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RUSSIA–EU BUSINESS DIALOGUE

EU-Russia cooperation: protecting investments and avoiding protectionism

The European Union and Russia are obvious strategic partners, and their business, therefore, tends to intensify interaction based on trade diversification, new forms of cooperation and free cross-border flows of capital. Much time has been wasted agreeing on the common principles of an integrated economic space between the EU and Russia. The ongoing crisis, however, does not allow for lengthy discussions, but requires practical steps. What joint efforts should be made by the business sector and authorities to speed up real integration, while taking account of the experience gained in complex political negotiations? How can the global nature of the present economic crisis be reconciled with national interests while elaborating anti-crisis roadmaps? What are today's most dangerous protectionist measures, and how can they be countered?

Moderator:

Sergey Karaganov, Dean, Faculty of World Economy and World Politics, Higher School of Economics

Catherine Ashton, European Commissioner for Trade

Anatoly Chubais, Co-Chairman of KSP, General Director, ROSNANO SC

Nils S. Andersen, Co-Chairman of KSP; CEO, A.P. Moller-Maersk

Tony Hayward, Group Chief Executive, BP p.l.c.

Vladimir Yakunin, President, Russian railways JSC

Karl Johansson, Managing Partner, Ernst&Young CIS

Thomas Gomart, Director, Centre for Russia and CIS, IFRI

Viktor Vekselberg, President, Renova Group of companies

Andrey Kostin, President and CEO, Bank VTB

Lev Kharis, Chairman of the Board, CEO, X5 Retail Group N.V.

Jouko Karvinen, CEO, Stora Enso Oyi

Jorgen Rasmussen, CEO, Carlsberg

Alexey Mordashov, General Director, Executive Director, Severstal

Vladimir Evtushenkov, Chairman of the Board of Directors, Sistema JSFC

Andrey Slepnev, Deputy Minister for Economic Development of the Russian Federation

Attendees heard that since the early 1990s, free trade and the free flow of capital have permitted unprecedented wealth creation worldwide. Because of the ongoing economic crisis, the world is a different place now, and the consensus against protectionism is currently fragile because of the pressure the crisis continues to exert on businesses. Protectionism, it was stated, may appear increasingly tempting as the free-market model is questioned. Despite continuous pledges by governments to avoid protectionist measures, 18 of the 20 European Union (EU) member states have introduced protectionist measures, and that trade protectionism turned the 1929 recession into a long depression. Representatives of EU businesses and EU officials have expressed the common view that countries and governments should do everything possible – without hurting national economies – to prevent protectionism from developing now.

It was asserted that an extraordinary volume of fiscal stimulus has been put through EU and Russian economies – a phenomenon widely regarded as necessary for governments to support their economies and business during the downturn. Government support, it was noted, however, should not be mistaken for protectionism, both sides should have an open dialogue to work out the necessary regulatory framework to recognise systemic risks, and prevent them from creating a crisis. To support trade, it was noted, and to make trade efficient, provides, in broader terms, support for economies. Attendees heard that Russia's accession to the World Trade Organisation (WTO) will increase predictability for Russian and EU businesses, enabling them to plan and budget effectively. The point was made that economies emerging from the current recession will be different from how they entered it. Panellists and attendees considered the view that innovation and technology will reshape economies and businesses, and that free-trade and bilateral agreements are therefore essential.

It was noted that Russia has been in talks about joining the WTO for 16 years. Audience attendees put the view that Russian officials had stated a full commitment to resolving the issues with WTO accession, while the same level of commitment had not been observed on the side of EU officials. Moreover, it was asserted that the current state of negotiations leaves both parties hopeful that certain decisions could finally be achieved this year. It was acknowledged that Russian officials view Russia's WTO accession as an important step towards establishing an efficient Russia-EU trade regime; and that – despite the crisis – Russia plans to maintain the trend for economic modernisation, and will therefore support Russia-UN projects for modern technologies and innovations, such as nanotechnology. Russia's Ministry of Economic Development and Trade, it was noted, will continue to do all it can to increase Russia's investment attractiveness and protect the rights of foreign investors. Attendees heard that more than 70% of Russian international trade is EU-related – hence it is vitally important to finally reach a resolution here. The view was put that, for the EU, Russia is the third-largest trade partner (after the US and China), but the most difficult partner in terms of government regulations.

Discussion attendees heard that Russia-EU discussions have been evolving around two issues: 1) Russia's accession to the WTO and 2) the signing of a new agreement on cooperation and development in Europe. Russia is interested in resolving the WTO accession issue in the nearest possible future, particularly because Russia, Belarus and Kazakhstan may soon sign a new customs agreement preventing Russia from participating in the discussion regarding the WTO as a single entity. This, it was asserted, could further complicate already protracted discussions. EU officials expressed their concerns about the stability of the economic situation, in Ukraine as Russia insists on Ukraine's strict adherence to its gas payment schedule.

It was noted that both Russian and EU business have been expecting progress in negotiations between Russia and the EU, particularly in light of the ongoing crisis. Discussion participants from both sides expressed hopes for progress to be made this year. The way forward, it was widely acknowledged, is not through protectionism or nationalism, but globalisation. Participants

also agreed that greater cooperation between the EU and Russia is crucial, but impossible without Russia's accession to the WTO. Russia and the EU together, it was noted, could play a central role in international trade – gaining strength by remaining united, particularly in light of China's strength as a competitor.

Attendees heard the view that when the crisis is over, the fight for investment will inevitably begin and Russia will seek and welcome foreign investment. It was noted that during the crisis, Russia has experienced a significant capital outflow, and that, regrettably, Russian corporates are disadvantaged vs their EU counterparts as borrowers – itself a form of protectionism. However, attendees heard that Russian capital is also seeking ways to be invested abroad, and that Russian businesses also come across barriers when trying to make investments in the EU. It was asserted that Russian businesses should be allowed to freely invest in foreign assets if the EU expects Russia to offer the same.