

**EU-RUSSIA INDUSTRIALISTS' ROUND TABLE ON
10 NOVEMBER 2004, THE HAGUE**

***Business Needs to Drive the EU-Russia Relationship on the
Path to Greater Economic Integration and
Economic Growth Generating Reform***

***Speech by Philippe de Buck
UNICE Secretary General
Check against delivery***

Distinguished Chairmen
Ministers, Commissioners
Excellencies
Ladies and Gentlemen

It is a great honour and pleasure for me to address this meeting which brings together distinguished representatives of Russian and European business in a spirit of cooperation. I want to congratulate the EU-Russia Industrialist Round Table for organising this meeting and for its dedication to strengthening the EU-Russia economic relationship in close cooperation with UNICE and its business federation counterpart (RSPP) in Russia. I hope that my contribution here today will convince you of the need for us to work even more closely in the future to drive the EU-Russian relationship further toward close economic cooperation and growth generating economic reforms on both sides of the border.

UNICE wants to see the further development of the EU-Russia strategic partnership and warmly welcomes Russia's pursuit of an economic reform agenda towards a well-functioning market economy and its commitment to further integrate with the European and world economy.

Make no mistake, Russia and the EU are more than neighbours, they are essential economic partners that need to create a competitive common economic space for business to thrive. Business can create the growth and jobs desperately needed in Russia and the EU – but only if we move the relationship forward on the right path.

Recent economic reforms have significantly improved the business climate in Russia, but there are still many obstacles to trade and investment which should be tackled when preparing the new framework for EU-Russia economic cooperation.

We need to work together to remove barriers which prevent our companies from engaging in trade and from making efficient investments for the future due to bureaucratic inefficiencies and logjams. At the European level, we are pushing for the elimination of red tape and better regulation. UNICE has conveyed this message to President (designate) Barroso and the new Commission as well as to the European Parliament in its *Business Vision for Europe: Growth Jobs and Prosperity*, to make Europe more competitive.

For UNICE, the strengthening of the EU-Russia business framework is absolutely essential to boost economic growth throughout Europe. To better meet this challenge, my organisation has recently established a UNICE Russia Network under the strong leadership of Erik Forsman whom many of you know already for his expertise in EU-Russia relations and international affairs more generally. Erik Forsman is working hard to drive forward an economic growth oriented agenda with Russia. I am certain that his drive and energy will help improve EU-Russia business relations immensely.

The UNICE Russia network is open to UNICE member federations, interested European sector organisations as well as company representatives with knowledge of the Russian market. Its main task is to provide up-to-date information and communication on policy developments that affect commercial and investment relations between the EU and Russia. It is also responsible for preparing UNICE initiatives and positions on issues related to improving the EU-Russia business climate.

Now that I have briefly presented how UNICE is organising to strengthen relations with Russia, I would like to delve into some of the key issues that will determine the success or failure of our endeavour.

1. WTO-MEMBERSHIP

UNICE has repeatedly expressed its support for Russia's accession to the WTO on commercially sustainable terms, which should commit Russia to substantial liberalisation of investment and trade in goods and services. On 21 May 2004, the EU and Russia concluded bilateral negotiations for the accession of Russia to the WTO. As only the main elements of the agreement have been made public, it is still too early to make a precise estimation on the practical impact of the agreement on the EU-Russia business. However, we can make a brief assessment based on what we already know.

On the positive side, the final average Russian import tariff level will not exceed 7.6 percent for industrial products and Russia has made commitments to open its market in services. Russia will also gradually raise the domestic price of gas for industry.

There remain, however, a number of open questions for EU industry which wants to compete on equal terms with its trading partners. The definition of natural monopolies and their future role in the Russian economy needs to be addressed. Moreover, the elimination of price controls and the removal of market access limitations in the service sector are basic requirements for further economic integration.

UNICE hopes that the Russian government will fully implement its WTO commitments and reform plans to ensure that they stimulate much needed domestic and foreign investment in the Russian economy. WTO membership will lower import tariffs and improve market access, which when combined with an ample supply of untapped skilled labour and energy as well as good availability of versatile raw materials, will speak in favour of investing in Russia.

Further improvement of the business climate could make Russia more attractive for foreign direct investment in comparison to China and other fast growing markets. We all know that EU FDI in Russia is far below its potential (around €2.2 billion in 2002) for such a large industrial economy. At UNICE, we believe in the potential of investing in the Russian economy – but the Russian government also needs to create the right conditions to transform this potential into reality.

While recognising the vital importance of WTO Membership, UNICE is aware that the EU and Russia also need to create a common economic space if they want to pursue growth-generating economic integration and reform in the future. Both approaches are complementary and mutually supportive.

2. THE EU-RUSSIA COMMON ECONOMIC SPACE, CEES

The 1994 Partnership and Cooperation agreement, PCA, which entered into force on 1st December, 1997, offers a good basis for improving economic relations between the EU and Russia. Of course, the needs of the business community have changed since the preparation of the PCA when a relatively low volume trade in goods was practically the only form of economic cooperation.

Today's world of fast growing foreign direct investment, contract manufacturing and tougher global competition demands a new focus on improving EU-Russia business relations for growth. EU enlargement already provided an opportunity to expand Russian exports to a single market of over 450 million consumers and UNICE welcomes the Common European Economic Space project, which aims to create an open and integrated EU-Russia market of close to 600 million consumers in the coming years.

The pragmatic approach of the CEES pursuing regulatory convergence in as many areas related to business activities as possible and the development of transport, telecommunication and energy networks is very important for improving the competitiveness of our companies in the global market.

The CEES should, however, also underline practical measures related to trade facilitation, such as a rapid transition to electronic exchange of information for customs clearance. At the moment we are very concerned about the slow progress in this field and even possible backward developments such as the proposals tabled for new pre-shipment inspection regulations in Russia.

These plans to introduce pre-shipment inspection and limitation of customs clearance for a wide range of goods belonging to so-called risk group (clothing, drinks, tobacco, furniture, computers, motor vehicles etc.) could seriously hamper transportation of all goods. The fight against illegal activities should not undermine the legitimate flow of trade, which has always been one of the fragile links in the EU-Russia business operations.

We hope that the Russian administration will review its proposals so as to avoid adopting regulations that negatively affect trade and investment. Consultation of the business community is essential to minimise the risk of distortion. We would not like initiatives in the field of pre-shipment inspections to become a new non-tariff barrier to EU exports.

Without going deeper into practical issues, I would like to say that UNICE, through its Russia Network under the leadership of Erik Forsman, is willing to work closely with its Russian partners in the preparation of the CEES and is ready to give input and support as regards the contents of the action plan and especially the practical measures related to its implementation.

In that light, I am pleased to inform you, that UNICE is looking to increase cooperation with its Russian business federation counterpart, the Union of Industrialists and Entrepreneurs (RSPP), in order to intensify mutual efforts to reduce barriers to trade and investment and to promote trade facilitation measures.

I sincerely hope that together, European and Russian business can drive the EU and Russia towards greater economic cooperation and on a growth generating reform path. It is essential that these messages are passed on to the EU-Russia Political Summit, which was postponed for reasons that we understand, but which we hope will take place as soon as possible to ensure that we achieve our common objectives.

Thank you for your attention.