

24 November 2008

VISIT OF THE ASSOCIATION OF EUROPEAN BUSINESS (AEB - MOSCOW) 25 NOVEMBER 2008

Objectives

- Gain better understanding of business climate in Russia from EU investors
- Strengthen ties with AEB for future common actions

Opening words for lunch meeting (12h30) – Philippe de Buck

- Thank you for coming to Brussels today to present the business situation in Russia. You have attracted a large crowd from our membership across the European Union so I am sure that the discussions will be useful.
- The current economic climate is not a good one, I regret to say. The EU is facing its worst quarterly growth figures in 15 years. The situation in Russia is not much better – although at least the economy is still growing.
- In these difficult economic times, organisations like ours have a more important role to play than ever. We need to work with political leaders to restore business confidence. This requires positive measures to boost growth and jobs – not protectionism. I will be happy to learn from you what the Russian government is doing to help restore business confidence.
- The EU, meanwhile, is working on a budget and fiscal stimulus package to help restore economic growth. BUSINESSEUROPE will be active in that discussion to ensure that EU member states and the Commission contribute substantially to that initiative. We especially want to ensure that the fiscal stimulus package is adopted by all member states and that the measures are targeted to boost growth and employment. We also expect the Commission to do more than just re-hash pre-existing projects. New budgets should be devoted to research and development and growth generating infrastructure projects.
- Beyond the EU, we are also looking keenly at international markets for opportunities to export or to invest to counter the slowdown in Europe. Russia is certainly a key market as it is the second biggest EU export market after the US (and Switzerland but that doesn't count). More importantly, Russia has been the

export market with the highest growth rates for the EU – 22% per year since 2000.

- There are concerns, however, about the direction that the Russian government is going in when it comes to economic reforms. We are reassured that Russia remains committed to joining the WTO and the OECD and to negotiating a bilateral agreement with the EU, the government has also announced measures to raise import tariffs on automobiles or to increase some export duties on raw materials. Investment conditions are also rather unclear at the moment. Your insight into these issues today will be most welcome for our membership.
- Now, I don't want to delay today's lunch any further so I suggest that we eat and resume this discussion over lunch and in more detail during this afternoon's seminar.

Opening words for AEB seminar (14h30) – Philippe de Buck

- Ladies and gentlemen, I would like to welcome you all to this afternoon seminar on Russia. A very special welcome to Frank Schauff and the delegation of the AEB, who travelled such a long way to share their insights about 'doing business in Russia' with us. I am also glad that Peter Balas, Deputy Director at DG Trade will join us in a few minutes. Mr. Balas is head of the trade and economy subgroup for the negotiations of the New EU-Russia Agreement, so his insights will certainly be interesting.
- It is perhaps superfluous to say that Russia is an important trading partner for the European Union. It is our third major trading partner after the US and China. It is also a market with huge opportunities. There are many positive aspects related to the Russian economy and market, but let me just mention here: 1) Russia's high growth rate; 2) Russia's abundance in natural resources and 3) Russia's big potential for industrial and services development.
- These aspects are reflected in the fact that the EU is Russia's biggest investor, with up to 75% of investments coming from EU Member States. European companies invest foremost in **industrial sectors** (e.g. the chemical sector, the automotive sector, appliances and food). There are also EU investments in **commodities** (e.g. oil, gas), but these investments require setting up joint ventures with Russian companies.
- However, there are also many challenges related to the Russian market and to doing business in Russia. Beyond the consequences of the financial crisis and a global economic slowdown on the Russian economy, there are also several systemic problems facing European companies.

- I am sure that today's presentations will be far more elaborate, but let me just mention three of these challenges:

1. Absence of a transparent legal framework

The absence of stable and clear legal framework creates major obstacles for European investors. One example of the 'unclear' Russian legal framework is the **Law on Foreign Investment in Strategic Sectors**, which was passed on 12 April 2008. The law has been criticised for reaching far beyond its legitimate purpose to protect certain industries from foreign influence. One of the major challenges regarding this strategic sector policy is that it lacks clarity and that the definition of 'strategic' could be ever-expanding.

1. Discriminatory application of Russian regulations

On several occasions, Russian regulations have not been applied equally to European investors and Russian companies. The risk of **discriminatory treatment** by Russian authorities is a major problem of European investors. Examples of discriminatory treatment include: (1) issuing of work visa's; (2) application of environmental standards; (3) tax investigations and (4) food safety measures.

2. The difficult environment for industrial investment

In addition to such discriminatory treatment and the absence of a transparent legal framework, European investors are also faced with a **difficult environment for industrial investment**. For example, European companies are faced with **red tape** (e.g. inefficient bureaucracy, lengthy customs procedures) and a high degree of **corruption**.

In addition, the Russian government upholds high local content requirement for industrial production, whereas the **Russian market for supplies is largely ineffective**. This is due to the absence of reliable high quality suppliers, difficulties surrounding the import of supplies and insufficient infrastructure. The automotive sector faces numerous problems in this respect with Russian authorities promoting local assembly of cars.

- In light of these problems, it is important for European business to reflect on ways to improve cross-border investment and especially the conditions under which this is taking place. I would like to make two recommendations in this respect.

1) Russia's WTO accession

Firstly, I think that it is vital that the Russian government remains committed to rules-based international trade and investment. WTO accession is considered to be a first major step toward rules-based economic integration between the EU and Russia. WTO accession would also involve a chapter on trade facilitation, which would help overcome many of the current concerns over customs.

2) An EU-Russia trade and investment agreement

European companies need a comprehensive bilateral free trade & investment agreement with Russia which includes a strong dispute settlement system, a mediation mechanism and chapters on research, energy and environment.

- I will conclude on a positive note. Although there are certainly problems and challenges, the Russian market presents huge opportunities for European business and our trade and investment statistics serve as evidence. I therefore look forward to today's discussions!
