EU/Russia relations: economic and trade relations

2006/2237(INI) - 21/05/2007

The International Trade Committee adopted by a very large majority the own-initiative report drafted by Ms Godelieve **QUISTHOUDT-ROWOHL** (EPP-ED, DE) on EU economic and trade relations with Russia. In so doing, it recalled that total trade between the EU and Russia amounted to more than EUR 166 billion in 2005, with Russia's trade surplus representing about 8% of its GDP, i.e. approximately EUR 50 billion. They also noted that Russia is the EU's third most important trading partner and that the EU's foreign direct investment (FDI) 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, although, paradoxically, foreign investment in the field of energy has fallen from 85% of total investment in 1996 to a mere 60% of total investment. Nevertheless, this favourable economic context should not conceal the serious challenges faced by Russia which is in the process of liberalising its economy and the need to improve investors' access to an economy that is undergoing important reforms.

In a series of general remarks, Members firstly recall the membership of the Council of Europe that Russia has in common with the EU Member States, as a basis for the development of political pluralism in Russia. They also consider that the human rights situation in Russia should be an integral part of the EU-Russia political agenda and that if the EU is to share economic and trade interests with this country, this cannot be to the detriment of democracy, human rights and the rule of law in Russia.

In parallel, Members note that the Russian Federation has created a generally positive macroeconomic environment which has contributed to impressive economic growth following the crisis in 1998 and that this growth has been mainly determined by the high rise in world energy prices. However, 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. These reforms are vital to enhance the Russian Federation's attractiveness in the eyes of international and, in particular, European investors.

Members of the Committee also stress the importance of the sound and effective application of laws and rules and the vital necessity of fighting against the corruption which is undermining the economy. Russian law will need to be reformed to deal effectively with social dumping and to discourage environmental dumping. In particular, efforts are required to simplify and facilitate the free movement of persons (and thus promote commercial contacts). In this regard, Members welcome the recent agreement signed in Sochi simplifying the procurement of visas for Russian and EU nationals.

Regulatory framework: with regard to the regulatory framework, Members invite Russia to join the WTO rapidly. They consider that WTO membership will result in deeper economic integration between the EU and Russia, within the framework of the Common Economic Space (CES) and would open the way to the negotiation of a possible EU-Russia Free Trade Agreement (FTA). In parallel, the Commission would have to negotiate a Partnership and Cooperation Agreement (PCA), discussions about which the Parliament would have to be kept informed. Members believe that the EU should, if the negotiations with Russia on a new PCA fail to produce tangible results, 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.

Trade, market access and investment: Members stress the importance of improving the investment climate in Russia which they believe can only be achieved by promoting and facilitating non-

discriminatory, transparent and predictable business conditions rooted in strong democratic values, as well as debureaucratisation and the promotion of two-way investments. They cite their concern regarding a 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. They stress that the establishment and operation of companies should be facilitated on a **reciprocal basis** and liberalisation promoted (recently, a return to state trading has been observed in certain sectors of the Russian economy). While they acknowledge the progress that has been made regarding the levying of customs duties, greater efforts will be required to ensure that EU investors are given fair access to the Russian market for their exports by avoiding situations of fiscal dumping. Trade policy instruments should not be used for foreign policy objectives (e.g. the prohibition of imports of Polish meat to Russia).

Intellectual property rights: Members call on the Russian authorities to reform the country's legislation regarding intellectual property rights in line with WTO rules. The appeal to the Russian authorities to introduce effective protection for intellectual property rights and to prevent the production and sale of counterfeit products, in particular pharmaceutical products.

Energy: The Members' call for bilateral agreements regarding energy security demonstrates how this is one of the most delicate areas of EU-Russia relations. The Union needs to **define a consistent European energy policy** and ensure that it **limits its energy dependence on Russia**. Members call for (1) an EU-Russia dialogue based on the sustainability and continued reliability of production and supply and (2) **cooperation** so as to promote investment in renewables and to encourage the sharing of technology and fair access to the Russian energy market. Members are convinced that the sole means of achieving a formal agreement on energy, ratified by Russia, is to negotiate a new framework document, i.e. in the context of the new PCA. They express their concern over the nationalistic and monopolistic trends in the management of Russian energy resources and call on Russia to adopt a more liberal approach. They reiterate their call on the Commission and the Member States 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 and emphasise the need to establish effective and timely crisis communication mechanisms between the EU and Russia to provide greater security regarding European energy supplies.

They call on Russia (i) not to apply a dual pricing system – which is in any case contrary to WTO rules – with regard to energy sources, (ii) to invest in the modernisation of its nuclear power plants. They also call for the opening of the EU market to Russian electricity exports, on condition that relevant Russian safety standards, in particular in relation to nuclear power plants and the safe processing and disposal of nuclear waste, are met.

Other specific sectors: further areas of cooperation to strengthen commercial links with Russia that need to be given attention, are, according to Members:

- the promotion of trade in services (especially in areas such as financial services, telecommunications and transport);
- the promotion of regulatory convergence in the agricultural sector, notably with regard to sanitary- and phytosanitary measures in view of the importance, for many Member States, of exports of agricultural products to Russia;
- the taking into account of Russia's geopolitical position, in particular, in its role as a major neighbour of the Union. In this regard, Members welcome the "Black Sea Synergy" initiative in the context of the European Neighbourhood Policy (ENP), which facilitates regional cooperation between the Black Sea region countries, the Russian Federation and the EU, and the Baltic Sea Strategy for the Northern Dimension, endorsed by Parliament in its resolution of 16 November 2006.

Points of discord: Lastly, Members draw 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) and to develop border infrastructure in the transit countries, such as the Ukraine. They believe that both partners have a common interest in a stable, secure and democratic neighbourhood to encourage the development of good neighbourly relations in the field of trade and economic cooperation among the countries of the region. They also believe that the existence of frozen conflicts in the common neighbourhood represents a significant impediment to economic development in this region.