

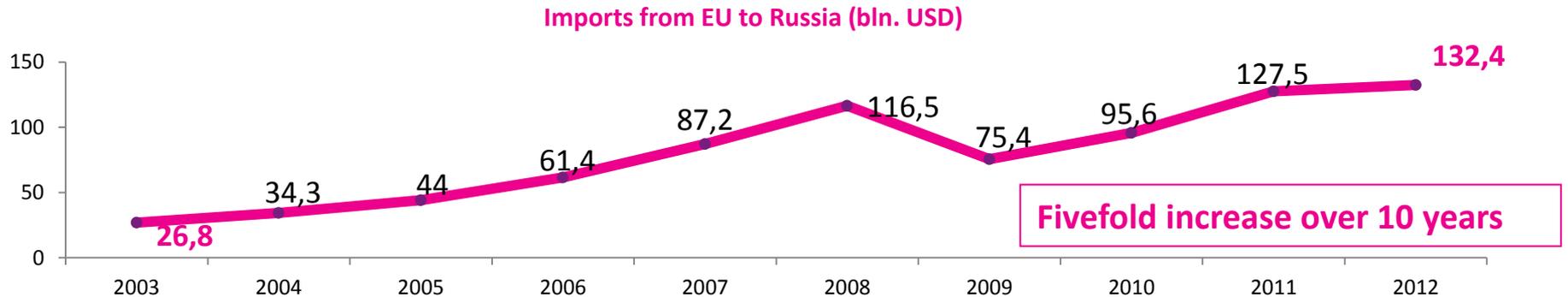
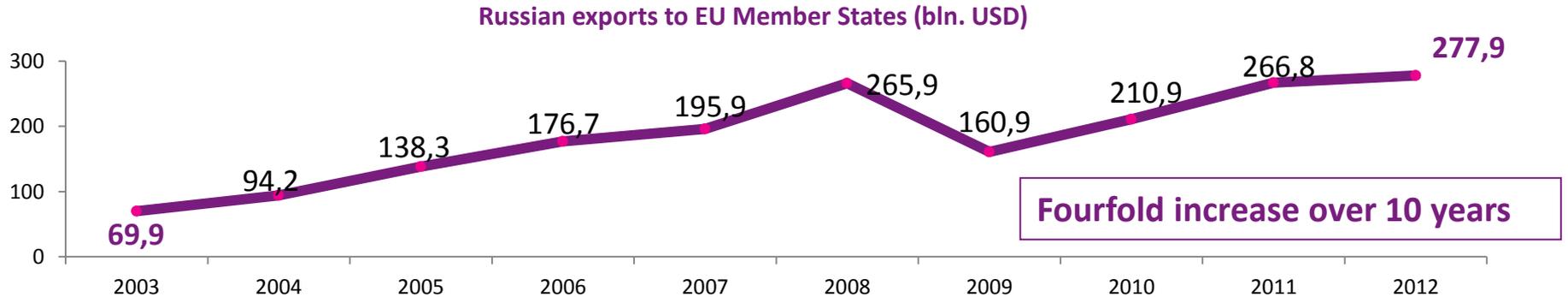
Russia-EU: dialogue continued at a new level

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Russia and EU – strategic partners



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EU for Russia:

- Roughly half its external trade (over 50% of exports and nearly 40% of imports).
- Major energy market: 75% of overall oil, 70% of natural gas and 50% of coal sold to EU

Russia for EU:

- Third largest trade partner (following US and China) Russia accounts for approx. 12% of EU's imports and up to 7% of its exports
- Meets about 25% of oil & gas demand

Russia-EU: treaty framework

Fundamental instrument:

Partnership and Cooperation Agreement (PCA)

- Signed 24.06.1994
- Took effect 1.12.1997 for 10 years' period.
- Extended annually since 2007

PCA was a major driver of Russia-EU relationship:

- envisaged WTO regime application in mutual trade prior to Russia's accession thereto
- encouraged Russia-EU cooperation on a broad range of issues

Russia-EU: treaty framework

Why is current PCA obsolete?

- **Russia's accession to the WTO**

No need to duplicate respective rules in Partnership and Cooperation Agreement any longer

- **Post-Soviet Economic Integration**

Customs Union has been established, Common Economic Space is fledgling, some powers have been delegated to supranational level

**Current PCA
meets neither state of play
nor the strategic partnership principle**

Negotiations on a new agreement:

Why have they reached an impasse?

Expectations:

WTO will become an impetus for a new Russia-EU agreement

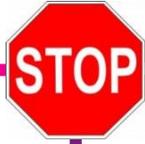


Reality:

Parties trying to win the dispute on what has already been settled during WTO talks

Free Trade Area (FTA):

Why is it not possible in the short-run?



1. Adaptation period after recent WTO accession:

Further foreign trade liberalization will take time

2. Political and legal circumstances:

FTA must involve all members of the Custom Union, incl. Kazakhstan and Belarus that are yet to accede to the WTO

PCA 2.0:

Three major principles

The New Agreement shall:

- Be based on **WTO rules**
- Elaborate further on issues **regulated by WTO**
- Regulate issues **beyond WTO scope**

PCA 2.0:

Three pillars

- Mutual trade
- Mutual protection of investments
- Cooperation in individual sectors

Mutual trade:

Expansion of WTO rules

- **Customs administration and customs procedures** (harmonizing documents forms, authorized operators' rules of work, single-window documents submission, one-stop service customs procedure)
- **Sanitary and phytosanitary measures** (information exchange, harmonized forms, mutual recognition of documents)
- **Technical regulation** (joint elaboration and adoption of new regulations and standards (biotechnology goods, advanced environmental standards, etc.) incremental harmonization of current regulations, conformity assessment procedures, conformance of conformity marks between the EU and the CU/CES)
- **Special safeguard, anti-dumping and countervailing measures** (regulation of the consultations procedure, analysis, evidence provision, damage assessment, regulation of retroaction, decision-making, reduction of maximum duration of measures or ban on the introduction of relevant measures)

Mutual protection of investments

- **The Best Practice principle implemented in the market access and investor protection issues.** New rules that govern specific issues of investment cooperation should be based on the provisions of effective bilateral investment agreements between Russia and the EU member countries, which respect the investors' interests as much as possible.
- **Intellectual property right protection.** Laws and regulations harmonization between Russia and EU, stronger investor protection and prevention of the investors' intellectual property and IP income from being misappropriated by third countries.
- **Focused support of investment projects that use joint R&D results,** including the ones implemented by Russian and European companies, involving scientific and educational institutions.

Cooperation in individual sectors

Mutual trade and investments protection issues should be specified by additional cooperation agreements in key sectors:

- Intellectual property protection
- Electric power sector
- Transport and logistics
- Telecommunications
- Healthcare
- Security
- Science & Technology and cultural cooperation

PCA 2.0:

Potential benefits from cooperation arrangement

Does not contradict WTO rules

The agreement is based on WTO rules and provides further elaboration when it is in the interests of both parties

No impact on trade regimes with third countries

Does not run counter to the establishment and development of the Customs Union (Russia, Kazakhstan, Belarus)

As the economic leader of the CU Russia will be mindful of the interests of all external partners
Russia

Does not imply insurmountable political obstacles

All the contentious issues (visa regime, energy sector, etc.) may be put outside the scope of PCA 2.0; if agreements are reached they may become part of PCA 2.0

PCA 2.0 is mutually beneficial for Russia and the EU