

ECONOMIC PARAMETERS OF THE RUSSIA-EU PARTNERSHIP

Summary of the Session 'Economic Parameters of the Russia-EU Partnership' of the International Conference 'RUSSIA – EUROPEAN UNION: POTENTIAL FOR PARTNERSHIP' (Moscow, March 21, 2013)

On March 21, 2013, the Session 'Economic Parameters of the Russia-EU Partnership' took place in the framework of the International Conference 'Russia – European Union: Potential for Partnership'. Discussion focused on a number of burning issues in Russia-EU economic relations, including the prospects of the New EU-Russia Agreement, harmonization of economic regulation, and elimination of barriers to trade and investment. The Session was chaired by the Director of the Institute for World Economy and International Relations (Moscow) **Alexander Dynkin**.

The keynote speech was delivered by **Anatoly Chubais**, Chairman of the RUSNANO Executive Board and Co-Chairman of the EU-Russia Industrialists' Roundtable. His presentation addressed problems associated with the regular prolongation of the Partnership and Cooperation Agreement (PCA) between the EU and Russia (which expired as long ago as in 2007) and reasons behind a recent stalemate in negotiations over the New EU-Russia Agreement. Mr. Chubais proposed a pragmatic strategy to modernize legal basis of the EU-Russia cooperation, which allows to evade conflicts on the most sensitive issues that have blocked progress in negotiations on the New Agreement in recent years. The core of this strategy is development of the brand new version of the Partnership and Cooperation Agreement (PCA-2.0), which is based on the WTO rules and focuses on improving regulatory framework for the EU-Russia cooperation (including that in the spheres not covered by the WTO rules).

Essentially, PCA-2.0 should rely on three groups of policy instruments. First, decisive steps should be done to facilitate trade with simplification of customs regulation and procedures; harmonization of standards and rules of technical, sanitary and phytosanitary regulation; and development of unified procedures in the field of antidumping, countervailing and general protective measures. Second, investment should be promoted on the basis of the 'best practice' principle in market access and protection of investors, preventing violations of intellectual property rights and targeted support for investment projects based on results of the EU-Russia R&D cooperation. Third, progress should be achieved in industry-specific fields (electricity, transport and logistics, telecommunications, health, etc.), where harmonization of regulatory approaches is needed for deeper cooperation. One important advantage of the PCA-2.0 initiative is that it does not affect trading regime with the third countries and agrees with the norms of the Customs Union formed by Russia, Belarus, and Kazakhstan. Russia is thus able to combine Eastern and Western vectors of economic integration.

Once answering questions from the floor, Mr.Chubais noted that the proposed strategy focuses on issues of economic cooperation that are crucial to the creation of the EU-Russia Common Economic Space. In this sense, the PCA-2.0 initiative is not to substitute the more general concept of the four Common Spaces (i.e., the Common Economic Space; the Common Space for Security, Freedom and Justice; the Common Space for External Security; and the Common Space for Research and Education) but to build up economic fundamentals for achieving progress in all four fields.

President of OAO LUKOIL **Vagit Alekperov** supported the idea of the EU-Russia regulatory convergence. In particular, harmonization of technical standards allows business to use the same technologies, materials, and equipment both in the EU and in Russia. As a result, European technologies and equipment will be available for modernization of production facilities in Russia, while Russian companies will get improved access to European markets. This corresponds perfectly with the priorities of Russian oil producers who are looking forward to increase exports of oil products to the EU after modernization of refineries is completed in the nearest future.

The former Federal Chancellor of Austria **Wolfgang Schuessel** stressed the role of innovation in the development of modern economy. In his own words, innovation is a key to success in the globalized world, and both the EU and Russia have positive long term development prospects only if they succeed in speeding up innovation process. This means that the EU-Russia need to intensify cooperation in both innovation and innovation policy, and also develop common approaches to fundamental issues of economic regulation. As economy and innovation activities became global, economic policy can not be confined within national borders. Rather, supranational cooperation mechanisms on economic policy issues should be established.

Senior Vice President Eastern Europe and CEO in Russia Calsberg Breweries **Isaac Sheps** addressed the role of reliable and predictable norms for doing business. If Russia keeps its WTO obligations and abstain from radical regulatory changes not discussed with business community, it is likely to improve its business climate remarkably. Otherwise investors will be disappointed. As an example of the latter effect Mr.Sheps cited regulatory changes applied to the beer market in Russia, including sharp increases in excise rates, ban on advertizing and revision of technical standards. In particular, he questioned a 'regulatory innovation' which resulted in many beer brands produced in Europe being now classified as 'beer-based beverages' in Russia. In his opinion, real innovation is needed in the field of technology, while in the field of technical regulation it is much more appropriate to rely on European standards that have a long record of granting the highest quality of goods and services.

In contrast, Chairman of the Executive Board, Association of European Business in Russia **Reiner Hartmann** claimed that doing business risks in Russia should not be overestimated. Surveys conducted by the Association of European Business in Russia show for example that

widely discussed corruption risks are not considered by European companies as major barriers for investment in Russia. Moreover, some progress was achieved in recent years in improving taxation regime, customs procedures, business environment for small and medium enterprises. The investment climate in Russia is of course rather specific, but the same is true for any other country, and business success in each case depends on adaptation to country-specific aspects of business environment. To further improve investment climate in Russia, Mr.Hartmann proposed to institutionalize a ‘single-window’ mechanism of the EU-Russia business contacts, which will foster productive dialogue on regulatory issues as well as grant timely reaction on any new problems to arise in the future.

All panelists agreed that the New EU-Russia Agreement based on principles of equality and mutual benefit should be signed as soon as possible. Summarizing key results of the discussion, **Alexander Dynkin** expressed his deep belief that deeper EU-Russia cooperation will strengthen significantly competitive positions of both parties in the global economy.