

## **Closer EU-Russia economic integration would help to kick-start growth**

*IRT recommendations to the EU-Russia Summit (18 November 2009)*

### **Introduction**

As the world's economies are struggling to deal with the effects of the global economic crisis, EU and Russian business perceives little progress in formal EU-Russia economic relations since the previous summit. However, some notable developments concerning the EU and Russia deserve to be highlighted:

- There has been important alignment in the context of the G20 on general approaches to addressing the economic crisis, including on the part of the EU and Russia.
- Both the EU and Russia have shown resolve to find constructive solutions to the Ukrainian gas crisis.
- Recent transactions in a number of industries signal that economic cooperation continues to deepen despite the crisis.

On the other hand, certain developments cause uncertainty among the EU and Russian business communities:

- Despite the agreement at the recent G20 summits, in particular the commitment to refrain from protectionist measures, a number of measures have been taken that impede imports and exports between the EU and Russia; other decisions seem to make increases in tariff related trade barriers more probable in the future.
- Russia's accession to the World Trade Organisation (WTO) can be seriously delayed by the formation of a Russia-Kazakhstan-Belarus customs union, especially if the future customs union's Common External Tariff includes provisions departing from those agreed at bilateral negotiations between Russia and WTO members.
- Demand in the EU's gas market, the most important export destination for Russian gas, as well as Russian domestic demand, have dropped significantly.

Against this mixed backdrop, the EU-Russia Industrialists' Round Table (IRT) makes the following recommendations.

## IRT recommendations

Government intervention in the EU and Russia has helped to soften the impact of the global economic crisis. We now need a recovery with sustainable economic growth that will enable business and industry to provide sustainable, high-quality jobs. This requires measures to promote economic modernisation and conditions favouring innovation. A number of opportunities exist and should be grasped jointly by the EU and Russia.

### 1. Modernisation, WTO Membership and the new EU-Russia agreement

- Deeper economic integration is a key driver of modernisation, innovation and economic growth. **IRT's long-term policy objective** therefore remains the creation of an integrated EU-Russia economic area, featuring a rules-based framework for mutual trade and investment, fair competition and freedom of cross-border movement for professionals.
- The process of Russia's **WTO accession is the driver** for the implementation of rules that will foster the **modernisation** of the Russian economy.
- An ambitious new **EU-Russia Agreement** would represent a further step towards deeper economic integration. IRT expects this agreement to improve conditions for mutual trade and investment, and to spur closer cooperation on issues related to business and industrial policy. As the basic rules of the WTO lay down the principles guaranteeing a mutually beneficial trade relationship, they are the only viable basis for a new EU-Russia economic agreement on trade. Without WTO Membership, therefore, all the basic rules would need to be spelled out explicitly in the new agreement. If Russia was a WTO member, on the other hand, the new EU-Russia agreement would take WTO Membership as a basis, simply referring to the WTO commitments binding both parties. In the new context of a customs union being set up, IRT calls upon the political leadership of the EU and Russia to continue active steps towards Russia's accession to WTO, which would significantly facilitate negotiations on a new agreement and bilateral economic integration in general.
- For IRT, Russian **WTO accession therefore remains a priority** as the most promising way to return quickly to economic growth, and achieve progress in the modernisation and transformation to an innovative economy that provides sustainable and high-quality employment.
- Independently from the new EU-Russia agreement, IRT finds it is crucially important for both the EU and Russia to apply the principles agreed at the recent G20 summits, in particular the commitment to refrain from protectionist measures even in the context of the crisis. For example, the 'excise package' currently under discussion in the State Duma appears to propose a disproportionate increase of excise duties on the products of an industry characterised by a large proportion of foreign investment, namely the

brewery sector. Less favourable conditions for foreign investors operating in the industry could have unwanted effects on the perceived investment climate. **IRT suggests that a bilateral expert group should be set up to compile a joint report on the effects on EU-Russia trade of government measures taken during the economic crisis.**

## **2. Copenhagen talks on climate change: An opportunity to demonstrate global leadership**

The crisis provides an opportunity to reshape the global governance system, including the G20.

A major global governance issue this year is climate change, culminating in the UN climate talks in Copenhagen in December (COP15), where the issue at stake is a global agreement to limit carbon dioxide emissions. An international agreement on climate change is key to ensure stable economic development and address security concerns. Indeed, climate change may exacerbate security aspects such as access to water, food security and be the cause of high food prices and more natural disasters.

With reference to their supportive stance of G8 statements and commitments on climate change, notably a reduction of greenhouse gas emissions by 80% until 2050, there is now a good opportunity for the EU and Russia to demonstrate joint leadership. In this context the IRT makes the following recommendations:

- Climate change is a global problem, which requires global solutions. All major emitting countries, including those in the developing world, should assume clear, measurable and verifiable reduction targets.
- The long-term targets should not undermine the growth prospects of national economies strongly hit by the current economic crisis. Business can play an important role in developing the technological solutions that will increase energy efficiency and thus provide a stimulus to post-crisis economic growth while reducing greenhouse gas emissions. To enable companies to play this role, they require policy frameworks that support innovation and further development of environmentally sound technologies. Authorities should provide incentives that will encourage EU and Russian industry to work together towards developing energy efficient and innovative solutions. A secure investment framework is needed to provide incentives to commercialise these technologies. The worldwide protection of intellectual property rights is an essential element of such a policy framework
- Both the EU and Russia should appeal for an agreement at Copenhagen (COP15) that ensures fair conditions for industry. Any proposals should be WTO compliant

and must not lead to distortion of competition. IRT encourages the political leaders of the EU and Russia to work closely together and jointly take a leading role at COP15.

- Joint action at COP15 should be supplemented by a common effort to improve the conditions for EU and Russian companies to cooperate in developing the technological solutions to address climate change. A common framework for innovation is required.

### **3. Priorities for a new EU-Russia Innovation Dialogue**

Technological innovations are the key to ensuring our economies can continue to grow in a sustainable manner while addressing global challenges, including climate change. IRT believes that there is significant untapped potential in strengthening Russia-EU cooperation in this area. We therefore encourage the political leadership of the EU and Russia to set up a new Dialogue focusing specifically on technological innovation, with the following **priorities**:

- (i) Strengthen the legal framework for innovative development and business-to-business cooperation
- (ii) Boost ties to advance formation of an EU-Russia single market for creation, commercialisation and adaptation of innovations
- (iii) Develop mechanisms to facilitate cooperation at the project level, especially in areas where joint activities by Russian and EU partners can bring strategic competitive advantages to our economies.

**In the medium term**, this new dialogue should aim to create a common EU-Russian market for innovation, increase cross-border investment and trade in high-tech products, and put in place the conditions for effective technology deployment and diffusion. For this purpose Russia and the EU, including EU Member State governments, in consultation with the business community, should ensure that all major elements of their regulatory frameworks are mutually compatible and supportive of a joint approach to innovation. This concerns in particular the following aspects:

- Rules governing the allocation of state support for innovation
- Open public procurement for new technologies and know-how
- Technical harmonisation on standards and certification systems, including mutual acceptance of metrology, quality standards and environmental requirements
- Trusted protection of Intellectual property Rights (IPR), including patents and licensing agreements, to secure transfer of technology and know how between investors and industry

- Competition and antimonopoly regulation, including issues related to the formation of strategic business partnerships to develop new technologies and know-how
- Financing of innovation, including venture capital financing and public-private partnerships (PPPs)
- Support for lighthouse projects and early deployment
- Commercialisation and diffusion of innovations

**In the short term**, the proposed EU-Russia Innovation Dialogue could help to support the expansion in a number of cross-border partnerships and joint innovation projects. Among the immediate policy priorities, IRT suggests the following topics:

- Establishment of a programme to boost a number of long-term twinning arrangements between national organisations operating in the area of innovation support, as well as between government organisations that regulate particular aspects of the innovation process
- Setting up common educational standards and supporting respective training programmes for innovation management and commercialisation (including as part of MBA programmes)
- Remove obstacles to mutual laboratory accreditation, including measures to accelerate the process of accreditation of Russian laboratories by EU regulatory authorities
- Initiating a joint programme to gradually implement a mechanism of mutual acceptance of decisions in the area of certification and compliance
- Expanding possibilities for research organisations to participate in cross-border government tenders for development of new technologies and know-how
- Simplification of rules for hiring foreign researchers and other technology personnel, as well as relaxing rules for cross-border travel of such personnel.

#### **4. EU-Russia Energy relations**

IRT Members noted with interest President Medvedev's proposal, earlier this year, on a Conceptual Approach to the New Legal Framework for Energy Co-operation. IRT Members understand Russian concerns regarding some aspects of the Energy Charter Treaty and note that other producer countries also have reservations. We consider that President Medvedev's recent proposals for a revised international energy agreement deserve serious attention because they form a useful starting point for further consideration. We would welcome a joint government effort to take up the issue in a constructive manner and find a mutually beneficial solution based on contractual relations between producer, transit and consumer countries. This could also offer an opportunity to place greater emphasis on fostering new projects in the areas of energy supply, energy efficiency, and 'green energy'.

## **Conclusion**

IRT stands ready to offer honest, impartial and constructive expertise on the substance of these recommendations, in order to contribute to the setting of a legal framework that protects investments in both the EU and in Russia. This is the only way to create the foundation for mutually beneficial, long-term co-operation.