

UNICE STATEMENT ON EU-RUSSIA ECONOMIC RELATIONS

A Call for Prosperity and Competitiveness in Greater Europe

European business calls for the strengthening of EU-Russia economic relations on the eve of the 10 May 2005 EU-Russia Summit to create more prosperity in Greater Europe. The continued growth of bilateral trade and investment between the EU and Russia underscores the need for deepening relations between the two European strategic partners.

European business welcomes the progress, which has been made in the reform of Russian business legislation and its implementation, and would like to see further reforms completed expeditiously. It also urges the EU and its member countries' customs and other authorities together with their Russian counterparts actively support the necessary reforms and their proper implementation to facilitate EU-Russia trade and investment.

Yet, while there have been very positive developments in the Russian business environment in recent years, there are still many obstacles to trade and investment and legal uncertainties for business which should be dealt with, so that the full potential for bilateral trade and investment can be mobilised to improve the competitiveness of Russian and EU companies.

UNICE hopes that Russia will rapidly accede to the WTO but requests that outstanding concerns be addressed so that it can join the multilateral trade organisation under commercially sustainable conditions as stated in the UNICE positions on Russia's WTO accession.¹ Special attention should be paid to market access, the asymmetry of Russian and EU customs duties, non-discriminatory pricing of energy for industry as well as export taxes to avoid distorting competition. Russia's membership in the WTO will also have to be followed up by concrete implementation of commitments to liberalise investment and trade in goods and services.

Taking into account the tremendous change since the preparation of the Partnership and Cooperation Agreement, PCA, which was negotiated during the first half of the 1990s, it is now time to evaluate the agreement, its implementation and to consider its revision or replacement by a new agreement.

Looking ahead, the EU-Russia Common Economic Space offers an excellent basis for the creation of an open and integrated market for EU and Russian business. UNICE and its members are prepared to participate and give their contribution to this process which should lead to a free trade agreement between the EU and Russia and the creation of a highly competitive and non-discriminatory environment for producers and investors. Special attention should be paid to common or compatible rules and regulations as well as compatible administrative practices and development of infrastructure networks.

Improvement of the business environment is a step-by-step process. With this in mind, UNICE would like to highlight some current issues, which should be tackled for the benefit of EU and Russian economic and business relations:

¹ UNICE Updated Position on Russia's Accession to the WTO, 30 April 2004. www.unice.org

- Energy Dialogue

The energy sector is one of the cornerstones of the EU-Russia trade and economic relationship. Given the long lead times associated with investment in the energy field, it is important that rapid progress be achieved in the Energy Dialogue. Key issues are: attracting large scale investment to the energy sector; developing and improving EU-Russia energy infrastructure; establishing a stable, transparent and non-discriminatory EU-Russia trading regime for energy as well as supporting projects to improve energy efficiency and savings.

- Investment Regime

Considering the tremendous possibilities for growth of foreign and domestic investment in Russia further development of the investment regime is crucial.

Investment in manufacturing would often benefit from relatively small changes in the customs policy. For example, the import duty on complex technology deliveries is 5 percent, if all of the equipment is delivered at the same time (in practise in 10 days). If the goods are delivered over a longer period of time, as is normally the case with big projects, the investor may have to pay several times higher import duty. In case of import of components for manufacturing the import duty on the components may be higher than the import duty of the manufactured item.

Market access remains restricted or unclear for foreign companies in many sectors in Russia and strict licensing requirements are common as well. This concerns especially services such as telecommunications, banking and transport, but also certain fields of industry like energy and minerals exploration industries. Opening of the market would increase investment in industry and in the service sector growing supply would mean better services on increasingly competitive terms which would in turn promote investment in manufacturing as well.

- Regulatory Environment

The new Russian law on technical regulations, which will be phased in a seven year transition period, entered into force in summer 2003, but progress in the modernisation of regulations is slow. Despite some improvement, requirements for standardisation, conformity assessment and certification remain complicated, time-consuming and expensive for many product groups as the following examples demonstrate.

The horizontal regulations on biological and environmental safety should not require pre-market registration for a wide range of consumer goods before they can be put in the Russian market. Otherwise the regulations would contradict best practices at international level as well as certain EU sector legislation (e.g. cosmetics legislations) that does not require pre-market registration. An effective system of in-market control has proven to be the best tool to fight counterfeiting and to ensure that products that reach the final consumer are safe.

In the case of precious metals, Russia's state regulated environment severely inhibits the ability of industries to trade and invest in this sector. Consequently, companies, especially small and medium sized companies, face unreasonable costs and delays in accessing much needed precious metal materials and products.

In the case of communication equipment, there are specific requirements in the communication law which make the introduction of new technologies in the rapidly evolving ICT sector cumbersome.

It is vital that key WTO principles, such as avoidance of unnecessary obstacles to trade, proportionality, non-discrimination, adoption of international standards and transparency, be observed in the sectors which operate worldwide in a liberalised manner and which contribute significantly to the global competitiveness of the EU and the Russian economy. This would also facilitate export of Russian products to the EU and other markets.

- Misreporting in the Customs and Introduction of Pre-shipment Inspections

Introduction of large-scale pre-shipment inspections for goods exported to Russia may create a serious barrier to trade. Deliberate misreporting of import values and tariff numbers should not be tolerated, but import procedures should not impose obstacles to trade or entail excessive delays for the delivery of goods for the majority of traders that abide by the rules. Experience from the current pre-shipment control by Russian veterinarians for beef exports shows that the system also creates significant additional costs which speaks against extension of pre-shipment control.

- EU-Russia transport infrastructure and supply of transport services

Adequate investment in the EU and Russia in rail, road, port, air and pipeline transport infrastructure is crucially important for the growth of EU-Russia trade and investment. The same concerns investment in the customs field, so that it can perform its duties in a modern, appropriate and swift manner on the border and/or at the destination.

Simultaneously all barriers hampering the use of the most rational logistic solutions and supply of services should be abolished. In railway the export/import of railway cargo shipped through Russian ports can cost up to three times less than when delivered straight through land border checkpoints. Opening of inland water ways for international transport would increase transport by water and there are excessive restrictions in transport by air as well.

- Visa and Work Permit Regime

The current visa procedure is slow and inefficient. Modern business requires flexibility for travel. European business would like to see the EU-Russia negotiations on visa regime facilitation successfully concluded as soon as possible. This would also be a firm step towards visa-free travelling between the EU and Russia. Regarding work permits, the procedure is even more complicated and time-consuming and should be facilitated both in Russia and the EU.

UNICE will continue to closely monitor the progress in the EU-Russia trade and investment relations and looks forward to expeditious progress.
