

EU-Russia Economic Co-operation: a Way Forward

by

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Although economic experts are still uncertain whether the recent crisis is really over –given growing public deficits, public and private debt challenges, and exchange rate volatility –there is no doubt that it has changed the global economic landscape more profoundly than meets the eye. Most countries of the European continent, including Russia, experienced major difficulties. At the same time, leading developing economies, while initially hit hard by the crisis, bounced back quickly, and now continue to catch-up, as illustrated by their improving relative positions compared with the EU, Russia and others.

Both the EU and Russia must face these competitive challenges. But rather than attempting to face them individually, Russia and the EU should combine their efforts to make better use of both economies' complementary comparative advantage structure. To accomplish this, private business initiatives should be combined with responsible policies to support bilateral co-operation in trade, investment, and innovation.

The EU-Russia Industrialists Roundtable (IRT) has a long record of developing policy recommendations to policy makers. Each spring and autumn, the IRT highlights the priorities shared by business actors to the EU-Russia Summits, and makes practical proposals to advance bilateral economic co-operation. In May 2010, it approached the EU-Russia Summit in Rostov-on-Don with an extensive set of proposals aimed at boosting the growth of our economies. The most important strategic issues on the IRT agenda are Russia's WTO accession and conclusion of the new EU-Russia Agreement, which is currently under negotiation. The slow progress on both issues is disappointing, especially as it does not reflect the considerable potential gains of the mutually beneficial co-operation that these agreements would facilitate. IRT strongly believes that progress in these areas is a key to the formation of a reliable legal basis for long-term business and economic relations between Russia and the EU.

Both negotiations are closely interrelated, as Russia's WTO membership would radically simplify progress on the economic part of the new Agreement: in the absence of WTO membership, all the basic rules of the Agreement governing trade and investment would need to be spelled out explicitly, which could further delay the completion of the negotiations. In turn, progress in the negotiations on the new Agreement (such as consensus on the perspectives of establishing a common economic area based on freedom of trade, investment, and movement of people) would vitalise both parties' efforts to achieve Russia's WTO membership as soon as possible. In this setting, it is crucially important that the formation of the Customs Union between Russia, Belarus and Kazakhstan is not interpreted as either an alternative or a barrier to WTO membership. Provided that the Customs Union is based on WTO principles, the Kyoto convention on the simplification and harmonisation of customs procedures and best international practice, it can be an important step towards Russia's WTO accession. In cases where its rules and regulations deviate from the terms of Russia's WTO accession agreed between the EU and Russia (like with some tariff lines of the Common External Tariff), governments should swiftly address the policies of the Customs Union that create new barriers to achieving Russia's WTO membership. Efforts are

underway to address these issues.

Meanwhile, important steps to improve competitiveness and shift to sustainable growth can be made even before these two strategic goals are achieved. Investment and technological cooperation are the natural issues to start with. Because of its importance in generating economic growth, both the EU and Russia have an increasing need to boost private sector investment. EURussia economic co-operation should make full use of their complementary economic structures. The promotion of bilateral investment flows can be a key to their economic dynamism. Capital, technologies, and skills from EU investors, coupled with Russia's natural and human resources and consumer markets can promote economic growth and reinforce economic integration to mutual benefit.

In its messages to the Stockholm EU-Russia Summit in November 2009, IRT announced the Innovation Dialogue initiative. This Dialogue will seek to identify common approaches to an issue which is a policy priority in Russia (as part of the modernisation agenda) as well as in the EU (as part of the Europe 2020 Strategy). In an effort to support the effective inclusion of this issue in the EU-Russia Partnership for Modernisation, the Innovation Dialogue intends to tackle issues in the area of investment co-operation that are directly related to technological development. This includes improvements in the legal environment for innovation development and investment in technological modernisation, and creation of a joint market for the development, commercialisation and adoption of innovations. In addition, the conditions to promote technology transfer are to be examined. Accordingly, IRT has already outlined the following priorities for the official EU-Russia Dialogue on this matter:

- to strengthen the legal framework for innovative development and business-to-business cooperation
- to boost ties to advance formation of an EU-Russia single market for the creation, commercialisation and adaptation of innovations
- to develop mechanisms to facilitate co-operation at the project level, especially in areas where joint activities by Russian and EU partners can bring strategic competitive advantages to our economies.

One of the policy fields critical to the success of the Innovation Dialogue is investor protection. In particular, IRT stresses the necessity for concrete steps to be taken in order to protect intellectual property rights (including patent law harmonisation, joint guidelines for patent expertise, and providing adequate legal support for licensing agreements). This would foster the transfer of technology and know-how. Eliminating discrimination of investors on the basis of nationality is also an urgent issue, given that both Russian and European companies often feel discriminated against on partners' markets. For Russian investors in the EU, the principal concern is a perception of 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.

Given these concerns, IRT argues that in cases where discriminatory treatment of particular investors on the basis of their national affiliation is suspected, there should be an impartial investigation through the existing dispute resolution mechanisms and the mechanisms safeguarding competition. The main priority is to apply non-discriminatory ("national") treatment to each other's investments. IRT also argues that 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. Naturally, reciprocity should only be pursued if it can lead to market opening, and not used to justify a protectionist response to 'unwanted' policies by the partner. In any case, the transition to non-discriminatory treatment should take place as quickly as possible.

As the Innovation Dialogue is by definition a public-private initiative, IRT started a series of workshops to discuss opportunities for path-breaking projects involving investment and technological co-operation between Russian and EU-based companies, and identify policy

innovations needed to implement them.. The first Project Workshop took place in Novocherkassk (Russia) in May 2010. Its findings will be integrated into the IRT's messages at the next EU-Russia Summit in Brussels. Preparatory work for future workshops is underway to provide further insight into supportive joint policy action.

Another issue where radical policy changes would provide a welcome facilitation of economic cooperation is the easing of cross-border movement of people. Professional skills are a major driver of innovation, and thus a precondition for sustained economic growth. In addition, it is essential to address this issue to make the Partnership for Modernisation a success: facilitating the crossborder movement of people will foster the exchange of knowledge, better flow of know-how, technology transfers, and will also facilitate foreign investment which usually requires cross-border movements of professionals.

Despite several steps in recent years (including recent Russian legislation on hiring foreign specialists), limited 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. So far, businesses feel little positive effect of these measures. Both EU and Russian companies face costs and a lack of flexibility as a result.

Taking this into account, IRT makes the case for decisive steps to reduce visa barriers. As a practical solution that can be implemented without any undue delay, IRT proposes to grant multiple-entry 5-year visas to repeat travellers (all persons who visited Russia or the EU on any visa at least twice). As applications for these visas provide sufficient opportunity for scrutiny and allow the confirmation of a bona fide status for a visa applicant, repeating these procedures every time a visa is applied for appears unnecessary. This measure would be especially helpful for highly 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. This will bring new dynamism to business contacts and help join professional competences to make our economies more competitive.

As the key player in fostering a constructive EU-Russia business dialogue, IRT works to translate business perspectives and expertise into recommendations for policy measures that can contribute to an improved investment climate and the promotion of economic growth. Decisive steps to complete Russia's WTO accession and negotiations on the new EU-Russia Agreement, moving forward with a Dialogue on innovation, and the progressive elimination of visa barriers are crucial to reap the benefits of the EU and Russia's complementary economic structures. By working together more closely, both economies will be better prepared to face competitive challenges in the future.