

# EU/Russia Agreement: trade in parts and components of motor vehicles

2011/0324(NLE) - 09/12/2011 - Legislative proposal

**PURPOSE:** to conclude the Agreement between the European Union and the Government of the Russian Federation on trade in parts and components of motor vehicles between the European Union and the Russian Federation.

**PROPOSED ACT:** Council Decision.

**BACKGROUND:** in the context of the accession of the Russian Federation to the WTO, concerns have been raised about the impact of Russia's regime for investment in the automotive sector, as amended on 24 December 2010. The auto investment programme offers investors who establish car production facilities in the Russian Federation reduced import customs duties for car parts and components in return for an obligation to meet local content and other localisation requirements. According to the agreed terms of Russia's accession, this auto investment programme will be exempt from the obligation of the Russian Federation to ensure that all laws, regulations and other measures applied in the Russian Federation that are related to trade-related investment measures are consistent with the provisions of the WTO Agreement, including the Agreement on Trade-Related Investment Measures (TRIMS Agreement) until 1 July 2018. In order to reduce the risk that this investment regime may lead to delocalisation of the production of parts and components of motor vehicles from the EU during this transitional period, the European Commission has negotiated a bilateral Agreement with the Russian Federation on trade in parts and components of motor vehicles between the European Union and the Government of Russian Federation.

The Agreement was signed subject to its conclusion.

It is not necessary to approve this Agreement on behalf of the European Union.

**IMPACT ASSESSMENT:** no impact assessment was carried out.

**LEGAL BASE:** the first subparagraph of Article 207(4) in conjunction with Article 218(6)(a) of the Treaty on the Functioning of the European Union (TFEU).

**CONTENT:** the Agreement between the European Union and the Government of the Russian Federation on trade in parts and components of motor vehicles between the European Union and the Russian Federation is hereby approved on behalf of the Union.

**Main provisions:** the objective of the Agreement is to establish a compensation mechanism to ensure that exports from the European Union to the Russian Federation of parts and components of motor vehicles from the EU do not decrease as a result of the application of the auto investment programme established in Order No. 73/81/58n of the Ministry of Economic Development and Trade of the Russian Federation, the Ministry of Energy and Industry of the Russian Federation and the Ministry of Finance of the Russian Federation of 15 April 2005 on the Approval of the Procedure Determining the Notion "industrial assembly" and Establishing the Application of the Notion in the Importation into the Territory of the Russian Federation of Motor Components for the Manufacture of Motor Transport Vehicles of Headings 8701-8705 of the CCFEA and their Units and Sets, as amended by Order No. 678/1289/184n of 24 December 2010.

The Agreement foresees that if **EU exports of those parts and components to the Russian Federation fall**, the Russian Federation must allow the import of parts and components of EU origin at reduced import customs duties in quantities equal to the decrease of EU exports. The mechanism will be triggered by a **3% fall in EU exports during a 12 month period** compared to a threshold based on the value of EU exports to the Russian Federation in 2010.

If the compensation mechanism is triggered, it would apply for a minimum of 12 months and would be reviewed as necessary every 12 months afterwards. In exceptional economic circumstances, measured by a significant fall in the total number of new car sales in the Russian Federation, in the trigger year as compared to the preceding year, as defined in the agreement, the compensation mechanism would not apply.

**Import licensing:** the Russian Federation would administer the compensation quota by means of an import licensing system. Where the compensation quota is used by investors who have concluded investment agreements under the auto investment programme, such imports can be deducted from the overall yearly production by those investors in the given year, against which the general local content requirement of the auto investment programme applies.

**Provisional application and implementation:** in order to ensure the effective operation of the mechanism provided for in the Agreement by the time of the accession of the Russian Federation to the WTO, the Agreement should be applied provisionally from the date of such accession.

**BUDGET IMPLICATION:** the proposal has no implication for the EU budget.