



EUROPEAN COMMISSION

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Seizing the Opportunity: EU-Russia Relations beyond the WTO

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Ladies and gentlemen,

The economic relationship between Russia and the countries to its West has always been as close as it has been complex.

The European Union and Russia are global economic players, sitting on each other's doorsteps: We will always be valued economic partners.

But our differences have also made for a complicated relationship.

Russia is the largest producer of energy resources in the world; Europe is a major net importer of energy products.

Europe is the world's largest exporter of high-value-added manufactured goods and services; Russia's trade is focused on primary products, like gas, ores and wood.

And the extent and the nature of the state's involvement in our economies is very different indeed.

As a result, our close cooperation has often been matched by deeply felt differences of opinion.

In fact, I think that both sides would agree that there is room for improvement in our relationship.

Russia's accession to the World Trade Organisation two weeks ago presents a golden opportunity to make real progress.

If handled correctly, accession will deliver benefits that reinforce Russia's economy and reinforce Europe's close ties to it.

Membership can, first and foremost, help Russia intensify its economic growth.

Massive resources of energy and raw materials have brought huge wealth to our neighbour in the East.

But no country wants to bet its future on the roulette wheel of the commodity markets.

Big changes can be unexpected. For instance, technology is transforming the natural gas industry, very likely meaning lower prices for a long time to come.

So Russia needs to broaden the base of its economic success. It already has companies with great prospects. But a wider diversification of the economy into higher value-added areas will only come about if the framework conditions are right.

WTO membership can help put these conditions in place.

To start with, there are advantages for Russia of opening its own market.

It may seem surprising, but it is an economic fact that cheaper imports would benefit both Russian consumers and Russian businesses. Consumers would have more purchasing power. Companies would have access to cheaper and higher quality inputs for their production, making them more competitive on the domestic market and internationally.

On top of this, competition from imports makes firms more efficient. In the European Union we have been able to measure this directly: every 1% increase in the ratio of imports to GDP delivers a 0.6% increase in labour productivity. Such an outcome would be very helpful for Russia, as barriers to entering important markets are very high and productivity is relatively low.

Changes in the regulatory area are equally significant.

All WTO members commit to certain principles about how to regulate agricultural, industrial and services markets. These principles include proportional action by regulators, the avoidance of discrimination, science-based regulation, and the protection of intellectual property rights.

Applying these principles would make the business environment in Russia more predictable. A predictable business environment would, in turn, encourage private investment from home and abroad. And that investment would help transform the Russian economy, by promoting technology transfer, innovation and growth.

All of this would put Russia's companies in a better position to take advantage of the export opportunities of accession.

The steel industry will be among the first to benefit as we in Europe live up to our WTO commitments and dismantle our quota system for Russian imports. But other parts of the economy – the wider metals sector, the chemicals industry and the food and drink business – also stand to gain.

And as a broader range of companies become internationally competitive they too will reap the benefits of stable conditions for export to markets around the world.

For Europe, the benefits of Russia's accession are perhaps more straightforward: European exporters will find it easier to access our fourth largest export market.

Customs duties will fall from an average of 10% to an average of less than 8% meaning savings of 2.5 billion euro a year and new trade worth up to almost 4 billion euro a year.

Some of our most competitive service industries will also find it easier to access the Russian market – particularly in finance, telecommunications and retail.

The challenges of moving goods across the border should also diminish, with new rules on customs valuation, fees and transit procedures.

Importers of raw materials from Russia will benefit too. Export duties have been capped for many important products and will be reduced for key inputs like wood.

But again, the greatest benefits are likely to come from the rules part of the deal:

A more predictable regulatory environment will help the many European companies who have invested in Russia, and who account for nearly three-quarters of all foreign investment in the economy.

In the longer term, Europe can only gain from a more stable Russian economy with a broader base of higher income consumers: Our current economic difficulties have made very clear just how important external sources of growth are for our continuing prosperity.

And a prosperous Europe, in turn, is highly beneficial for Russia's economy.

So the potential for a mutually-reinforcing, positive outcome is very real.

However, this outcome is most certainly not a foregone conclusion.

Accession is not the end of the road. It is a fork in the road, presenting Russia's leaders with a choice about the direction of their country.

Some of the benefits of accession will come as a direct result of the clear, black-and-white commitments to opening that Russia has made. It goes without saying that these need to be implemented in accordance with what has been agreed.

But the real prize – modernizing the whole economy and establishing Russia as a safe and secure place to invest and do business – can only be achieved if Russia chooses to take the high road, by implementing the spirit as well as the letter of the WTO agreement.

That means embracing the principles of openness and reform and applying them broadly.

At the strategic level, there are some encouraging signs that Russia will choose this direction: The plans for economic modernisation that President Putin has outlined in recent months are exactly what the doctor ordered.

He has set goals of 25 million new jobs in high-tech industries by 2020;

Of increasing labour productivity by 50% in six years;

And taking Russia to the 20th position on the World Bank's Doing Business ranking over the same period.

Putting these plans into action will require an intensity of reform that goes far beyond WTO commitments. It will mean addressing weaknesses in the rule of law, improving the financial system, promoting innovation, building infrastructure and, crucially, attracting more foreign investment.

Europe stands ready to help in this process, if Russia wishes to work with us.

For instance, we are currently making a great deal of progress in the WTO negotiations on trade facilitation.

Trade facilitation is something of a Cinderella in the world of commercial policy: little acclaimed but highly impressive. A good deal on trade facilitation would effectively mean a big jump in market access around the world. That is why we hope to finish this negotiation in the coming months.

This is a huge opportunity for Russia. The government has recently made very significant commitments in this area as part of accession. Here is a chance to take those commitments to their logical conclusion. I therefore hope that Russia will play an active role in these negotiations.

The European Union is also working to support Russia's efforts to join the OECD. Membership would provide access to a wealth of know-how on economic reform. So I hope that this process will also now move quickly

Broader than either of these initiatives is the project of a new framework agreement for EU-Russia relations. Unfortunately, these negotiations are stalling right now. But I want to state clearly, to you, today that the European Union is ready and willing to push ahead and bring these talks to a successful conclusion. We particularly want to work on building a strong economic pillar into the new agreement.

Now: We recognise that Russia would find it challenging to make new market access commitments so soon after its accession to the WTO. We are not asking for that.

However, we do believe that there is scope to break new ground on a range of regulatory issues. This would have a real impact on Europe's trade and investment relations with Russia. And it would also be a way for us to support Russia's stated goals of improving the business environment. Europe has one of the world's most advanced regulatory regimes: We have useful experience to share.

I think it is fair to admit that the creation of the customs union between Russia, Kazakhstan and Belarus has complicated this process. The European Union welcomes this initiative in so far as it promotes liberalisation and follows WTO principles. But our priority remains, as I'm sure Russia understands, to develop our relations with Russia first. Apart from the importance of its economy it is also the only one of the three countries that is today a WTO member. Moreover, the political situation in Belarus is still a matter of great concern for the European Union.

We therefore hope that Russia will agree with the pragmatic solutions we have proposed to allow our bilateral negotiations to move ahead in the near future.

Ladies and gentlemen,

Where there is a high road, there is also a low road.

In this case, the low road for Russia would be a minimalist approach to its WTO commitments, one that seeks to limit the impacts on companies artificially protected by the current system.

Clearly, the less Russia reforms its business environment, the more difficult it will be for internationally competitive companies to develop. Such an approach would discourage future foreign investment, whose growth has already slowed considerably during the current economic crisis.

Russia also needs to understand that frustrating the very competition that WTO membership is intended to promote would have more direct consequences.

In this regard, there are a number of concrete files that call for our attention and raise serious concerns:

First, the decree on fees for recycling cars. Europe fully supports the basic environmental objective here; we ourselves have effective legislation in this area based on shared responsibilities between government and industry. And without any fees, by the way.

But we have grave concerns about the idea of levying fees on imported vehicles alone. This discriminates against European producers and clashes with the most basic WTO rules.

As a result, that would mean that duties on cars at import would effectively be higher than before Russia's WTO accession. For these reasons I urge Russia to seriously reconsider the application of this decree in its current form.

Second, the ban on live animal imports is a clear case of a regulatory measure acting as a tool of trade protection. The ban on all live animals is highly disproportionate to the risks it purports to address. The ban on live pigs is even more so – given that it rests on small irregularities found during inspections and lacks any valid scientific basis. This type of issue is particularly important for the European Union as almost 10% of our total agricultural exports go to Russia.

Third, we are concerned about what we fear is an abusive resort to trade defence procedures on steel products, commercial vehicles and combine harvesters. Two anti-dumping cases and one safeguard case have been launched in recent months. We have serious doubts about all three.

What these, and other measures we are concerned about, have in common is that they affect products where significant market opening is due to take place under Russia's WTO commitments. This is the wrong signal to send at a time when liberalisation is supposed to be moving forward.

As we all know, membership of the WTO means a country is subject to the dispute settlement mechanism of that organisation.

Russia should understand that Europe takes that mechanism very seriously and that we will not hesitate to enforce our rights where they are violated.

Naturally, our preferred way to deal with all of these matters is to find agreed solutions. I have already made clear that our path of choice is one of greater openness through negotiation.

Ladies and Gentlemen,

I am confident that future generations will look back on Russia's accession to the WTO as a pivotal moment in its economic history.

But only Russia can decide what its consequences will be.

Only Russia can decide which road to take now.

The high road leads to greater prosperity and to strengthened links with the European Union.

By contrast, the low road would reduce Russia's accession to an agreement on paper, doing little to drive growth or move our relationship forward. To take such a path would be to turn away from opportunity.

In case there is any doubt, I would recommend the high road. Russia and the European Union already gain a great deal from our relationship. The potential benefits of deepening it are vast. Particularly in times of economic uncertainty we both need to seize those benefits.

Russia has shown many times in the past that it is capable of taking big decisions on big occasions.

Now is the time to choose to move forward once again.

Thank you very much for your attention.