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RECOMMENDATION

on the draft Council decision on the conclusion of 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

(16806/2011 – C7-0517/2011 – 2011/0324(NLE))

Committee on International Trade

Rapporteur: Paweł Zalewski

Symbols for procedures

- * Consultation procedure
- *** Consent procedure
- ***I Ordinary legislative procedure (first reading)
- ***II Ordinary legislative procedure (second reading)
- ***III Ordinary legislative procedure (third reading)

(The type of procedure depends on the legal basis proposed by the draft act.)

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DRAFT EUROPEAN PARLIAMENT LEGISLATIVE RESOLUTION

on the draft Council decision on the conclusion of 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 (16806/2011 – C7-0517/2011 – 2011/0324(NLE))

(Consent)

The European Parliament,

- having regard to the draft Council decision (16806/2011),
 - having regard to the draft 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 (16807/2011),
 - having regard to the request for consent submitted by the Council in accordance with Article 207(4), first subparagraph and Article 218(6), second subparagraph, point (a), of the Treaty on the Functioning of the European Union (C7-0517/2011),
 - having regard to Rules 81 and 90(7) of its Rules of Procedure,
 - having regard to the recommendation of the Committee on International Trade and the opinion of the Committee on Industry, Research and Energy (A7-0175/2012),
1. Consents to conclusion of the Agreement;
 2. Instructs its President to forward its position to the Council, the Commission and the governments and parliaments of the Member States and of the Russian Federation.

EXPLANATORY STATEMENT

Context

The Russian government has for several years sought to attract foreign producers of automobiles and related components on its territory to compensate for the decline of its own car industry and to provide jobs for the workforce in this sector. Its regime for foreign investments in the automotive sector initiated in 2005 ("TRIMs 1")¹ and extended to car components in 2006² was made more stringent in 2010 ("TRIMs 2")³ to the point that it would have been, upon Russia's accession to the WTO, declared contrary to the WTO Agreement on Trade-Related Investment Measures (TRIMs) which forbids the investment measures in goods' production that can cause trade-restrictive and distorting effects.

According to the terms (concluded in November 2011) of Russia's accession to the WTO⁴ endorsed by the European Council⁵, its automobile investment programme will be exempt from the obligation to ensure that all laws, regulations and other measures related to trade and investment and applied in the Russian Federation are consistent with the provisions of the WTO Agreement, including the Agreement on Trade-Related Investment Measures (TRIMs) until 1 July 2018.

General remarks on TRIMs in the automobile industry

The rapporteur recognizes the overall positive effect of anchoring the Russian Federation to the World Trade Organization, which supports the rule-based multilateral trading system, and accepts the necessity for the EU to conclude bilateral agreements with Russia to legally secure additional and complementary bilateral trade concessions.

Nevertheless the rapporteur finds regrettable that Russia's accession package condones the existence of some trade-distorting measures, such as Russia's automobile TRIMs package, which are very largely prohibited under the WTO TRIMs Agreement. Indeed these TRIMs prescribe localisation of automobile manufacturers in Russia (resulting in discriminatory treatment of imported auto parts and components and restriction of imports) while linking them to investment related special privileges for import of automobile components (reduction or abolition of import duties). Maintaining such mechanisms is detrimental to the EU and to Russia.

The stakes are high in EU whose automobile industry represent 2,3 million jobs for car manufacturing and 10,3 million indirect jobs. Besides, Russia is a fast-growing market of sales of automobiles to which easier access would be very beneficial to EU producers.

¹ Russian Government's Decree no 166

² Russian Government's Decree no 566

³ Russian Government's Decree no 1289

⁴ Report of the Working Party on the Accession of the Russian Federation to the World Trade Organization (WT/ACC/RUS/70, WT/MIN(11)/2) of 17 November 2011

⁵ Council Decision of 14 December 2011 establishing the position to be taken by the European Union within the relevant instances of the World Trade Organization on the accession of the Russian Federation to the WTO (2012/17/EU)⁵

Currently Russia represents just 8% of EU total exports of these products. Russia's TRIMs in the automobile sector will continue to restrict EU car and component producers' market access to Russia and will impede the creation of level playing-field within EU producers, ie. between those European manufacturers which accepted the terms and the risks of TRIMs 2 and others. The TRIMs have already had a significant impact on the EU automotive and component industry since several key producers have agreed to that investment regime and signed contracts with the Russian government for periods up to 2020. In particular, the components manufacturers are to be seriously affected by the prolongation of the TRIMs 2 as a considerable capacity would have to be moved to Russia to meet the requirements of the new investment regime under TRIMs 2.

If all these investments materialise over the coming years as promised, foreign car manufacturers engaged in TRIMs 2 would be required to produce around 2 million cars annually in Russia. This is slightly larger than the total volume of new car sales in Russia in 2010 (1.9 million). Such an overcapacity would mean that there could be no space for import of foreign made cars into Russia, which are also handicapped by a substantial price disadvantage due to high import duties. The surplus produced in Russia would be exported to other markets under a TRIMs-incompatible regime.

On the Russian side, the existence of these TRIMs until 2018 will contribute to keeping alive local incumbent companies in the automotive industry by impeding competitive pressures. The companies will not have incentives for long-term restructuring and substantial investments in upgrading their production and aiming towards productivity gains. Besides, nothing will prepare the labour force for the post-2018 landscape. The economic and social impact could then be very serious since this workforce in Russia's automobile industry is very concentrated in some regions of the country.

Moreover, after 1 July 2018, Russia will be obliged to make these TRIMs in the automobile sector in conformity with WTO rules. In all likelihood, the Russian government will replace the TRIMs 1 & 2 with public subsidies. As a WTO member, it will have to give these subsidies to all the car and component producers established on its market without discrimination, which will be very costly. Most of the foreign investors will also be able to review their investments in Russia by 2020 (last end-date of the contracts with foreign car producers).

Content of the agreement

The EU has negotiated this bilateral agreement to have a compensation mechanism for the EU car components producers if the risk of falling EU exports of such products to Russia materialises as a result of the application of Russia's automobile investment programme until 2018. The EU must adopt this agreement because it is tied to its WTO commitments. To ensure that the scheme benefits its producers immediately, it must do so before the Russian Federation joins WTO. The terms of the compensation scheme are the following:

- If the EU exports of some automobile parts and components to the Russian Federation fall by 3% during a 12 month period compared to a threshold based on the value of EU exports to the Russian Federation in 2010, 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.

- 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 Russia, in the trigger year as compared to the preceding year, as defined in the agreement, the compensation mechanism would not apply. Russia 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.

Position of the rapporteur

The rapporteur understands that the assumption behind this agreement is that there is a risk of falling EU exports of automobile components to Russia. However, the European Commission argues that the EU car sector in general is supposed to gain substantially higher business opportunities in Russia after the WTO accession. The conclusion of such a safety mechanism indicates a paradox: stakeholders, including EU negotiators, do not have a clear picture of the future trends of the bilateral trade relations in cars and automobile components.

On the one hand, the production of vehicles and their components should be the sector to benefit most from reduced import duties of Russia as part of the WTO accession. The increase of EU exports to Russia per year after the WTO accession is estimated by the European Commission around € 1800 Mn, mostly for medium-high segment cars. It is also estimated that the potential duty foregone would equal 620 million €. For trucks the extra exports would be worth around 50 million € annually and potential duty foregone – 85 million €. Furthermore, such regulatory reforms as elimination of sector specific prohibitive subsidies, capped Russian export duties on certain metal products (mainly scrap) used in EU production of vehicles' parts as well as increased trade facilitation and adjusted gas prices for Russian domestic industry will have further positive effects on the EU's competitiveness in this sectoral trade relation.

On the other hand, even if this investment-incentive scheme will be phased out by July 2018, the liberalisation of Russian tariffs on the automobiles and their components will be slow and the survival of the above-mentioned TRIMs will continue to give incentives to European car manufacturers to maintain or develop their production in Russia. The new capacity established in Russia by 2018 may have medium to long-term impact on the evolution of EU exports. That is why the actual gains for the EU producers of automobiles could be less than half of the above-mentioned figures.

Finally, global external factors such as global automobile demand and world growth as well as domestic aspects in Russia such as the evolutions of infrastructures and of the business climate will also influence the effectiveness of the above-mentioned Russian TRIMs until 2018. Besides, Russia's WTO entry will entail implementing other commitments that WTO membership brings along, such as reforms in related regulatory areas as well as tariff

reductions, which would bring strong benefits to the EU producers.

All these factors may impact positively or negatively the growth of trade in cars and automobile components between the EU and Russia. Their effects are difficult to assess.

The rapporteur, while regretting the survival of trade-distorting measures in Russia after its WTO accession, appreciates that the EU producers of automobile components will benefit from a compensation scheme in case their exports to Russia falls significantly. The rapporteur also calls for a close monitoring of the evolution of the trade relation in vehicles and their components between the EU and Russia and, if necessary, for renegotiating the terms of the compensation scheme before the end of the phasing out of the TRIMs.

In conclusion, your rapporteur recommends Parliament to give its consent to this agreement.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	30.5.2012
Result of final vote	+: 26 -: 0 0: 0
Members present for the final vote	William (The Earl of) Dartmouth, Laima Liucija Andrikienė, Maria Badia i Cutchet, Daniel Caspary, María Auxiliadora Correa Zamora, Christofer Fjellner, Yannick Jadot, Metin Kazak, Franziska Keller, Vital Moreira, Niccolò Rinaldi, Helmut Scholz, Robert Sturdy, Gianluca Susta, Iuliu Winkler, Jan Zahradil, Paweł Zalewski
Substitute(s) present for the final vote	Josefa Andrés Barea, George Sabin Cutaş, Silvana Koch-Mehrin, Elisabeth Köstinger, Emma McClarkin, Miloslav Ransdorf, Tokia Saïfi, Jarosław Leszek Wałęsa, Pablo Zalba Bidegain
Substitute(s) under Rule 187(2) present for the final vote	Zuzana Roithová