

IRT RECOMMENDATIONS TO THE EU-RUSSIA SUMMIT

Brussels, 7 December 2010

Summary

IRT supports improvements to the policy framework governing EU-Russia business interactions. In the long term, IRT expects the introduction of an EU-Russia common economic area. As important steps into this direction, IRT strongly supports Russia's accession to the WTO and conclusion of a new agreement governing EU-Russia relations. In addition, the Partnership for Modernisation provides a framework for pragmatic measures towards this longer-term goal, including as first and foremost a launch of the proposed Innovation Dialogue and a number of policy initiatives related to furthering EU-Russia cooperation in the key areas.

IRT suggests that the Brussels EU-Russia Summit should consider and agree on three specific policy initiatives as a priority to deliver the Partnership for Modernisation:

- An EU-Russia initiative to broaden up cooperation in standardisation
- An intellectual property rights enforcement initiative
- An initiative for a modern travel regime

These initiatives will make key enabling contributions to the Partnership for Modernisation. If the Brussels Summit agrees to start work immediately, substantial progress is possible until the next EU-Russia Summit.

IRT also supports the continuing efforts of the G20 leaders to secure global financial stability, which is a precondition to successful EU-Russia economic cooperation. We are looking for even closer EU-Russia cooperation in this field, with the objective to strengthen investment activity in private sector projects that will turn the Partnership for Modernisation into reality. To this end, the banking system needs to be able to channel financial resources into the real economy. IRT would be ready to come with concrete proposals in this regard for the EU-Russia Summit in Spring 2011.

Recommendations

1. IRT supports improvements to the policy framework governing EU-Russia business interactions

We continue to strongly support any moves towards a strengthening of the overall policy framework governing EU-Russia economic relations. Improvements in these areas will benefit all Russian and EU

On its own part, IRT launched a new private-public initiative to push the Partnership for Modernization forward. Keeping with its idea of the EU-Russian Innovation Dialogue, IRT started a series of Project Workshops intended to identify path-breaking projects involving investment and technological cooperation between Russian and EU-based companies, and discuss policy innovations needed to implement these projects. The First Project Workshop took place in Novocherkassk (Russia) on May 31, 2010. Preparatory work for future Project Workshops is under way. Prospectively, a list of key joint business projects can be composed, with EU-Russia Summit being regularly informed both on progress with these projects and optimal policy measures to support them.

companies, and should therefore be seen as the most effective policy instruments to foster our joint economic modernisation. The most promising continue to be:

- **Russia's accession to the WTO.** The implementation of globally recognised rules and practices, in line with the commitments related to WTO accession, will have positive effects going far beyond trade relations. They will increase competition in the Russian economy. IRT looks forward for the bilateral agreement on the terms of Russia's WTO accession to be signed at the forthcoming EU-Russia Summit, which now opens the perspective of speedy conclusion of the multilateral process and implementation of the agreements reached.

Any negative effects of WTO membership should be addressed, for example through schemes to support targeted re-orientation towards more competitive areas of business activity. Such schemes could be a useful element of Russia's economic modernisation strategy.

Any new rules, e.g. local content requirements, should be implemented in a way that does not create new obstacles to WTO accession and that does contribute to economic modernisation. At the same time, measures taken in the context of the economic crisis should be revoked as soon as possible.

- **A new agreement governing EU-Russia economic relations.** We continue to support the aim to upgrade the formal agreement between the EU and Russia governing our economic relationship. We have repeatedly indicated that we are looking for an agreement that provides for greater trade liberalisation than WTO membership, and that is based on WTO Membership for simplicity. (If it is not based on WTO Membership, all WTO provisions would have to be incorporated in the new agreement.) Ultimately, we are looking for an EU-Russia free trade area.

We also expect this agreement to provide for greater predictability and certainty regarding direct investments, including market access and investment protection. We strongly advocate a fair and equal treatment of Russian and EU investors in both our economies. To support this objective, the new agreement should establish an efficient mechanism for dispute settlement.

Given the overwhelming potential of these projects to deliver real economic modernisation for both our economies, progress has so far been disappointingly slow. We hope that the renewed drive of the Partnership for Modernisation will help to deliver these crucial measures.

2. IRT suggests specific policy initiatives to deliver the Partnership for Modernisation

We welcome the joint determination to strengthen cooperation in the Partnership for Modernisation. We believe this Partnership should aim to achieve concrete progress on specific policy initiatives that are complementary to the continuing efforts to agree a new EU-Russia agreement, and which could also facilitate progress towards Russia's WTO accession.

Our proposals focus on the joint promotion of innovation. Innovation takes place when an idea or invention is transformed successfully into a commercial application, and thus delivers economic growth. To take account of the broad nature of innovation, IRT continues to promote the creation of an EU-Russia Innovation Dialogue.

One of the drivers of innovation is technology transfer. Technology and technical goods play an important role in driving forward economic and industrial modernisation in all industry sectors. Yet, trade in such goods is often inhibited by issues around intellectual property protection, differences in standards and export controls.

This is why we propose that the following policy projects should be started immediately with the aim of achieving significant progress by the next EU-Russia Summit. We believe that substantial progress on these initiatives is possible by the next EU-Russia Summit.

2.1 An EU-Russia initiative in the area of standardisation

Trade in technical and technological goods can be significantly hindered by differences in technical standards or even the process relating to the certification of compliance with technical standards. In this way, investment in manufacturing and other investment projects involving technological transfers can be hampered. Such obstacles thus inhibit modernisation efforts. They can be eliminated by adopting existing and well-established regulatory standards, in particular international and European standards and technical regulations.

We therefore welcome the intention to align Russian technical regulation to the European 'new approach' and to apply many international and European standards in Russia. We strongly encourage continued speedy implementation of this decision especially that the new regulation is to be implemented across the Common Economic Space of Russia, Belarus and Kazakhstan. Given the positive effects of the use of common standards within the EU's Single Market, where the elimination of technical barriers to trade is a key to success, the EU has built up a unique experience in this field. We propose that this experience should be at the core of an EU-Russia standardisation initiative that works according to a pragmatic roadmap:

- First, adopt existing international and/or European standards where no Russian standards exist. Start with areas that are key for the modernisation drive.
- Then, identify areas where standards and technical regulations differ between the EU and Russia and have given rise to trade impediments. Seek to adapt and introduce, where possible, international and European standards to be applied equally with Russian standards. .
- Pursue gradual accession of the Russian Federation to the European standardisation committees. This will allow Russia to participate fully in the development of new European standards, which could then also become applicable in Russia.
- Finally, with a view to further eliminating technical barriers to trade, phase-in the mutual recognition of conformity assessment and certification.

We propose that this roadmap should be implemented with industry participation and apply in particular in areas relevant to EU-Russia trade and high-tech cooperation, and should be implemented as a matter of priority in areas closely linked to the modernisation agenda:

- Transportation equipment and infrastructure, e.g. in the area of construction and operation of high-speed railroads
- Navigation systems GPS/Galileo/Glonass
- Energy efficient and energy saving equipment and consumer appliances

- Nano- and microelectronics
- Health standards linked to consumer products, e.g. complete alignment of rules related to the use of the Specific Absorption Rate (SAR) as a measure of electromagnetic compliance of mobile phones
- Construction services and construction materials
- Chemical and pharmaceutical products

Furthermore, modernisation across all industry sectors can be speeded up through the application of international health and safety standards. The planned new rules for offshore oil and gas production provide an opportunity in this regard.

Measures in these areas should be supported by a general increased use of electronic customs interchange systems to speed up customs processing of traded goods and to reduce the cost of trade overall.

2.2 Intellectual property rights enforcement

Innovation takes place when an idea is transformed into an invention that finds commercial application. It is the commercialisation of the invention that provides the return on the investment in the research and development effort that leads to the innovation. Thus, the private sector will invest in innovation in the expectation of getting the return on this investment. This return can only be guaranteed if the rights to the intellectual property on an innovation are enforced. Innovation and modernisation therefore require the strict enforcement of intellectual property rights. This will be a key enabling factor for the success of the planned high-tech research hub in Skolkovo.

As the major step towards creating an EU-Russia single market for the development, adaptation and commercialisation of innovations, we therefore propose that a targeted intellectual property enforcement initiative should seek to ensure the full respect of existing legislation on this issue. It is essential that the enforcement of intellectual property rights becomes generalised and sustained. A determined effort to address this issue would significantly improve the innovation climate in Russia, and thus make a major contribution to the modernisation agenda. The EU should assist this initiative by providing its expertise on enforcement mechanisms, and by working with the Russian authorities to identify priority areas for action. We suggest that the enforcement of effective IPR protection should be guided by the following basic principles:

- Both legislation on the protection of intellectual property rights as well as its enforcement should be based on the leading set of international rules in this field, the WTO Agreement on trade-related intellectual property rights (TRIPs).
- Many investments in high-technology industry sectors, e.g. in the pharmaceutical industry, can be made more attractive by maximizing the period of data exclusivity for investing companies.
- A high-quality and low-cost patent system is essential for a modern innovation economy. In the EU, the management of Intellectual property rights at EU level should be enhanced through agreement on the EU Patent. In Russia, rigorous law enforcement should take place to ensure that patents are only awarded to solutions that are genuinely new. The effectiveness of current patent legislation should be examined on the basis of selected legal cases.

- Counterfeiting is a disincentive to innovation. Effective action is required to intercept counterfeit goods, destroy them and thus stop them from reaching the market. This can be done in part by enforcing legislation that makes counterfeiting activity an offence.

In addition to these specific measures, it can be anticipated that EU-Russia technology cooperation could be inhibited by current rules on the transfer of dual-use technologies. To prevent this obstacle from becoming more important, this issue should be addressed by enforcing reliable mechanisms to prevent leakage of these technologies to third parties. At the same time, unnecessary administrative barriers should be eliminated and supporting instruments for application of such technologies should be created.

2.3 An initiative for a modern travel regime

Economic modernisation will be driven by innovation, and a crucial driver of innovation is knowledge. Knowledge, in turn, is embedded in people. This is why a broad and lively exchange of people in both directions between Russia and the EU is an essential ingredient of the Partnership for Modernisation. A modern visa regime would make a significant contribution to the delivery of the Partnership for Modernisation. We regret that efforts to achieve progress on further visa facilitation did not deliver an agreement at the EU-Russia Summit in Rostov-on-Don.

We propose that an initiative for a modern visa regime should make travel easier for repeat travellers. IRT previously suggested that maximum stay multiple entry visas for the EU as well as for Russia should be granted automatically to all applicants who have visited the other economy at least twice before. Once granted, a visa should be sufficient to guarantee free movement within the country/countries for which it is valid. The combination of different visa types, e.g. work visas with visas allowing teaching at universities, should be facilitated.

These could be the first measures leading to a perspective of eventual total elimination of reciprocal visa requirements for travel between Russia and the EU, including non-Schengen countries.