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WORLD FINANCIAL CRISIS AND ITS CONSEQUENCES FOR BUSINESS DEVELOPMENT IN RUSSIA AND THE EU

EUROPEAN-RUSSIAN BUSINESS FORUM ST-PETERSBURG, 24 SEPTEMBER 2010

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Introduction

- Thank you for the kind invitation. It is a **pleasure** to be in beautiful St Petersburg. The city has never looked better! Also, it is a pleasure to be able to meet you here in Russia, where many of you have build up successful companies.
- As most of you surely know, **BUSINESSEUROPE** is the Confederation of European Business, uniting 40 business federations from 34 countries in Europe. In addition, we have a network of **corporate** members. A wide variety of companies with activities in Europe are members of this network, including the Russian company Lukoil. In Russia, we work extensively with **strong partners**, such as the Association of European Business, but also our counterparts, the Russian Union of Industrialists and Entrepreneurs.

EU-Russia trade and investment relations

- The European Union and the Russian Federation are important **partners** in a large number of areas. We are neighbors and have a **strong** and **growing** trade and investment relationship.
- The EU is by far Russia's **main** trade and investment partner, accounting for **more than half** of its overall trade turnover and **up to 75%** of foreign direct investment. The EU is Russia's main **supplier of manufactured goods**, which make up around 85% of EU exports destined for Russia. These include aircraft, cars and mobile phones.
- Russia is a tremendously important **market** for the EU, as well as a critical **supplier of energy and raw materials**. Russia's exports of oil, coal and gas still account for more than three-quarters of EU imports. We should also not forget that Russia is an important **investor** in the EU. Russia's FDI to the EU reached almost 10 billion euro's in 2007.



- Before the economic crisis, bilateral trade and investments between our two economies were **growing rapidly**. EU exports went from only 23 billion euro in 2000 to 105 billion in 2008, roughly a **five-fold increase**. In the same period, Russia's exports to the EU **tripled**, as they rose from 64 billion in 2000 to 178 billion in 2008.
- Although the recession caused **sharp drops** in these trade and investment flows, I am **optimistic** about the long-term outlook for our economic ties.
- For the EU, we predict **sustained growth** in coming months, which will lead to a GDP growth rate of around 1.5 to 2% in 2010. For Russia the outlook is even better, with a growth rate of 4.5% growth in 2010.
- As we are **recovering** from the economic crisis, it is important that companies, from the EU and from Russia, are able to **take advantage of the opportunities** offered in each other's economies.
- I am convinced that there is a lot of **potential** for a further strengthening of our economic partnership. Investment flows, in both directions, have not yet reached their full potential. In addition, there are still too many trade barriers between our two economies. **Governments** have a key role to play here.

Moderator: "Could you elaborate on the expectations of the business community for actions to be taken by governments, both in the long and short term?"

Framework conditions

- One the one hand, governments on both sides should move towards a strengthening of the overall policy framework governing EU-Russia economic relations. Our two priorities in this respect are:
 - **Russia's WTO accession**, which will put in place globally recognised rules and practices and will have positive effects going far beyond trade relations. It will also give companies in Russia better access to markets around the world, especially if the Doha Round is concluded.
 - **A New EU-Russia Agreement**, which should include substantial trade and investment provisions. The agreement should provide for greater trade liberalisation and greater certainty regarding direct investments, for example through market access commitments and investment protection.
- I realize that these might be **difficult** to achieve on the short term. We are already discussing Russia's WTO accession since 16 years now and there has been very limited progress. At the same time, Russia's WTO accession and agreeing on a New EU-Russia Agreement will **benefit all Russian and European companies**. Therefore, I believe that they remain the most effective policy instruments and that we should continue advocating them.



Short/medium term - Partnership for Modernization

- At the same time, we should identify areas where progress can be made in the **short to medium term**. I believe that the EU-Russia partnership for modernization, which was agreed by our leaders in the Rostov-on-Don Summit a few months ago, can be the right **vehicle** for such initiatives.

We believe that particular progress can be made in **four** areas:

1. Standardization
2. Intellectual property rights protection
3. A modern business-travel regime
4. Industrial sector dialogues

1. Standardisation

First: Trade in industrial goods can be significantly hindered by differences in technical standards. Although we welcome the intention to apply many European standards in Russia, we propose that this momentum is **formalized** in an EU-Russia standardisation initiative. Good progress has already been made for example on Eurocodes, a set of European Standards for the design of buildings and construction products.

2. Intellectual property enforcement

Second: Innovation and modernisation require the strict enforcement of intellectual property rights. Here there is room for improvement in the Russian Federation. For example in 2006, Russia's Federal Service for Health Sphere Supervision (FSHSS) reported that 10% of all drugs on the Russian market were counterfeit. We therefore propose that governments on both sides work on a targeted intellectual property **enforcement initiative**. As part of this initiative, the EU should provide its expertise on enforcement mechanisms.

3. Modern business-travel regime

Third: Unfortunately, there are still too many barriers when it comes to travelling between our two economies. An initiative on a **modern travel regime** should make it easier for business travellers to enter Russia and the EU. As part of this initiative, all existing restrictions on free movement of EU citizens across Russia, including registration requirements for expatriates, should be eliminated.

4. Industrial sector dialogues

The fourth and final area for progress in the short to medium term is **industrial sector dialogues**. Russia and the EU both have their sector specific policies, such as Russia's Pharma 2020 Strategy or the EU's Clean Vehicles Strategy. We believe that governments should engage in a **dialogue** on such sector-specific policies, in order to identify synergies and best practices. By aligning industrial development strategies, significant **investment opportunities** can be created, for example in the pharmaceutical or automotive sector.

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