intensive nature of the Russian economy we inherited from the Soviet era. But the levelling of prices will lead to changes in the balance, which you mentioned. It is hardly possible to do this by issuing an order to this effect.

On the other hand, I want to draw your attention to the fact that miners should not only introduce modern production schemes but also take part in the use of reserves they are producing. There are modern forms of using coal in power engineering; this is the innovation element that gives a new lease on life to this energy resource. And this is quite possible and reasonable, the more so that all major energy companies, including Gazprom, are trying to diversify their operations. You know that such world giants as BP, ExxonMobil, Shell and others are dealing in electricity generation, oil, oil refining, gas, and condensed gas. Gazprom will do the same, it is working towards this, and as I see it, those who work in coal production should diversify their operations, too.

G. BOTOYAN (Avangard, Armenia): State Duma chairman Boris Gryzlov recently said in Armenia that Armenia is the southern outpost of Russia. Do you agree with Boris Gryzlov? Thank you.

VLADIMIR PUTIN: I agree that Armenia is our strategic partner; we have advanced farther in some spheres of cooperation with it than with other colleagues. For example, I have said before that we have a large military base in Armenia; it is operating successfully and I hope cooperation in this sphere will progress.

We would like to develop such relations with all partners within the Collective Security Treaty, and to increase the number of Treaty members, in particular, by incorporating Caucasian states. We believe that by working at the same table in such organisations Armenia and Azerbaijan and other partners and colleagues would find more points of contact.

So, our relations with Armenia are at a very high level and we will try to continue to develop them.

E. SAMPEYEVA (Ingushetia television company): You said in your address to the Federal Assembly that not everyone in the world wants to deal with a strong and self-confident Russia. But the regions have a major role to play in this.

VLADIMIR PUTIN: Self-confident would be putting it too strong. I did not say that.

E. SAMPEYEVA: Can the young republic of Ingushetia, which is only 12 years old, hope to have the support of the federal centre in solving its socio-economic problems, of which the republic has plenty? And the second question: What should be done at this stage to help forced migrants, which number tens of thousands in Ingushetia? Thank you.

VLADIMIR PUTIN: As for support to the regions, above all in southern Russia, we are providing it on a scale that is much larger than the support we extend to other regions of the Russian Federation. In fact, all these regions can be described, in their basic parameters, as depressed. The main task there is to create an economy and jobs. Its fulfilment will largely depend on the southern Federation membersthemselves. You should organise production and economic life in a way that would allow you to become increasingly self-sufficient. Of course, this task cannot be fulfilled quickly and effectively without the support from the federal centre.

This is why we have programmes and agreements at the governmental level with President Zyazikov, whom I deeply respect, and we shall be doing this.

Second, forced migrants. All of you certainly know what we planned in terms of compensation payments for ruined housing. I view this as a priority project that should solve the problem, but it is not the only one, of course. Those who remained in the republic – I mean Ingushetia – have the right to get compensation too. The question is: where will they invest it?

A. POPOV (Kontinent Sibiri, Novosibirsk): The Ministry of Regional development was recreated after September 13, and its head said recently that it would draft a regional development concept. What should be the essence of this concept and the component parts of regional development in Russia? My second question is concerned with Siberia, which has its own development strategy approved by the Economic Development Ministry, but it is not being implemented. This year Siberia registered much lower growth rates than the average for Russia. Will this change?

VLADIMIR PUTIN: You know, we have indeed reorganised this ministry because Russia, with its vast territory, needs the unflagging attention of the federal centre to regional problems. It is clear that certain regions probably cannot develop their territories effectively without the assistance of the federal centre.

At the same time, I want to draw your attention to the fact that all these programmes, coupled with federal allocations to key spheres, should be designed above all to create conditions for releasing the inner development energy in the regions themselves. This is the goal of the programme you mentioned.

As for the development of Siberia, it is rather satisfactory, on the whole. As regards the fall in growth rates, it was typical for the whole of the Russian economy in the second half of the year, which is an issue for our close attention and concern. We should spotlight this problem, just as the fact that inflation has exceeded the planned ceiling.

L. NIKISHINA: Thank you for your attention to the regional press. I represent the newspaper Serpukhovskiy Vestnik from the town of Serpukhov, the Moscow region. Using the occasion, I would like to wish you a Happy New Year on behalf of all residents of Serpukhov. It is believed that the state will be revived through its small towns.

Next year we will mark the 625th anniversary of victory in the Battle of Kulikovo. The leader of the ambush regiment was Prince Vladimir the Valiant. What can encourage you to put Serpukhov on the list of your working visits? Can I present the symbol of our city to you, so that you will not forget about us?

VLADIMIR PUTIN: Thank you very much for the symbol. I hope we would not be discussing benefits for those who fought in the Battle of Kulikovo? [Laughter in the audience] But there are some things that are connected with such events which we should regard seriously, taking into account the past realities that might help us in our progress today and tomorrow.

There is an interesting observation about who fought on which side in that battle. Interestingly, Russians fought each other in that battle, and the Tartar cavalry fought on both sides, too – Russians used it as the main strike force. These are interesting pages from our history, at which we can look now without ideological prejudice.

I completely agree with you on account of small towns. We must create conditions for their development. Unfortunately, the situation is not good in all of them, their outlook does not always correspond to modern demands and their potential is not always used effectively. But I think that the positive trends in the economy as a whole, about which we know, should also have a beneficial effect on the development of Russia's small towns. And thank you very much for the invitation.

A. VLASYUK (TV-IN television company, Magnitogorsk Iron & Steel Works): Allow me to convey the best regards from the Magnitogorsk steel workers. We are always glad to welcome you – this is the high ski season, please come to enjoy it. What do you think about the importance and role of metallurgy in the national economy and the prospects of metal-consuming industries – machine building, construction and the like? Thank you.

VLADIMIR PUTIN: What can I say? Metallurgy has been a pillar of our industry since Soviet times. We have supported and continue to support the development of such basic branches as metallurgy at home and on foreign markets; we always uphold your interests. And we intend to continue doing this. I hope that all of you who work at the MMK – I have visited more than once and saw how you work there, in what conditions – are satisfied with the privatisation process. It was feared, at least in the past few years, that control of the enterprises would be seized by a not very clean pair of hands. As I see it, this did not happen and everyone is satisfied. All the best to you.

T. CHINYAKOVA (Nizhegorodskiy Novosti, Nizhni Novgorod): And one for the road, Vladimir Vladimirovich.

VLADIMIR PUTIN: You mean we should end? [Laughter in the audience] I completely agree with you.

T. CHINYAKOVA: At least my question surely breaks out of this context. But still...

VLADIMIR PUTIN: The people of Nizhni Novgorod are really taking the floor.

T. CHINYAKOVA: Yes, they worked hard to do this. What future do you envisage for your daughters? Thank you.

VLADIMIR PUTIN: I hope they will be happy. I would like them to find an application for their talents and knowledge that would serve society and bring satisfaction to them. This is the most important thing.

A. STASIUKONIS (newspaper Respublika Bashkortostan, Ufa): What do you think about the recent innovations in the system of education? Will they help, in particular, the single state examination, the so-called two-tier system of education? Will they help the talented young people, especially in the provinces, to enter a prestigious higher school in the country?

VLADIMIR PUTIN: I would dearly like this to happen. In fact, this is why the single state exam was introduced in schools in the current situation when young people, especially from the provinces, find it very difficult to travel, owing to limited financial possibilities, especially from outlying regions, for sitting at examinations in prestigious higher schools of the Russian Federation. This is being done so that the young people can show without leaving their native city or town what they can do – and in this way enter prestigious higher schools.

The experiment is now being conducted in many regions. On the whole, it has proved effective – with minor reservations. We will proceed on this road, analysing the positive and negative elements.

T. GOTSIRIDZE (Georgian television): The issue of Russian-Georgian relations has been discussed here, but still, can we expect them to become warmer in view of the Abkhazian conflict? Do you plan to visit Georgia next year?

VLADIMIR PUTIN: I completely agree with Mikhail Saakashvili that we should give priority attention to drafting a basic treaty between Russia and Georgia and tackle the issue of mutual visits depending on its progress. But Mr. Saakashvili is always welcome in Moscow. I use this occasion to invite him to Russia.

S. SHAVALIYEV (Kalmytskaya Pravda, Kalmykia): Next year we will celebrate a great holiday, the 60th anniversary of Victory. Hence the question: Not all the participants in that war have received their combat decorations, for one reason or another. Can historical justice be served? And second, congratulations to all colleagues on the forthcoming Day of the Russian Press [January 13] and please come to Kalmykia.

VLADIMIR PUTIN: Thank you very much for the invitation.

Now for WWII decorations. It is true that next year we will mark the 60th anniversary of the end of WWII and victory over Nazism. You know that the UN General Assembly has decided, at the initiative of Russia, to mark May 8 and 9 as days of reconciliation and accord. We believe that such assistance, such sentiments in the international community, and such attitudes to these events and this date are extremely important.

We have no right to forget about participants in WWII, and I fully agree with you that some people have not received their hard-earned decorations. The Defence Ministry and some of our public organisations are searching for these people, and we will not stop this work. It really surprised me, but it is true that many people have not received the decorations due to them. We will continue working in this sphere. All WWII participants will be granted a medal For the 60th Anniversary of Victory, and I also mean those who live in the newly independent states, the former republics of the Soviet Union, including the Baltic countries.

QUESTION: Good afternoon, Mr President, let us indeed return to the Middle East.

At the moment, as you said, preparations are underway for elections in Iraq, and not only in Iraq but also in Palestine. You gave your views on the situation with elections in Iraq and my request is for you to give your views on the upcoming elections in Palestine. What prospects do you see for a peace settlement in this region after the death of Arafat?

Also, all my colleagues have been inviting you to their regions. Whenever I go back home people always say that you have not come to our country and ask why you haven't visited us yet. Come to Hurgada and to Sharm-el-Sheikh. Thank you.

VLADIMIR PUTIN: Thank you for the invitation. President Mubarak has invited me to come and relax in Hurgada and in Sharm-el-Sheikh. I said that so long as I am President of Russia, I consider that I should spend my holidays in my own country. Not everyone in this country has the possibility today of travelling abroad, although I think that with time this will change.

But regarding the question you raised, I would like to say the following, and also to chastise you just a little. Why does everyone say that now that Arafat has passed away there is a chance for a settlement? Was Arafat an obstacle to a settlement? I do not think he was. Now, of course, there is a new situation. We hope that after January 9 – that is when the elections are scheduled, I think – Palestine will have elected new authorities and the peace dialogue will continue, above all based on the Road Map that has been recognised by all participants in the process, and on the basis of the principle of creating an independent Palestinian state on the one hand and providing Israel with security guarantees for its existence on the other hand. We never forget this aspect as well. Based on these considerations we hope for further positive development of this process and are

willing to take part in it as mediators. We will remain active in this area and we wish you success.

Thank you for your invitation. I am willing to take it up once it becomes more clear that the situation has begun making progress and is taking a positive direction.

S. SHAPOVALOVA (Amitel, Altai Krai): You recently held an unofficial meeting with our governor, Mikhail Yevdokimov. How do you rate the team that came to power in the region after the elections? Will you make a visit to our region?

VLADIMIR PUTIN: Unfortunately, I do not know the team that Mikhail Sergeyevich [Yevdokimov] has put together. I know him well and I know that his administration has achieved satisfactory results over this last year in terms of economic development and resolving some social issues. But the region still has a lot to do, just as does the country as a whole. There are still many unresolved problems and how we rate the work of your region's team will depend to a great extent on how these problems are tackled in your region. In this respect, my own assessment is not even the most important, more important is how the region's people themselves rate what has been done.

V. SERGEYEV (Tambovsky Kuryer): Mr President, I would like to turn from international issues to domestic questions. The economy is growing as are the country's gold and foreign currency reserves and other reserves. Would it not be expedient to put more investment into the country now, into the housing and utilities sector, for example? The government's economic officials sometimes seem to be behaving with great stinginess, saying there will be inflation. But without a real recovery in this sector, the whole population is threatened with paying 100 percent of housing and utilities costs in the new year, and yet the country does have enough resources. What are your views on this? Thank you.

VLADIMIR PUTIN: You have raised one of the most pressing social issues in the country. I was beginning to think no one was going to bring up this question, but I am glad that you have brought it up because it would have been not honest somehow to say nothing on this issue.

There have been acute problems in the housing and utilities sector in Russia for very many years now. These problems were no less acute during the Soviet years. The sector in Russia currently requires around 1.5 trillion roubles. The country's regions plan to spend around 340 billion roubles on the sector next year along with corresponding support from the federal budget. There are huge losses of heat and electricity in the housing and utilities sector and the conditions are clearly still not in place for the sector to develop. This is one sector where it does not matter how much money you put into it, it will never be enough. We need to change the conditions in which the sector functions.

I fully agree with those who say that the pace of change in this sector is very slow. It is clear why change is so slow – because the issue is a very sensitive one. It is enough to make one tiny step in the wrong direction and millions of people will suffer. Things are

not easy as it is now, but making a mistake, even one mistake, would make things much worse. This does not mean, however, that we should do nothing at all.

The government's line is that steps should be taken in two directions. First is to assign the responsibilities. It must be clear who is responsible for what. This question of delimitation of responsibility is being settled through laws 122 and 95 on delimiting these same responsibilities. That is the first point.

Second, we need to put in place the conditions that would make this sector at once competitive and attractive from a business point of view. The Housing Code and Urban Planning Code have just been adopted and their provisions contain ways of helping resolve these problems.

Finally, no less important, we are already spending huge amounts of money – I said that the sector needs 1.5 trillion roubles but even 340 billion roubles is already a lot of money – but we are spending this money ineffectively. How can we spend this money more effectively – by paying people directly.

Experiments of this sort are already underway in 19 different regions. We need to make it possible for residents' to create condominiums on a legal basis and for money to be paid to people's accounts. As I said, this has already been done in 19 regions and is working successfully. Now we need to expand on this success.

All of this together will enable us to begin making progress in this sector.

S. FEDOTOV (newspaper Selskaya Nov): Thank you very much, Mr President. I was beginning to feel a little offended. Half of the country's population is rural, after all, and there hasn't been a single question yet on the issue.

VLADIMIR PUTIN: Yes, it would be wrong not to say something about rural issues. I'm listening to you.

S. FEDOTOV: In 1992 and the following years, the majority of rural residents and also people working in the social sector serving the villages, were given plots of land and received the corresponding certificates of ownership. The people are not very aware of the laws, to say the least, and in 1993, taking advantage of this ignorance, some banks and wealthy individuals manipulated the law, manipulated people and manipulated officials, used illicit cash funds, took over the rights to this land and throughout 2004 registered their ownership of this agricultural land. In the Lotoschinsky District, for example, 22 thousands hectares of agricultural land have become property of a bank, while in neighbouring Volokolamsky District it is Vizavi Bank that has taken over land.

Appeals have been made right up to the Prosecutor General's Office and the Interior Ministry, but the result is that local Interior Ministry officials and prosecutors take decisions not in favour of the people. So, do the rural people still own their land, or are we seeing a repeat of the processes that took place during privatisation?

VLADIMIR PUTIN: You have just given concrete examples of plots of land and land deals that you think have not been conducted in accordance with the laws. Unfortunately, we had very many such problems at the beginning of the 1990s. Now we have to proceed very carefully in order to first, restore basic justice and legality and second, not harm the economic processes that are now developing in our country.

Everything that is being undertaken regarding the land issue is aimed at creating real owners while also protecting the interests of people who have the rights to the kinds of plots of land that you spoke about. But of course, it is difficult to keep checks on every case of what, as you said, are instances of people being misled. This is a simply impossible task sitting here in Moscow. What we need then are more clear laws, and these laws must be clearly explained to everyone who is in any way concerned.

As for the response of the law enforcement agencies, I do not fully understand what the Interior Ministry has to do with this issue, but the prosecutors and the courts, of course, should react. But you will agree with me, I think, that the facts of each individual case have to be examined. Overall, I do agree with you, of course, that abuses and manipulations are unacceptable.

M. GIMBII (Yugra Inform information agency, Khanty Mansiisk Autonomous District): Can you please tell us what federal policy will be in the future regarding development of the northern regions, and in particular, regarding development of social infrastructure. Thank you.

VLADIMIR PUTIN: We have spoken many times about this.

In places where working and living conditions are very difficult and very expensive, I agree with those who think that we should move over to the method of working by shifts. But our northern regions also encompass milder areas where people can live, and in these regions we certainly do need to develop the social sphere and improve people's lives. These are regions with abundant mineral resources and incomes are generally higher in these areas than average for the country. But these higher incomes are also compensation for living and working in difficult conditions and I think this is fair.

I. SELYUKOVA (newspaper Belgorodskiye Izvestia): My question is also on rural issues. You have no doubt heard of our ambitious pig and poultry farming plans. Can you tell us please when we will have import quotas that will make our agricultural producers happy?

VLADIMIR PUTIN: Yes, I do know about your ambitious plans. Over the second half of the year we observed some tendencies that gave us cause for concern, linked in part to a rise in consumer prices and therefore to a rise in inflation. This concerned above all prices for meat products and some oil products such as petrol. These price rises were clear and the population has felt them. Of course this is reason for concern. This is why

introducing quotas for this or that product, especially mass consumption products, needs to be done with extreme caution. It is really something of an art in the finesse it requires.

We introduced quotas on poultry and we did get good poultry production complexes the likes of which the Soviet Union and perhaps even Europe today never had or has. That is a plus, of course, But people here have paid for this because prices have risen. The same goes for pork and beef. We will continue to support our own producers but primarily through market methods, for example, by helping make cheap loans available, something that is important not just for agriculture but also for housing construction, and by helping resolve administrative issues, including tax issues. You know that decisions have already been taken to simplify taxation in the agriculture sector. I hope that these decisions have been positively received by people in the rural areas.

We will proceed carefully but we will continue to support our producers, including with quotas if needed, but I stress that this has to be done carefully so as not to be to the detriment of our consumers at home.

K. EGGERT (BBC): I would like to come back to the question raised at the beginning of the press conference regarding the sale of Yuganskneftegaz. There has been a lot of criticism lately and not just in the press or from Western experts, but also from official representatives of the U.S. administration, the State Department. How do you react to this criticism and does this concern you at all?

VLADIMIR PUTIN: You know, when I read the decision of, say, a court in Texas stating that Russia ought to postpone the auction of Yuganskneftegaz, I cannot help but be surprised. I am not sure that this court even knows where Russia is. I am also surprised by the lack of professionalism. Lawyers know that one of the basic tenets of civil law is, “par in parem non habet imperium”. For people from other walks of life, I will explain that this means, “one equal does not have right over another”. What we have seen is unacceptable from an international-legal point of view. It is a breach of international politeness, and this is not a moral category but a legal category in international private law.

If our colleagues, in all this “Latin nonsense” that I just quoted, like only the last word, “imperium”, extending it primarily to their own beloved selves, then all I can say is that this concept of building international relations does not suit us at all. We believe that international relations should be built on the basis of equality and the principle of respect for the sovereignty of all countries taking part in the international community. And I repeat that this view is shared by practically every member of the international community.

As for the deal that took place, I think that it was carried out in strict conformity with the Russian legislation and in accordance with all the norms of international law and the international commitments that Russia has taken on as part of the agreements that we have signed with our partners on the international stage. So I do not see any real problems here.

I do think that we should end this press conference with a question from Russian journalists.

V. SHEVCHUK (Elektronnaya Gazeta, Republic of Tatarstan): Mr President, the issue of developing national languages and culture is something generally settled at local level.

Do you think that Russia maybe needs a ministry for nationalities or perhaps a chamber of nationalities, as was the case in the Soviet Union. And also, you are a very much awaited guest in Kazan, which will celebrate its 1,000th anniversary next year. Thank you.

VLADIMIR PUTIN: Thank you.

I do hope very much that I will be able to attend the events to celebrate the 1,000th anniversary of Kazan. Not many countries can boast of having cities like Kazan with such a level of development and such traditions going back many, many centuries, a whole 1,000 years. Just think, 1,000 years! This shows how deep are the roots of our statehood and our culture, the multifaceted and multiethnic culture of the Russian Federation. It will be my pleasure to come.

As for national languages and cultures and everything that is part of our cultural diversity, I think that it is one of the priorities in our national policy and should be reflected not just by having a special body to deal with these issues, but should be part of the state's entire policy.

The Ministry for Regional Development, which you mentioned, also has the powers for dealing with these issues. I hope that they will also be a considerable part of the work of the Public Council, which we already talked about today and which will be created in accordance with the approved decisions.

Finally, the regions' interests are represented by the regional representatives in the Federation Council and should form one of the main priorities there.

In general, Russia's cultural diversity is unique and calls for constant attention, protection and development and we will continue to provide all this in the future.

I wish to thank you all sincerely and to congratulate you on the approaching New Year. For everyone here who is Christian, I congratulate you on the occasion of Christmas, both in December and in January. I wish you and your loved ones all the best. Thank you very much for your attention. (Applause).