

IRT recommendations to the –EU-Russia Summit

Nizhny Novgorod, June 9-10, 2011

Introduction

The EU-Russia Industrialists Roundtable (IRT) aims to foster the creation of an integrated EU-Russia Common Economic Area. Following the encouraging progress at the previous EU-Russia Summit (Brussels, 7 December 2010) and present intensive negotiations in Geneva, we are hopeful that Russia's accession to the WTO will finally be completed by the end of 2011. This would create a foundation for the further deepening of economic ties between Russia and the EU based on internationally recognised standards and principles. The Work Plan accompanying the EU-Russia Partnership for Modernisation, agreed at the previous Summit, will help to make crucial improvements in many areas related to the goal of deeper economic integration, including further facilitation of trade, enhanced cooperation in innovation and R&D, and strengthening people-to-people links.

We believe that these developments now allow progress on an ambitious and mutually beneficial common agenda for EU-Russia economic relations:

- 2011: Russia's WTO membership – dependent on agreement on final outstanding issues in the multilateral accession negotiation
- 2012: Conclusion of the New EU-Russia Agreement, including visa facilitation measures based on the pragmatic approach proposed previously by IRT, namely systematic use of long-term multi-entrance visas without any registration requirements
- 2012: Opening of negotiations on an EU-Russia "Deep" Free Trade and Investment Agreement, including the elimination of non-tariff barriers through regulatory harmonization
- 2013-14: Conclusion of an EU-Russia "Deep" Free Trade and Investment Agreement

To achieve this ambitious agenda, specific policy action and the adherence to clear policy principles are essential. IRT will engage with stakeholders to develop recommendations on specific issues related to this agenda. To begin with, IRT makes suggestions regarding measures to:

- improve EU-Russia trade, investment, harmonisation of technical standards, and regulatory cooperation to set the necessary framework conditions for a modern, innovative EU-Russia economic relationship
- unleash a 'modernisation push' by creating a favourable climate for innovation cooperation
- create favourable conditions for the localisation of industrial production investments
- facilitate development of a pool of human resources trained for a modern and innovative economy.

Recommendations

1. Agenda for establishment of free trade and investment relations

IRT advocates for the removal of barriers that restrain trade and investment flows between Russia and EU. This will create the necessary framework conditions that will allow EU-Russia cooperation on economic modernisation and innovation.

To spur progress, Summit participants should agree a clearly sequenced agenda setting out the milestones for the intensification of EU-Russia economic cooperation as follows:

1. Agree all terms for Russia's WTO accession – including in the multilateral process – by July 2011, thus allowing agreement on Russia's membership at the next WTO Ministerial conference (December 2011).
2. Finalise negotiations on the framework for future overall EU-Russia relations (New Agreement) in 2012. The New Agreement should contain clearer commitments than the expired PCA, ensuring more transparency in each other's economic policies.
3. Also in 2012, open negotiations on further deepening EU-Russia trade and investment relations. The most innovative approach is based on both signatories' WTO membership and goes beyond their commitments as WTO members (WTO+), notably also including rules on investment and regulatory harmonisation and cooperation (Deep and Comprehensive Free Trade Agreements). This creates more favorable conditions for the development of bilateral trade and investment relations on the basis of WTO membership.

To facilitate preparations for negotiations on a Deep and Comprehensive Free Trade Agreement, IRT intends to foster the dialogue between officials and the business communities. The dialogue should deliver:

- A schedule for full removal of existing barriers in goods trade with as few exceptions as possible, considering economic interests and international commitments.
- A strategy for reduction of barriers in services trade, expanding market opportunities in Russia and the EU.
- Guarantees for Foreign Direct Investment (FDI) to each other's economies on a non-discriminatory basis ('national treatment'). A workable way of dealing with investments in 'sensitive' sectors should also be found.
- A harmonised legal framework for adoption of common technical, product security and SPS norms and standards and their proper implementation.
- A joint approach to intellectual property rights (IPR) protection. IRT made detailed recommendations to the Brussels Summit, including harmonised patent systems, clarity on dual-purpose technologies, and action on counterfeit products, that should serve as a basis for this deliverable.

The proposed dialogue should be accompanied by a public information campaign to raise public awareness of the opportunities and benefits provided by closer EU-Russia economic integration.

2. Practical initiatives under the Partnership for Modernisation

IRT views the EU-Russia-Partnership for Modernisation as a framework fostering practical initiatives that can make crucial improvements in many areas related to the goal of deeper economic integration between the EU and Russia. In line with the priorities specified in the Work Plan for the Partnership for Modernisation, IRT proposes the following initiatives.

2.1. Advance modernisation by creating a favourable climate for innovation

Innovation is the cornerstone of modern economies that compete and collaborate successfully in the global market. This is why both the draft Strategy for social and economic development of the Russian Federation and the EU “Innovation Union” are important initiatives. IRT suggests that both initiatives should introduce measures that enhance the common innovation environment. These measures will also have important effects on the overall modernisation effort.

- **Measures for harmonisation of technical regulation.** IRT strongly supports the adoption of common technical, product security and SPS norms and standards and approximation of legislation in the area of accreditation for conformity testing and certification, and market surveillance. Innovation could be particularly promoted through harmonisation of technical standards for such areas as transportation equipment and infrastructure, navigation systems, power efficient and energy saving equipment, nano- and micro-equipment, healthcare, construction and manufacturing of construction materials, chemical industry.

- **Non-discriminatory treatment of investors, including in innovative and high-tech sectors.** The Russian Government’s recent proposal to exempt from state approval for foreign investments in ‘strategic’ areas provided they involve international financial institutions may be a model to be replicated in the high-tech area. This should attract more investment and allow for growing number of partnerships between innovative companies in Russia and the EU, with a particular focus on fostering cooperation between SMEs. Measures to strengthen the predictability of the investment climate and the consultation of investors in the public policy process would further favour FDI inflows.

- **Provision of financial resources for innovation projects.** The development of new technologies and products should be stimulated and promoted via special-purpose financing programmes. This should include state and private direct investments, commercial lending as well as documentary and subsidy-based instruments available to facilitate access of businesses to long term financing at special and encouraging rates. Lack of the latter is currently the major bottleneck for projects exposed to higher risks and market uncertainties. A strengthened EU-Russia interaction in this field would encourage mutual investments.

In addition to recent agreements regarding project finance, including VEB-EBRD cooperation and the creation of a Russian equity fund, further expansion of the financial base for innovative development should be promoted by the following measures:

- Broader and more efficient application of the programmes of the European Investment Fund (EIF) and the European Investment Bank (EIB) on the financing of joint innovative projects, engagement in cooperation with the Russian newly created Direct Investment Fund (DIF).
- Development of a mechanism of a joint direct financial support for innovation projects. Establishment of joint venture and mezzanine financing funds to support and increase investment and technological development;
- Promoting innovation in SMEs through the provision of debt funds at special rates to facilitate their access to global markets.

The full summary of proposals can be found on the IRT website¹.

¹ <http://www.eu-russia-industrialists.org/index.php>

2.2. Upgrade localisation incentives for competitiveness

Stimulating investment in industrial manufacturing is widely practised around the world. In recent years, such measures were also used to provide additional incentives for foreign companies to invest in Russia and to develop local supplier networks.

Based on IRT members' global experience, IRT suggests the following approach to future localisation incentives in Russia:

- All localisation incentives must honour WTO and other international agreements. Good framework conditions for investment are a pre-condition to attract investors.
- All requirements imposed after an investment has been made must be avoided. In any case, requirements to increase the level of localised production should take into account investors' interest, and thus be beneficial for business.
- The most promising measures incentivising further localisation which authorities can take relate to updating customs regulations and facilitating administrative procedures, in particular to remove obstacles to the import of raw materials, components, machinery and production equipment, and export of finished goods.
- Terms for localisation incentives must consider the specificities of the industry sector concerned. In particular, the complex nature of some activities (e.g. high dependence on international research, development and testing in pharmaceutical production), or the importance of services inputs for manufacturing of a final product (e.g. the role of software development in the manufacturing of telecommunications equipment) needs to be explicitly recognised.

These conclusions are based on an IRT workshop in Kaluga (12-13 April 2011). The full summary of recommendations can be found on the IRT website².

2.3. Human Resources for a modern and innovative economy

A modern, innovative economy requires a highly trained workforce. The availability of skilled personnel plays a critical role in successful investment growth. This requires the creation of educational facilities for specialists to serve local manufacturing clusters. EU-Russia cooperation in this area should be stepped up based on the following approaches.

- Joint R&D centres involving EU and Russian companies and universities provide a key to raising innovative competences. Localisation incentives for establishing new R&D centres in Russia should be strengthened to improve the science-to-business interface.
- Harmonisation of educational standards (especially in the field of vocational education) can play an important role in fostering joint innovation projects, just like the harmonisation of technical standards.
- Improved property rights protection and more freedom for educational and research institutes to commercialize their R&D results would create strong incentives for students and researchers to engage in innovation activities, thus strengthening links between applied science and business.

These conclusions are based on an IRT workshop in Tomsk (25 May 2011). The full summary of findings can be found on the IRT website³.

A major obstacle to efficient cooperation between Russian and EU companies remains the current visa regime. Therefore, an important element of the integrated EU-Russia common

² <http://www.eu-russia-industrialists.eu/ru/documents/KalugaSummary.pdf> (in Russian)

³ <http://www.eu-russia-industrialists.org/index.php>

economic area is the transition to visa-free regime. In addition to earlier recommendations IRT made in this area (notably the automatic issuance of multi-entry visas for all people who obtained a short-term visa at least twice), we propose that all multi-entrance visas should henceforth be multi-annual visas expiring 6 months before expiry of the passport. This measure should be accompanied by the abolishment of the current registration regime in Russia.

Should the IRT priorities set above find understanding by the Summit, IRT will be prepared to engage with all stakeholders to develop further recommendations on specific issues related to the ambitious agenda of forming a deeply integrated common economic space between the EU and Russia.
