



Procedure file

Basic information		
INI - Own-initiative procedure	2006/2237(INI)	Procedure completed
EU/Russia relations: economic and trade relations		
Subject 6.40.04.02 Relations with Russian Federation		
Geographical area Russian Federation		

Key players				
European Parliament	Committee responsible	Rapporteur	Appointed	
	INTA International Trade		23/11/2005	
		PPE-DE QUISTHOUDT-ROWOHL Godelieve		
	Committee for opinion	Rapporteur for opinion	Appointed	
	AFET Foreign Affairs		17/10/2006	
		PSE WIERSMA Jan Marinus		
	ECON Economic and Monetary Affairs		25/09/2006	
		PSE GOEBBELS Robert		
European Commission	Commission DG Trade	Commissioner MANDELSON Peter		

Key events			
28/09/2006	Committee referral announced in Parliament		
21/05/2007	Vote in committee		Summary
24/05/2007	Committee report tabled for plenary	A6-0206/2007	
18/06/2007	Debate in Parliament		
19/06/2007	Results of vote in Parliament		
19/06/2007	Decision by Parliament	T6-0262/2007	Summary
19/06/2007	End of procedure in Parliament		

Technical information

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Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 54
Stage reached in procedure	Procedure completed
Committee dossier	INTA/6/40614

Documentation gateway					
Committee draft report		PE378.755	21/03/2007	EP	
Committee opinion	ECON	PE382.596	13/04/2007	EP	
Committee opinion	AFET	PE386.387	18/04/2007	EP	
Committee report tabled for plenary, single reading		A6-0206/2007	24/05/2007	EP	
Text adopted by Parliament, single reading		T6-0262/2007	19/06/2007	EP	Summary
Commission response to text adopted in plenary		SP(2007)3798/2	18/07/2007	EC	
Commission response to text adopted in plenary		SP(2007)4174	13/09/2007	EC	

EU/Russia relations: economic and trade relations

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.

EU/Russia relations: economic and trade relations

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.