EU/Russia relations: economic and trade relations

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The European Parliament adopted a resolution based on the own-initiative report drafted by Godelieve **QUISTHOUDT-ROWOHL** (EPP-ED, DE) on EU economic and trade relations with Russia.

Parliament recalled that the EU's Foreign Direct Investment in Russia has more than doubled from EUR 2.5 billion in 2002 to EUR 6.4 billion in 2004, making it the most important foreign investor in Russia. Foreign investment in the field of energy has fallen from 85% of total investment in 1996 to a mere 60% of total investment.

In a series of general remarks, Parliament stressed that EU-Russia relations are at a **critical stage**. It called for constructive and results-oriented engagement between both Russia and EU, but not at any cost. The common membership of Russia and the EU Member States in the Council of Europe underpins their shared values and their commitment to its aims. However, Parliament regretted that the EU and Russia have not succeeded in overcoming the lack of trust between them.

Whilst the Russian Federation has created a generally positive macroeconomic environment which has contributed to impressive economic growth following the crisis in 1998, this growth can be mainly attributed to the high rise in world energy prices. Parliament acknowledged the economic and other related political reforms that have been implemented in Russia during recent years, but was convinced that further structural reforms, namely in health care, education, the gas sector, the banking system and more generally in the area of the enforcement of the rule of law, are necessary. Parliament was concerned about the lack of predictability in the application of rules by authorities, including the courts, and the failure to enforce rulings. It called on Russia to combat corruption more actively.

Regulatory framework: in the context of its forthcoming accession to the WTO, Parliament called on the Russian Federation to resolve the problem of tariffs on timber exports to the Scandinavian countries, remove the current disparity between Russia's domestic tariffs and world market prices, and also to settle the issues relating to rail fares fixed according to destination, particularly those to the Baltic countries, which have been ruled to be discriminatory. WTO accession should lead to deeper economic integration between the EU and Russia, within the framework of the CES.

Parliament believed that progress on implementing the Road Map should continue alongside negotiations on the new PCA. If the negotiations with Russia on a new PCA fail to produce tangible results, the EU should consider an alternative approach based on reinvigorating the ongoing work on the agreed roadmaps in the four common spaces, and on elaborating a joint approach for political cooperation. Progress in the common space of freedom, security and justice, the space of co-operation in the field of external security and the space of education, research and technological development, including inter-cultural dialogue and cooperation, would have a significant socio-economic impact and reduce the risk of interstate conflict. Parliament stressed the need for the Russian Federation to perfect its policy as regards the protection of foreign investment.

Trade, market access and investment: Parliament noted the bill recently introduced in the Russian Federation, which allows the government to reject foreign bids for majority stakes in Russian companies, thus prohibiting foreign ownership of more than 49% in companies active in 39 strategic industries. It questioned the bill itself as well as the choice and the growing number of industries that have been classified as strategic and essential to national security. Furthermore, the establishment and operation of

companies should be facilitated on a reciprocal basis. Parliament called for foreign companies operating in the natural resource sectors in Russia to be granted the same degree of access. It stressed that Russia's accession to the WTO must not result in higher levels of import duties and stronger protectionism compared to the years preceding accession.

Parliament also noted with regret that Russia is exploiting commercial policy instruments for foreign policy ends in a manner incompatible with WTO rules. It drew attention to the unjustified ban on meat imports from Poland, which has now been in place for two years, and recommended that this problem, the existence of which is incompatible with WTO rules, be resolved as soon as possible.

Intellectual property rights: the EU is the strongest filing region for Intellectual Property Rights (IPRs) in Russia with 37% of patent applications and 41% of trademarks. Parliament emphasised the need to adapt the current court system in order to effectively protect IPRs and ensure more speedy prosecutions. It noted the rise in cases in which European businesses have been successful, but was deeply concerned about the lack of enforcement of rulings, and concerned, too, about the problem relating specifically to the production and sale of counterfeit products, in particular pharmaceutical products.

Energy: the EU imports, on average, approximately 28% of the energy it needs from the Russian Federation, with some countries importing up to 100% of their gas from Russia, and energy-related trade makes up about 65% of EU imports from Russia. Parliament reiterated the need for a coherent European energy policy, stressing that bilateral agreements between EU Member States and Russia should, if absolutely necessary, help in the pursuit of the EU's overall energy security interests and in the pursuit of a common energy policy between the EU and Russia. However, the primary objective of EU energy policy cannot simply be to avoid continued energy dependence on Russia. Members urged both the EU and Russia to cooperate more closely with one another and with all the social partners within the framework of the EU-Russia energy dialogue. They urged the EU, in close cooperation with the Russian Federation, to promote investment in renewables and to encourage the sharing of technology and regulatory convergence with a view to establishing a sustainable relationship benefiting both parties. Parliament also called on the Russian Federation to offer fair and non-discriminatory treatment to all its partners, to facilitate access to the Russian market by European investors and to give due consideration to environmental protection. In addition to the need for Russia to ratify the Energy Charter Treaty, the EU should consider negotiating a formal framework document on energy relations with Russia in the context of the new PCA.

Parliament went on to express its concern over the nationalistic and monopolistic trends in the management of Russian energy resources. It was deeply concerned about the difficulties that foreign and private companies face when investing in future developments on Russia's continental shelf, calling on Russia to create a level playing field. Members also asked the EU to take seriously the danger of a deficit in gas supplies from Russia after 2010 due to a lack of investment in Russia's energy infrastructure. Members then called on Russia not to apply a dual pricing system, which is in any case contrary to WTO rules, with regard to energy sources. Russia, in close cooperation with the EU, needs to invest in the modernisation of its nuclear power plants.

Other specific sectors: Parliament went on to discuss the importance of trade in services, and of ensuring stability in the financial system. It also stated that cooperation in the promotion of regulatory convergence in the agricultural sector, notably with regard to sanitary and phytosanitary measures, should be intensified. Russia was asked not to impose restrictive animal or plant-health measures on imported products which are discriminatory or based on a higher level of requirement than those applicable to domestic products.

Relations with other trade partner: the development of the strategic economic partnership between the EU and Russia should take into account Russia's geopolitical position. Parliament emphasised the need to integrate the EU's approach to Russia with other efforts in the region, such as the European Neighbourhood Policy (ENP), the Northern Dimension and the Black Sea Strategy. It drew attention to

the urgent need to solve the problems involved in improving the infrastructure for crossing the border between Latvia and Russia (and also between other EU-Russia border states). Lastly, it believed that the existence of frozen conflicts in the common neighbourhood represents a significant impediment to economic development in this region, and that supporting their settlement should constitute a priority in the countries of the common neighbourhood.