

**PROPOSED IRT RECOMMENDATIONS**  
**To the Spring 2010 EU-Russia Summit in Rostov-on-Don**

The economic crisis has changed the global economic landscape profoundly. The countries of the European continent, including Russia, experience major difficulties. Russia and the EU should join their efforts to revive their global competitiveness by making better use of their complementary comparative advantage structure.

The EU–Russia Industrialists Round Table (IRT) welcomes recent policy developments in the EU and Russia that put both economies in a position to reinforce their joint approach:

- The entry into force of the EU’s Treaty of Lisbon provides a promising new framework for a more focused interaction between European and Russian decision makers on key issues of cooperation, in particular those related to the new EU-Russia Agreement.

- The Partnership for Modernisation announced by Russian President Dmitry Medvedev comprises important provisions in line with the IRT recommendations to the EU-Russia Summit in Stockholm (November 2009), underlining in particular the potential of creating a new EU-Russia Innovation Dialogue.

- IRT particularly welcomes efforts to form a new EU-Russia Partnership for Modernisation, which has the potential to bring EU-Russia relations to a new level and foster mutual cooperation and economic integration. IRT expects that the business community will be invited to play a significant role.

- IRT also welcomes recent statements confirming Russia’s continued pursuit of WTO membership. These recommendations make some business proposals intended to move towards this objective, which would be a major step to a closer EU-Russia economic partnership.

- The decision by the Russian Government to support the use of European technical standards as a basis for national ones is a significant step towards the reduction of non-tariff barriers to trade and investment and a further harmonisation of the regulatory framework. Pro-active application of this decision will represent a major step towards the creation of an integrated EU-Russia common economic area.

- The position of ‘Investment Ombudsman’ recently proposed by the Russian President raises hopes for further improvements in the country’s investment climate and closer attention to problems foreign investors face in Russia.

- Legislative amendments passed in May 2010 make procedures for hiring foreign professionals, including EU nationals, by Russian companies remarkably less troublesome.

While these developments are all encouraging, progress in key fields of bilateral cooperation (most importantly, negotiations of the new EU-Russia Agreement, Russia’s WTO accession, and creation of an EU-Russia Innovation Dialogue) has been too modest.

More action is required to enable a business-driven dynamic recovery from the economic crisis and to move towards IRT’s principal objective, the creation of an integrated EU-Russia common economic area.

Against the background of this setting, the EU-Russia Industrialists’ Round Table makes recommendations in the following fields:

- Russia’s WTO membership and the New EU-Russia Agreement;

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- Fostering investment and technology cooperation;
- Liberalising cross-border movement of people.

IRT believes that these fields offer great potential of fostering modernisation and should therefore be given priority in the development of the EU-Russia Partnership for Modernisation.

### **Russia's WTO membership and the New EU-Russia Agreement**

The formation of a reliable legal basis for long-term business and economic cooperation between Russia and the EU remains of the highest priority for IRT. In line with previous recommendations, IRT calls for radical intensification of bilateral negotiations on two indispensable elements: Russia's WTO membership and a New EU-Russia Agreement.

The following principles should be relied upon when dealing with these issues:

- WTO membership is a key both to Russia's integration into the global rules-based trading system and a speedy conclusion of the negotiations on the economic part of the new EU-Russia Agreement. At the same time, the opportunity should not be missed to make progress in the negotiations on issues of the future agreement which are not covered by the WTO – e.g. investment and technology cooperation.

- A sound basis for Russia's WTO membership has already been created through the bilateral EU-Russia negotiations on the terms of Russia's WTO accession. They reflect the long-term interests of both parties and should be applied insofar as this is possible in the light of developments since the agreement was reached.

- The formation of the Customs Union between Russia, Belarus and Kazakhstan should not be interpreted as either an alternative or a barrier to Russian WTO membership. Provided that the Customs Union is based on WTO principles, the Kyoto convention on the simplification and harmonization of customs procedures, and best international practice, it can be an important step towards Russia's WTO accession. In cases when its rules and regulations deviate from the terms of Russia's WTO accession agreed between the EU and Russia, Governments should swiftly address the policies of the Customs Union that create new barriers to Russia's WTO accession. Business is concerned that the details regarding the implementation of some provisions governing the Customs Union are not yet clear. Therefore, business would welcome more certainty from the Customs Union authorities concerning all practical business issues (including those related to practical application of the Common External Tariff).

- Further delays on Russian WTO accession would slow progress in negotiations on the new EU-Russia Agreement, with adverse effects on the economic recovery in both Russia and the EU. IRT welcomes the establishment of a common list of outstanding actions by Russia, the EU, and the US. All parties should commit to a timetable for implementation that will lead to the decision on Russia's WTO accession. The EU should reinforce its support for Russia's accession efforts, including by liaising with third countries.

- At the same time, practical action is possible to improve the cross-border movement of goods between the EU and Russia. The use of eCustoms should be promoted, and information requirements going beyond international standards should be abolished.

- New impetus should be given to discussions on the new EU-Russia Agreement. To that effect, the potential of economic cooperation as a driver of EU-Russia relations should be recognised. Substantial provisions on trade and investment (stemming both from WTO terms and areas beyond WTO coverage) should be put at the heart of the negotiations.

## **Investment and technological cooperation**

Both the EU and Russia have an increasing need to boost their investment. EU-Russia economic cooperation should make full use of their complementary comparative advantage structures. The promotion of bilateral investment flows is a key to boosting their economic dynamism. Capital, technologies, and skills from EU investors, coupled with Russian natural and human resources and consumer markets can promote economic recovery and reinforce economic integration to the mutual benefit. An increase in foreign direct investment can help to boost the use of local content in domestic production. To reach this goal, new progress should be made in the field of EU-Russia investment cooperation.

Both Russian and European investors increasingly express concerns about formal and informal investment barriers. For Russian investors in the EU, the principal concern is unequal treatment, especially in the high-tech and energy sectors. For EU investors in Russia, concerns regarding investment protection, administrative barriers and entry restrictions remain the principal factors influencing investment decisions. To address these concerns and foster investment cooperation, IRT proposes the following:

- Discrimination of investors on the basis of nationality should be prevented. Cases when preferences are given to or mistreatment is suspected against particular investors because of their national affiliation should be subject to impartial investigation through the existing dispute resolution mechanisms and mechanisms protecting competition. If necessary, these could be supplemented by a joint EU-Russia function akin to the proposed Russian ‘Investment Ombudsman’.

- In sectors of specific national concern, where the transition to full non-discrimination could take longer, the careful use of the principle of reciprocity to unlock new investment opportunities should be considered. Reciprocity should only be pursued if it can lead to market opening. It should not be pursued if it is more likely to prevent market opening. In any case, the transition to non-discriminatory treatment should take place as quickly as possible.

- The major positive effects of foreign direct investment derive from technology transfer and technology cooperation. Their role is especially important in high-tech sectors, where cooperation between foreign investors and domestic companies creates technological chains not only contributing to making established products but also fostering development of new ones. IRT proposed the creation of a new EU-Russia Innovation dialogue to the Stockholm EU-Russia summit (November 2009). This dialogue should focus on technology-related issues of investment promotion.

- In the energy industry, one of the locomotives of modernisation, more emphasis should be put on economic and energy efficiency. The potential for EU-Russia agreements is especially great here, as are possible gains in terms of production efficiency, energy saving, and supply reliability. Successful and innovative EU companies can contribute to innovation in Russia, provided they are given the opportunity to participate in the drive for economic modernisation.

- The IRT Recommendations to the Stockholm EU-Russia Summit (November 2009) on the creation of an EU-Russia Innovation Dialogue can form a sound basis for the new Partnership for Modernisation in the field of technological cooperation and investment protection. The proposed Dialogue should tackle issues in the area of investment cooperation that are directly related to technological development, including a joint legal environment for innovation development and mutual cooperation, bilateral efforts to create a joint market for the development, commercialization and adoption of innovations, as well as the conditions to promote technology transfer.

- Investor protection plays an important role in the field of technological cooperation. In particular, concrete steps to protect intellectual property rights (including patent law

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harmonization, drafting joint guidelines for patent expertise, and providing adequate legal support for licensing agreements), would foster the transfer of technology and know-how.

- Public-private partnership projects, in particular as joint projects under the 7<sup>th</sup> EU Framework Programme, can generate early success stories to push Partnership for Modernisation forward. On the eve of the forthcoming EU-Russia Summit in Rostov-on-Don IRT is undertaking to organise a project discussion workshop to promote such initiatives in the field of technological cooperation.

### **Liberalising cross-border movement of people**

Professional skills are a major driver of competitive advantage in the world economy, and therefore a precondition for sustained economic growth. It is essential to address this issue to make the Partnership for Modernisation a success. Facilitating the cross-border movement of people will foster the exchange of knowledge, better flow of know-how, technology transfers and facilitate foreign investment which usually requires cross-border movements of professionals. These measures should also enable the large Russian academic diaspora in the EU to work in Russia without loss of employment and residence rights acquired in the EU.

Despite several steps in recent years, little progress has been achieved in effectively reducing obstacles to free movement and making it less costly. In particular, the current EU-Russia visa facilitation agreement has not noticeably simplified visa application procedures or reduced the bureaucratic burden and application times on either side. Businesses feel no positive effects of these measures. Both EU and Russian business face costs and a lack of flexibility as a result.

The newly established ‘visa centres’ of groups of EU countries’ consulates appear to have lengthened the application process and increased the costs for applicants. It is too early to judge whether the Schengen area’s new Visa Code improves the situation. EU applicants for Russian visas also face bureaucratic hurdles, costs and burdensome registration requirements in Russia.

Taking this into account, IRT makes the following recommendations on possible ways to reduce visa barriers.

- A pragmatic solution in the short term could be to grant multiple 5-year visas upon request to all persons who visited Russia or the EU on any visas at least twice before. Presumably, the applications for these visas would have provided sufficient opportunity for scrutiny and should allow the confirmation of a bona fide status for a visa applicant. Further procedures thus appear unnecessary. This would be especially helpful for high-skilled specialists and professionals who need to travel frequently between the EU and Russia.

- In the long term, IRT argues for total elimination of reciprocal visa requirements for travel between Russia and the EU, including non-Schengen countries. Equally, all existing restrictions on free movement of EU citizens across Russia, including registration requirements for expatriates, should be lifted.

### **Conclusion**

IRT strongly believes that the economic crisis calls for a stronger joint response. Decisive steps to complete Russia’s WTO accession and advances in all areas of the New EU-Russia Agreement will lift barriers to bilateral trade, technological cooperation. Improved movement of people will also help to exploit complementary comparative advantages of the EU and Russia, thus fostering competitiveness and economic revival. Success on the pathways described in these recommendations will considerably improve our economies’ image of each other.

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## **IRT members**

### **Russian side**

Anatoly Chubais, IRT co-chairman (Director General, Rusnano)

Vladimir Evtushenkov (Chairman, AFK “Sistema”)

Lev Khasis (CEO, X5 Retail Group N.V.)

Andrey Kostin (President & CEO, VTB Bank)

Alexey Mordashov (General Director, Severstal)

Alexander Shokhin (President, Russian Union of Industrialists and Entrepreneurs – RSPP)

Viktor Vekselberg (Executive Director, TNK BP Management, Gas Development)

Vladimir Yakunin (President, Joint stock company “Russian Railways”– RZD)

### **EU side**

Peter Löscher, IRT co-chairman (President and CEO, Siemens AG)

Nils S. Andersen (Group CEO, A.P. Moller – Maersk)

Dr. Rüdiger Grube (Chairman and CEO, Deutsche Bahn AG)

Tony Hayward (Group CEO, BP p.l.c.)

Jouko Karvinen (CEO, Stora Enso)

Gertjan Lankhorst (CEO, GasTerra)

Gérard Mestrallet (Chairman and CEO, GDF Suez)

Aloïs Michielsen (Chairman, Solvay)

Jørgen Buhl Rasmussen (President and CEO, Carlsberg)

### **Observers**

Frank Schauff (CEO, Association of European Businesses in the Russian Federation – AEB)

Jürgen R. Thumann (President, BUSINESSEUROPE)

Thomas Mirow (President, European Bank for Reconstruction and Development – EBRD)

Garegin Tosunyan (President, Association of Russian Banks)

#### ***The IRT vision of an integrated EU-Russia common economic area***

An integrated EU-Russia common economic area should provide a rules-based framework for mutual trade and investment, which will generate a win-win partnership ensuring fair competition and freedom of cross-border movement for professionals.

This vision can only be built on a broad and comprehensive free trade agreement, based on WTO membership, which includes implementation of the following elements:

- Substantially fewer trade obstacles for bilateral trade in goods and services than required by the WTO (“WTO+”). As a rule, tariffs should be abolished and quotas and all other export and import restrictions discontinued.
- Approximation of economic regulations and standards around transparent, predictable, proportionate and fact-based regulation and international approaches to standards.
- An open, transparent and non-discriminatory regime to encourage and protect mutual investment with full transparency and sustainability based on national treatment and, if necessary, an exhaustive list of reasonable exemptions
- Robust enforcement of intellectual property rules
- Effective dispute settlement and mediation mechanisms