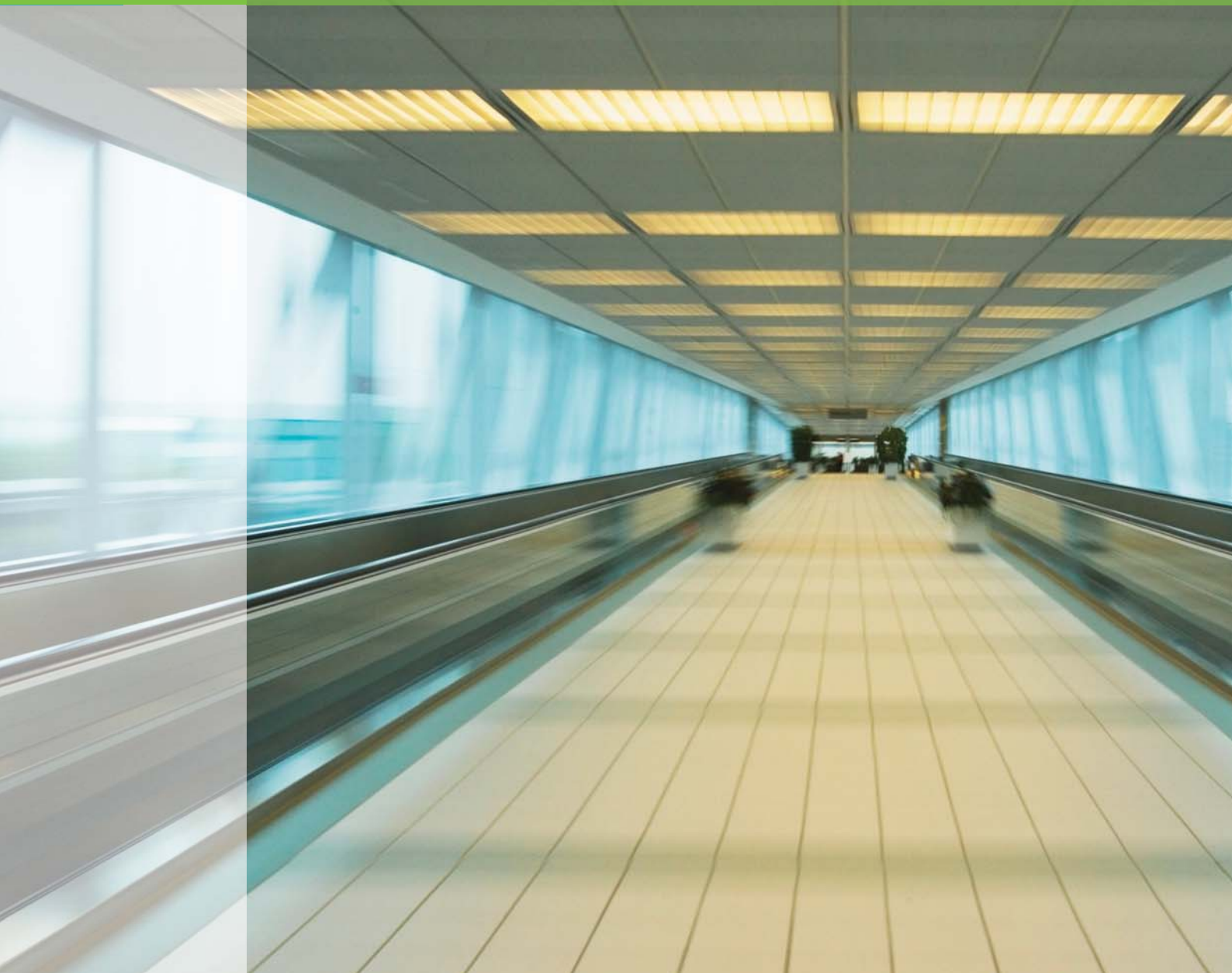




EUROPEAN COMMISSION
External Relations



The EU and Russia: the future of mutual economic development



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The importance of the economy in cooperation and development

Of the four Common Spaces being created by the European Union and the Russian Federation, it could be argued that the Common Economic Space plays the most significant role. This is due to the complementarity of the structures of the two economies and extensive trade and economic relations, which are growing year on year. That the establishment and perfection of the EU's unified internal market is a priority of European integration processes is also important, and we should not forget that the EU itself was founded as a consequence of the powerful economic message sent out by the creation of the European Coal and Steel Community. Tremendous efforts have been made during the decades that followed its establishment and it is not without reason that many experts consider the creation of the Common Market to be the greatest achievement of the architects of a united Europe.

ЕС-РОССИЯ
Диалог партнерства

Показатели

ЭКОНОМИЧЕСКИЕ И ТОРГОВЫЕ ПОКАЗАТЕЛИ

Показатель	Европейский Союз	Россия
Данные (за 2004 год) получены от Евростата и Федеральной службы государственной статистики РФ соответственно	459,9	143
ВВП (млрд евро)	3 972	17 075
Население (млн чел.)	114	9
Плотность населения (чел. на кв. км)	10 208	460
ВВП на душу населения (евро)	22 196	3 216
ВВП на душу населения (евро)	967	140
Средняя зарплата (евро)	1 027	58,2
Средняя зарплата (евро)	365	81,8
Доля экспорта в ВВП	4,7 %	60 %
Доля импорта в ВВП	7,8 %	50 %

The achievements of the Common Market

The Common Market is supported by four pillars – the free movement of people, goods, services, and capital. Starting in 1985, the Member States of the European Union have been demolishing all technical, bureaucratic, protectionist, legal, and cultural barriers that had previously limited these freedoms. In doing so, a regulatory and legal framework was created for countries whose total combined population numbers nearly half a billion. Had these measures not been taken, the adoption of a single European currency would never have been possible. The facilitation of travel made possible by the adoption of the Schengen Treaty has already made an impact on the outside world, a real consequence of integration, including in the economic sphere.

The achievements of the Common Market may not be as overtly obvious to the public as the new banknotes which nestle in Europeans' wallets and pockets, but they are no less significant. Although the father of the Common Market Jacques Delors once remarked, "it is impossible to fall in love with the Common Market," we are all beneficiaries of its creation and development.

Almost 3 million jobs have been created in the EU since the removal of internal barriers in 1993. The removal of restrictions has enabled in excess of 15 million Europeans to move to other countries to find new jobs and careers.

The free movement of labour resources is not the only achievement of the Common Market. For example, phone calls now cost a fraction of what they did only a decade ago and the opening up of the air travel market to competition has resulted in budget airlines offering fares so low that they would have seemed nothing but malicious jokes to those travelling in the past.

There is no limit to perfection and the Common Market is no exception, with the European Commission constantly observing how the accepted rules of the game are followed and interfering where necessary.

This has resulted in standards across the Union being harmonised at the highest possible level. Although this process was lengthier and more difficult than it would have been were lower standards to have been taken as the norm, it has ensured further problems have been avoided in the long-term.

The logic of the Common Market is that its creation has to be closely coordinated with the other activities of the European Union, and this has brought about a cumulative effect whereby improvements in one sector of the EU's functioning facilitate improvement in other spheres of its activity.

To iron out discrepancies between various areas of the Union, the EU provides funds to assist in the social and economic development of regions which lag behind the rest of the Union via structural funds, with contributions comprising almost a third of





the EU's annual budget. The antimonopoly policy protects consumers from being overcharged and from secret market-sharing arrangements. It also closely monitors the activities of major companies that used to be national monopolies. In the development of transport systems, priority is given to cross border corridors that act as axes of development. Environmental activities, which, by definition, cannot be limited to any national framework, also contribute to the establishment of harmonisation processes throughout the EU.

The human dimension of the Common Market is also important, with European citizens maintaining their rights and freedoms regardless of which Member State they reside in. This concerns social security, pensions, industrial injury and temporary disablement liabilities, and unemployment benefits. An EU national also has the right to take part in elections to the European Parliament in any Member State.





Problems and solutions

An online system, SOLVIT, specifically created to resolve problems that arise in the EU's work has been operational since 2002. SOLVIT centres are located in each EU Member State and in European Economic Area members Norway, Iceland, and Liechtenstein. Its objective is clear and simple: to solve the problems of those who asked for help as soon as possible and without court proceedings. Assistance is offered to individuals and legal entities free of charge and coordinated by the European Commission.



The mechanism is simple. The applicant for help contacts employees of the SOLVIT centre in the applicant's country of residence, he or she explains the problem, and then they address their colleagues in the country concerned. They get in touch with local authorities and work with them. SOLVIT aims to solve its cases within a maximum of 10 weeks.

Here are some examples of how this service works:

- A citizen of Sweden could not receive her pension in Greece after the death of her husband, a Greek national. Local officials did not recognize the validity of her marriage certificate and erected various bureaucratic obstacles. Her legitimate rights were restored within 10 weeks after SOLVIT intervened.
- Belgian authorities refused to confirm the qualification of a certified French toxicologist regarding some of her academic grades as lower than the stated requirements. That the applicant had two years professional experience of working in Italy had been overlooked. SOLVIT proved that as the grades were sufficient to obtain her diploma, no other confirmation was required. The whole procedure took 9 weeks.



- A Dutch company imported orange juice from Brazil and sold it to various EU countries. Despite encountering no problems in other Member States, the Cypriot government demanded a local health certificate for the goods. SOLVIT found that there was no need for such a certificate, because the juice was imported via another EU country and had therefore already passed the necessary inspection. The Cypriot Ministry not only agreed, but also made changes to its national regulations. All this took just three weeks.
- French authorities refused to allow an importer of Austrian cheese to sell his goods because they claimed the prod-

uct contained starch and the French words “De Montagne” meaning “from the mountains” had been added to the brand name. SOLVIT proved that the use of this definition was legal because it was not a protected geographical denomination and the starch in the cheese was not a threat to the health. Although it took 12 weeks, the goods were nevertheless put on sale.

Therefore, SOLVIT acts as a certain fine tuning tool for the mechanisms of the Common Market.

Learn more about SOLVIT at <http://ec.europa.eu/solvit>



Economic cooperation is mutually beneficial

The idea of creating a Common Economic Space between the European Union and Russia was first proposed at the EU-Russia Summit in May 2001. It was put forward by Romano Prodi, the then Chairman of the European Commission, and President of the Russian Federation Vladimir Putin was at once interested in the proposal.

Following the summit, a specially created group headed by Commissioner Chris Patten and Russian Deputy Prime Minister Viktor Khristenko prepared a concept paper. In it, the Common Economic Space was defined as “an open and integrated market between the EU and Russia, based on the implementation of common or compatible rules and regulations, including compatible administrative practices, as a basis for economies of the scale associated with a high degree of competition on larger markets. It shall ultimately cover all sectors of the economy.”

The Road Map for the Common Economic Space, where its parameters were defined more specifically, was adopted at the St.-Petersburg Summit in May 2003.

In the area of industrial products, the objective is to develop compatible standards, regulations, and goods conformity assessment procedures. A number of industrial sectors were identified as priorities, including ICT, radio and telecommunications equipment; electric equipment and machinery; medical devices; the automotive

industry; textiles; pharmaceuticals; and forestry industries.

Improvements to the legislative and law enforcement systems for the protection of intellectual property were proposed, in order to bring the Russian regulatory systems in this sphere into line with international standards and agreements. Fighting counterfeiting and piracy is particularly important in sectors such as pharmaceuticals, but also with regards to audio, video, and other electronic media.

Measures to strengthen cooperation between state bodies responsible for the elaboration and implementation of competition policy were also deemed important. The objective is to harmonise the systems of regulation and to ensure equal competition for economic operators from Russia and the EU on the markets of both sides. Legislation in this area needs to be harmonised, including common rules on disciplines applicable to public aid. It is also necessary to create an effective informal means of cooperation in the investigation of cases dealing with infringements of competition law. This will create an atmosphere of healthy competitiveness which will positively affect the quality and price of goods.

It is planned to establish a constant in-depth dialogue on economic reform and enterprise policy. It should be aimed at the improvement of framework conditions



for economic operators and their competitiveness. In industrial policy, it concerns a number of sectors, including the car-making industry, the textile industry, mining and the metallurgical complex, the chemical industry, and aerospace industries. Russia and the EU decided to intensify cooperation to promote regulatory convergence in agriculture, notably with regard to sanitary and phytosanitary standards. The plan is to gradually harmonise legislation in the field of marketing standards and the labelling of agricultural products and phytosanitary certification and to conclude a fisheries agreement.

In creating the Common Economic Space, close attention will be paid to small and medium enterprises and their respective needs. Studies and reports on approaches

to the criteria for the classification of SMEs in Russia and in the EU are planned. There will also be an exchange of information on economic policies, including regional trade agreements.

As far as investment is concerned, mechanisms will be developed to enhance transparency, such as an assessment of the impact of regulatory measures, consultation with shareholders, and the notification of regulatory changes to economic operators to ensure the predictability of the regulatory environment. The parties also seek to ensure the uniform application of trade and investment legislation and to streamline judicial review for trade and investment issues. In addition, they agreed to assess the possibility of elaborating an agreement on investment-related issues.

In the sphere of financial services, Russia will continue work to create an effective system ensuring the protection of consumers. A significant role will be played by perfecting accounting, auditing and statistics practices in Russia and cooperation to ensure the effective implementation of codes of corporate governance.

The Road Map provides for the standardisation and automation of procedures connected with external trade, including





transit operations. The fight against fraud, smuggling and other illegal activities will continue and consultation mechanisms will be improved. It is also very important to facilitate bilateral trade for small and medium enterprises. It should be noted that much has already been done to simplify customs procedures. Compatible computer based systems and integrated systems of data transmission based on international agreements are being used for this purpose.

The creation a common space for information is another goal of cooperation. This will provide for greater convergence of strategies such as e-Russia and e-Europe.

Efforts will also be made to intensify inter-regional and cross-border cooperation between the EU and Russia, including the further strengthening of relations between the authorities of various regions and the promotion of people-to-people links. Active support will be provided to various cross-border initiatives and programs, and assistance will be rendered to support investment in cross-border infrastructure.

The EU and Russia will promote the gradual integration of transport networks removing technical and administrative bottlenecks. Regular consultations will continue for this purpose within the framework of the International Civil Aviation Organization, the International Maritime Organization, the United Nations Economic Commission for Europe, the European Conference of Ministers of Transport, and with other actors.

Interaction in ensuring aviation safety, the mutual recognition of airworthiness certificates, and the harmonisation of technical requirements for aerospace products, will also play a significant role in cooperation. The development and implementation of infrastructure projects, the creation of priority transport corridors, and the promotion of partnership between state and private sectors in the field of logistics and transportation will also be encouraged. Cooperation in maritime navigation safety will also be stepped up. Interoperable information systems of transport manage-

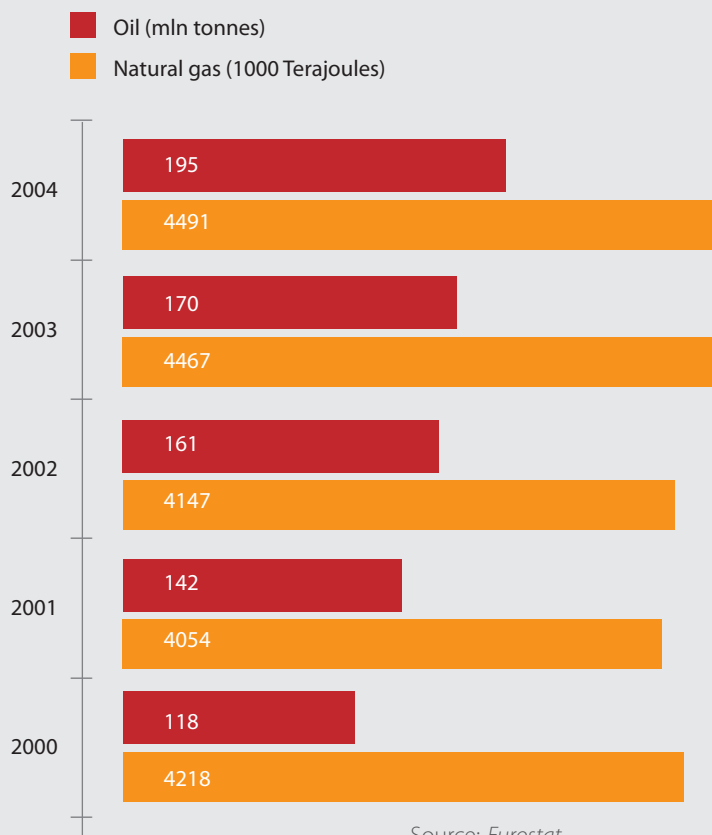
ment and new transport technologies will be designed and introduced.

In the Energy Dialogue, particular emphasis will be placed on addressing issues related to the sustainability and continued reliability of the production, distribution, transportation and use of energy, including energy efficiency, energy saving and the use of renewable sources of energy.

How can we reach these objectives? The solution appears to be in the promotion and protection of investments in the energy sector, regulatory convergence, and in high standards of environmental protection.

The energy dialogue between Russia and the European Union that started in October

Exports of oil and natural gas from Russia to the EU



Source: Eurostat



signed in December 1994 and entered into legal force in April 1998. To date, it has been signed by 51 states, including all EU Member States as individual signatories. The EU itself has also collectively signed the Treaty. Russia signed in 1994. It is a legally binding multilateral instrument dealing specifically with intergovernmental cooperation in the energy sector based on the market economy, mutual assistance and non-discrimination.

Deep reforms in the energy sector are underway in Russia. The European Union is willing to promote the further advancement of energy saving, investment facilitation and protection, access to the power transportation infrastructure, increasing the independence of network operators from natural monopolies, sectoral regulation, monopoly reforms, and tariff policy. Cooperation in the ensuring the safety of energy products during transport, including by pipeline, rail and sea, will also be increased.

Partnership in space was also enshrined in the Road Map, including the joint design of launchers and future space transportation systems; the development of space applications such as the GLONASS and Galileo global navigation satellite systems, including their compatibility and interoperability; global monitoring by satellites; and the implementation of joint projects in the field of satellite communications.

The environment will become a priority in all spheres of cooperation. Great importance is being attached to the implementation of environmentally cleaner production policies and the use of energy saving technologies. The parties would like to cooperate further in the application of the UN Framework Convention on Climate Change and in implementing the Kyoto Protocol.

Cooperation in the field of protection, conservation, and the sustainable use of the marine environment will take the European Marine Strategy and its regional development into account alongside the environmental provisions of the Marine Doctrine of the Russian Federation. Special empha-

2000 is designed to develop long-term partnership. The logic is obvious: Europe needs energy products and Russia needs investment in the energy sector.

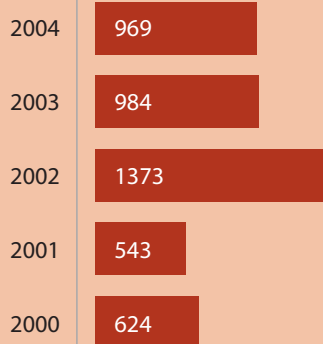
The EU receives 53% of Russia's oil exports and 62% of its gas exports. There is good reason to believe that Europe will need even more gas in future. Russia's energy strategy for 2001 to 2020 envisages the industry requiring investment of between 450 and 600 billion Euro. Of this, 150 billion Euro will be needed before 2010, with foreign investment making at least a third of this amount.

However, the dialogue is not limited to hydrocarbons alone. Cooperation also covers the harmonisation of EU and Russian power systems and trade in nuclear materials.

The research stage of the dialogue has already been completed and the parties have defined key areas of mutual interest. There are four such areas: trade in energy resources, investment, energy infrastructure, and energy security. Each area is being reviewed in depth by groups of experts. Specific accords include the intention to continue preparatory work concerning infrastructure projects such as the North European Gas Pipeline, the Shtokman gas field, the integration of the Yamal-Europe and Adria-Druzhba gas and oil pipelines, and the interconnection of European and Russian power systems.

The EU is continuing to press Russia to ratify the Energy Charter Treaty, which was

Exports of electricity from Russia to the EU (in 1000 Gigawatt hours)



Source: Eurostat

sis will be put on the fulfilment of obligations assumed under the relevant global and regional conventions, such as the UN Convention of the Law of the Sea and the Convention on the Protection of the Marine Environment of the Baltic Sea Area, part of the Helsinki Convention.

The European Union and Russia are willing to work together to fight illegal logging and associated trades. In particular, they will develop further reliable and effective tracking and legality verification systems for timber and wood based products.

Environmental cooperation as part of the Common Economic Space will consider existing programmes, such as the Northern Dimension Environmental Partnership Action Plan.

Both parties are interested in making progress in this field. This will enable Russia to diversify its economy, which is currently largely based on natural resources. For the European Union, Russia is an extremely significant trading partner.

Experts believe that it is also a way of helping Russia enter a cycle of effective growth



that will become sustainable in due course. It will be necessary for this purpose to use positive feedback between trade development investments, and institutional adaptation, with access to the European market becoming a key condition for the modernization of the Russian economy, due to the limited domestic market in Russia.

Russia has already made its choice in favour of openness in its WTO accession bid. It means that international standards of labour productivity, competitiveness, product quality, consumer care, and services will increasingly extend to Russian companies.

Adaptation to the regulatory framework of the European Union can be regarded as a tool promoting Russia's economic growth and the modernization of its economy. Its use should help Russia find solutions to problems it encounters during the construction of market institutions.



Ensuring mutual trust through supervision



Photo: PixelQuelle.de

There is no longer any need to prove the important role of financial institutions in perfecting market mechanisms. Banking reform is the cornerstone of successful interaction with the world economy for any country. That the banking sector operates to the highest modern standards is of paramount importance for the creation of the Common Economic Space.

It should be noted that the financial sector in the EU is being constantly and actively modernized in all areas. In Russia too, in-depth banking reform, important for the development of the economy and sustainable and long-term growth, has been ongoing for several years. All these changes are related to a specific sector, such as the supervision of bank activities.

Supervision of a market economy highly capable of self-regulating is necessary because banks play a decisive role in the efficient distribution of savings and investments and in ensuring the stability of the entire financial system. In doing so, they incur certain risks and so can become insolvent or even go bankrupt. The depositors of the affected bank would then lose their savings, which could entail disastrous

consequences for them and the bank concerned. This could trigger a process leading to the loss of trust in the whole banking system. Therefore, the key reason why the activities of the banks should be regulated is the need to maintain trust in the stability of financial institutions as a whole. The development of standards ensuring the safety and reliability of banking are therefore crucial.

Such standards are developed internationally and are integrated into the national legislation of most countries.

The regulatory authority can issue obligatory normative requirements for banks relying on national laws. The supervisory authority monitors the observance of these requirements by banks and simultaneously checks how successfully the banks manage risks. The supervisory authority must be sure that the banks can avoid serious problems. This double function of regulation and supervision is generally performed by a government body.

This body establishes the minimal amount of capital allocated for covering banks' risks. The more complex banking activi-

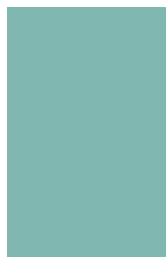
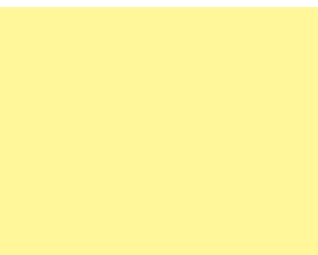


ties become, the more the centre of gravity moves to the area of competent banking risk management and of determining potential threats for the viability of the bank in future.

Three key parameters that enable a bank to cover loss are as follows: highly professional standards of management and a high revenue position; the creation of reserves at a rate sufficient to cover any foreseeable loss; and capital sufficient to cover unforeseen losses.

All these issues were discussed during the implementation of a major training project for the personnel of the Bank of Russia, whereby European supervisory bodies offered their expertise to specialists from supervisory divisions of the Bank of Russia.

The training programme consisted of three components, week-long courses for supervisory personnel from all Russian regions and branches of the Bank of Russia; one-day seminars for executives of the Bank of Russia and for representatives from Russian Ministries, the parliament, and researchers; and week-long secondments of Central Bank managers to central banks or supervisory authorities in the EU. In addition, 33 basic courses and 29 specialised courses were held. They were attended by 800 employees from the Bank of Russia





Competition on equal terms

The laws that define the competitive environment acceptable on the market are most important, as they establish equal rules for all participants, both national and international. That is why Russian companies and their European competitors are equally interested in bringing Russia's antimonopoly laws in line with international standards.

Russia has already moved a long way in this direction. After the Russian economy had been put on a market footing, all rules and regulations that determined the terms and conditions of competition were created from scratch, and now cover an extensive range of business. However, there is still plenty of room for perfection from the perspective of convergence with European regulations, without which the creation of the Common Economic Space would be inconceivable.

Stefanos Ioakimidis is Vice-President of European Profiles SA (Greece) and heads the Project on the Harmonisation of Competition Rules of the Russian Federation and the European Union, which started in February 2006. Here is what he says about the implementation of the project.

"The legislation of the European Union in this sphere consists of three main sections. One of them concerns business, the second government assistance, and the third is applicable only to specific business areas.

"The first regulates the relationships of independent firms and prevents them from taking concerted actions to restrict mutual competition. It concerns both horizontal agreements for companies operating at the same market level and vertical agreements for companies operating at different stages of distribution. Russian laws in this area are detailed and are very close to existing European legislation.

"The situation is more difficult with regards to government assistance to private companies as it interferes, or can interfere, with free competition. These are all kinds of assistance rendered by the central, regional, or local authorities. Exceptions can be made only for socially motivated relief and funds to be spent on overcoming the consequences of natural or technological disasters.

"The third section is full of discrepancies, and is the main field of activity in this area. We are talking about companies to whom the government grants certain special rights reasoning that they are of public importance. The European Union also has such companies in the spheres of telecommunications, transportation, energy, and postal services.

"However, their services should be provided at rates affordable to all and on equal terms for all regardless of how profitable these services are. Another important aspect of service providers in these econom-

ic sectors is that they may own their infrastructure, but they may not monopolise access to it. They must be open to competition. Russia has yet to perfect its legislative regulations with regard to so-called natural monopolies.

“The project’s primary tasks include the development of a concept and a related plan of action for the long-term harmonisation of European and Russian antimonopoly laws, making recommendations to assist the optimising of Federal Antimonopoly Service’s structure, and for the effective application of competition rules in the sphere of government assistance and the regulation of natural monopolies. It also involves arranging training for employees responsible for the application of competition rules, organising study tours, roundtables and conferences and informing a wider audience through the mass media about the advantages offered by the consistent application of rules of healthy competition.

“Our colleagues from the Federal Antimonopoly Service have defined the issues on which it would be interesting for them to receive analytical studies by European experts. For example, they are interested in analyses of EU practices on the establishment of rules of access to goods and services of natural monopolies preventing discrimination and in finding out about the efficiency of economic concentration controls and the techniques used in the process. In short, we have excellent business contacts. I can add personally that I am glad to deal with competent people who are devoted to their work and who understand its importance.”

Head of the Federal Antimonopoly Service Igor Artemyev said that the importance of cooperation with European partners to the Russian antimonopoly agencies will increase as Russia integrates evermore deeply into the world economic system. “We believe that Russian antimonopoly practices should develop in the vein of the European policy on competition”, he said.

Learn more about the Project on the Harmonisation of Competition Rules of the Russian Federation and the European Union at <http://www.nisse.ru/projects.html?id=22>





WORLD TRADE
ORGANIZATION



The long road to Russian accession to the WTO

Russia is 13 years into its negotiations on accession to the World Trade Organisation. Russian accession to the organisation is vital, and the subject is of great public interest, although unanimity of opinion on its accession bid has not yet been reached. This is why a project supporting Russian accession to the WTO was started late in 2005 as part of the EU-Russia Cooperation Programme.

The WTO accession protocol between the EU and Russia has already been signed and Europeans have been active in developing multilateral rules governing global trade and procedures for settling trade disputes from the very beginning. The EU therefore has extensive experience in this field, and it is ready to share this with Russia in a number of projects.

"Our project has three main objectives," said Team Leader Timothy Spence. "First, to lend the required support to the Russians in the legal drafting process prior to accession to the World Trade Organisation. In acceding to this organisation, Russia must assume a number of commitments established through negotiations. It means that Russia's legislative framework must be fully

compatible with WTO requirements. Much has already been done in this sphere, but more effort still needs to be made.

"The second objective is training Russian government officials in order to equip them with the skills to deal with WTO-related procedures after accession. Previous cooperation projects trained federal officials and now we want to concentrate the main training programme on the regions and at the city and municipal level. Two-day events have already been held in Vladivostok, Krasnoyarsk, Ulyanovsk and Yakutsk. We tried to provide participants with specific data designed to satisfy their needs and with general information.

"We are using high technologies in this project. For example, we participate in the WTO hotline at the site of the Ministry of Economic Development and Trade, where ministry officials and our experts answer questions. It allows us to cover more material and to present different points of view.

"We are designing another WTO-related site now. We believe that it will contain an extensive base of data that will be of interest both to businessmen and to govern-



Organisation" – have been prepared. We also plan to issue brochures on subsidy issues and on intellectual property."

"The third component of our work – raising awareness of the WTO means we visit the regions and we know that much still remains to be done in this area. Certainly, there are officials who have some idea about the WTO, but who do not yet know enough. Unfortunately, there are cases of deplorable ignorance, or incorrect stereotypes. Therefore, I think that the project was relevant when it started in 2005; it is relevant now and will remain to be so in

future. I believe that the work will continue even after Russia's accession to the WTO.

The Russian WTO Accession project is being implemented by UK-based international law firm Hammonds in consortium with Gruppo Soges SpA (Italy), IBF International Consulting (Belgium) and Tandem Forum (Russia). It will be completed at the end of 2007 and has a budget of EUR 3 million.

Opponents of Russia's membership of the WTO say that the organisation dictates trade and economic policy to its member states. In practice, all agreements and arrangements are the result of negotiations, and they are accepted based on consensus and are then ratified by parliaments.

The same can be said about the loss of sovereignty that ostensibly follows from membership of the WTO. Membership of this organisation differs little from participation

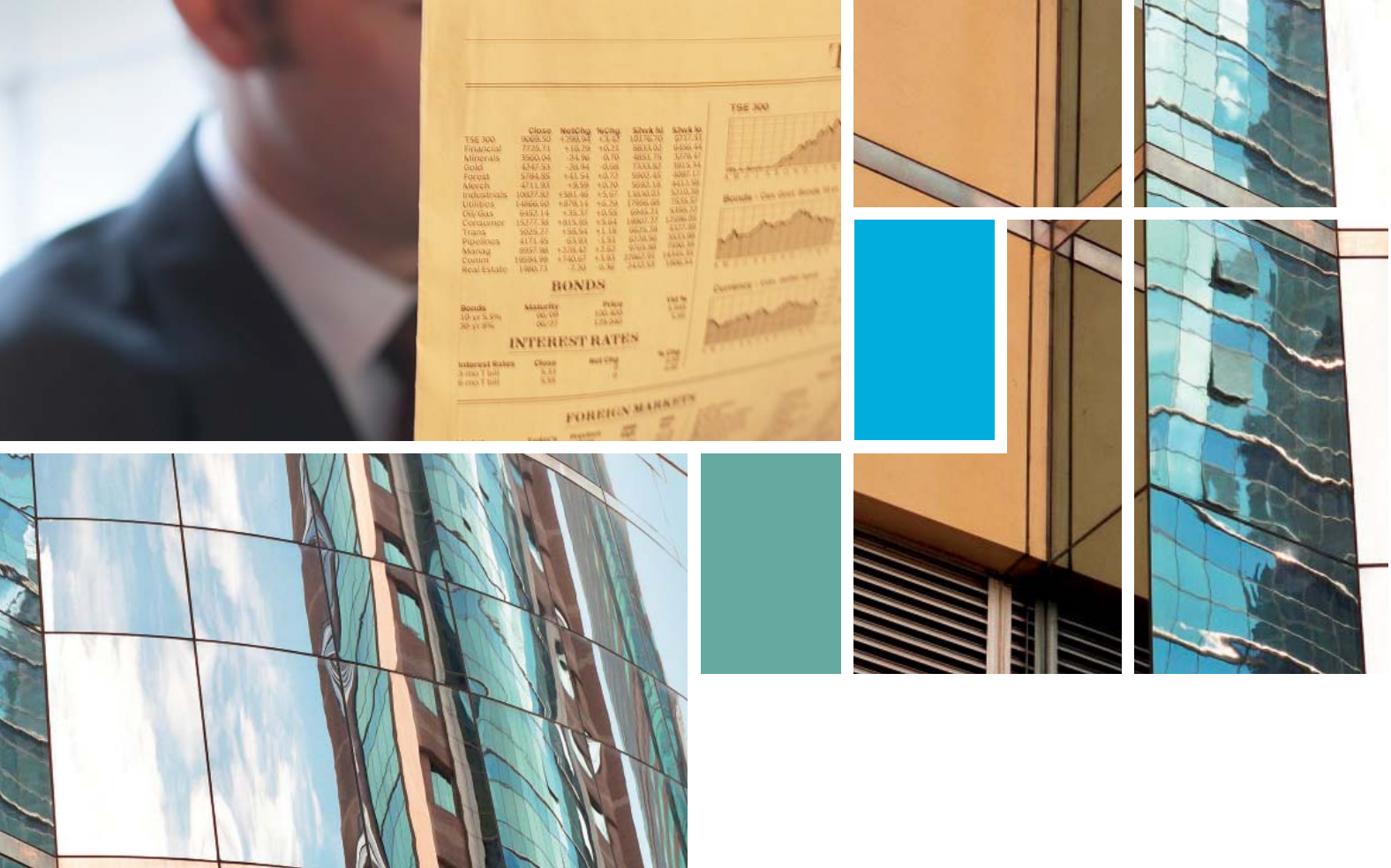
in many international organisations. In fact, every organisation imposes certain obligations on its members. The same commitments are assumed by the countries that conclude bilateral trade and economic treaties, and Russia has signed hundreds of these, each of them specifying certain restrictions or duties that resulted from negotiations between the parties. Nobody can force any government to do what it does not want to do.

No less difficult problems arise on seemingly minor issues, which nevertheless are quite important to the Russian public. Take, for example, the educational services market. Many in Russia believe that education is not a tradable commodity, but a public service that is not for sale.



Even within the World Trade Organisation, only 44 out of its 149 members have assumed commitments in the field of education. In addition, the Joint Declaration on Higher Education adopted by four university associations of Europe, Canada, and the United States and the Declaration of the Conference of Latin American Public Universities Rectors contain direct appeals to governments not to hastily transform the higher education system according to WTO principles. They have all expressed fears that it will diminish “the role of governments in the regulation of education and in their own cultural policy, including within the Bologna Process, and that this could lower the quality of education, with budgetary financing being spread over all educational establishments irrespective of quality or national identity.”

That is why it should be noted that the system of licensing educational establishments that exists in Russia today will be maintained after accession to the WTO. Access to this market, just like today, will be possible only by establishing a Russian legal entity and meeting requirements for the quality of services rendered and of educational programs. Commitments will not be assumed at all in higher education. In other



words, Russia will still be able to introduce any restrictions, even a complete ban, on the participation of foreign service providers in this segment of the market. It will also keep its ability to subsidise and support national educational establishments.

The list of examples could be easily extended. It is clearly against Russia's interests to remain in the current position whereby Russia has to fulfil a number of obligations stipulated by WTO regulations, but where it cannot influence their formation in any way. Maxim Medvedkov, Russia's head negotiator on WTO accession said at the launch of this project that there are already some ideas as to what and how Russia would like to change in this organisation. Russia only has a little more to do to gain access to this organisation.

Learn more about the project supporting Russian accession to the WTO at www.wto-russia.org





Trust is a key issue

A favourable investment climate is necessary for sustainable and long-term economic growth. Many factors play a role in its creation, but particularly important among them are accounting and auditing systems which should meet modern standards and provide potential depositors with all necessary data so that they can utilise their money without fear.

A project entitled “Implementation of Audit Reform in the Russian Federation” is being carried out as part of the EU-Russia Cooperation Programme to provide the necessary help to Russian experts. The partner from the Russian side is the Ministry of Finance’s Department for Regulation of State Financial Control, Auditing, Accounting, and Reporting

The primary objectives of the project are, firstly, to support the development and enforcement of federal standards on auditing and of a regulatory framework in line with International Standards of Auditing and to prepare the appropriate audit methodologies.

Secondly, to enhance the performance of auditory regulatory bodies – the Ministry

of Finance of Russia and accredited professional associations of auditors.

Thirdly, to enhance the ability of Russian individual auditors and audit firms to perform audits to international standards, utilising internationally recognised technical auditing methods.

Finally, to encourage good practice and to raise awareness of the benefits among shareholders.

The Project staff took part in the preparation of federal standards of auditing based on international auditing standards by the Russian Ministry of Finance and provided comments on the current federal rules for auditors practicing in both large and small audit firms.

A number of training events were held for government officials and future employees of self-regulating associations of auditors. These dealt with the development of standards and methodological recommendations, attestation, and the improvement of auditors’ professional skills and the introduction of an external quality assurance system.



said Geoffrey Townsend, the project Team Leader. "Teacher-pupil relations between us and our Russian colleagues have long been a thing of the past. We work as equal partners collaborating towards a mutually necessary objective.

"Russia has come a long way in this sphere since 1992, and this progress should not be underestimated. Back then, even the philosophy of accounting was different in the command economy. The accountant was actually a guard of money, which he was to protect against theft. In market conditions, the accountant became the one who looks ahead and tries to do business so that, for

One of the seminars was on the subject of the convergence of Russian Standards of Auditing and International Standards of Auditing. It was held at the Finance Academy and its goal was to demonstrate the logic and cause and effect of the latest reforms both in the International Federation of Accountants and in the International Standards of Audit. Since the audience was very well informed about the latest changes, the discussion was interesting and heated.

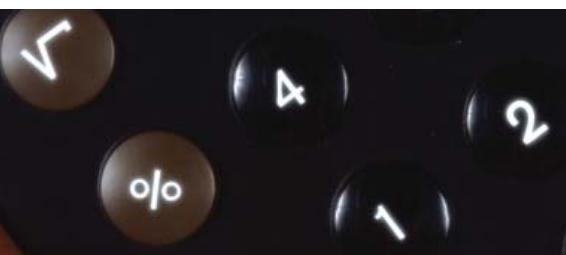
"Generally speaking, the professional auditing community in Russia as a whole meets modern requirements",



example, his company would not have problems with investment. The need for audit services will continue to grow as foreign economic relations develop and grow increasingly complex in parallel with the speeding up of the Russian economy.

"I am far from saying that there are no problems in auditing in Russia. Some of them can be resolved only after a complete generational change, and it does not make sense to force events. However, the required potential of reformist energy has already accumulated. The professional community is growing in authority and eventually it will be mature enough to start to influence the formation of the economic and financial policy of Russia, as happens in developed market economies. Having passed through the stage of making money as such, also natural and necessary, business starts to acquire public spiritedness. I think that this process has already started in Russia and I hope that it will increase."

Learn more about the project "Implementation of Audit Reform in the Russian Federation" at www.tacis-auditreform.ru/en/





The potential of small enterprises



Small and medium enterprises play an enormous role in EU economies, and not only because of their number – 25 million, two-thirds of all employees in the private sector are employed by SMEs and their importance cannot be overestimated.

Understandably, their interaction with Russian partners is extremely important to the Europeans because balanced and mature economic relations cannot be limited to major companies alone. The scale of small and medium enterprises in Russia is far behind that in Europe, but that makes work in this direction even more important.

The project “Support to Export-Oriented Innovative Small and Medium Enterprises” was started early in 2006 and will last until December 2008. From the European side, the project is being implemented by an international consortium where the leading part is played by BDPA, a French consulting company. It also includes Intrasoft International (Luxembourg), ENTRE Marketing (Finland), and others. The partner from the Russian side is the Russian Agency for Small and Medium Business Support.

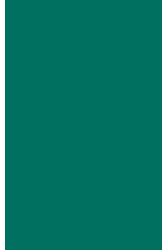
“The idea of this project seems very promising”, said Victor Ermakov, General Director of the Agency. “From the point of view of the Russian government this area is a priority. The country’s current programme of development for small and medium enterprises has a separate agenda for those that

manufacture export-oriented products. Access to the international market becomes a strategic alternative of business development for them and their activities can thus become not only steadier in the long term, but their competitiveness will also improve on the domestic market.

“This project can serve as a good example of a new form of cooperation with the European Union. We act as an equal partner rather than a receiver of money to be spent for certain purposes. We invest large funds ourselves and receive knowledge, methodologies, and technologies from our European colleagues that ensure the achievement of our objectives.

“I believe that the project has started well, with work underway in five pilot regions, including Kaluga, Leningrad, Moscow, Rostov, and Tomsk. Six further regions will then be added – Astrakhan, Volgograd, Irkutsk and Kemerovo and Krasnodar and Krasnoyarsk territories. We want to spread to the whole of Russia at a later date. The establishment of ties with European partners has already begun. In April 2006, our agency signed a declaration on guidelines of cooperation and the establishment of mutual economic operations with the French economic area of Alsace, and it will cooperate with some Russian regions.”

Alexander Yermoshin describes the project’s overall objectives as “helping SMEs, and as harmonising with the work to create the Common Economic Space. We



want to create a favourable business environment for export-oriented enterprises, to organise all-round support for their activities, and to facilitate the establishment of relations between them and their European partners. It is also very important to develop the information component, which will help disseminate best practice. In due course, this infrastructure can be connected to the appropriate European and information business network.

“In general, we want to develop a number of basic packages of services for export-oriented small and medium enterprises, which they could receive when necessary anywhere in Russia.

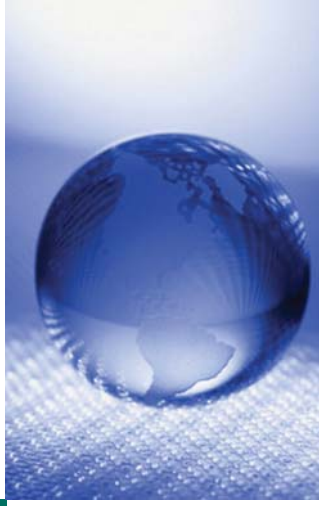
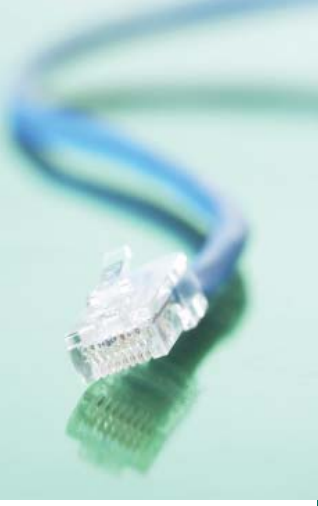
“A tender to select SMEs that have good practical experience of operations on the domestic market and serious potential for export began in August 2006. SMEs with innovative products and services in demand on the Russian market which had a stable financial position and were prepared to invest further in its development were invited to take part. Bids from companies which planned to introduce quality management systems and to be certified to ISO standards were also welcomed.

“The selection procedure comprised two stages, and we will announce the winners at the end of 2006. We plan to select 20 or 25 SMEs that will take part in all activities envisaged by the project.

“We will develop participating companies’ strategies for improving their products, services and marketing and sales promotion strategies. We will also help them introduce the quality management system; to expand the access of the company to credit resources; to determine and analyse potential export markets; to assist in preparing the necessary legal and customs documents; and to organise participation

in business trips to and trade fairs in other countries. This list is far from exhaustive and during our work we will be improving our offers so as to bring them as close as possible to the needs of Russian export-oriented SMEs.”

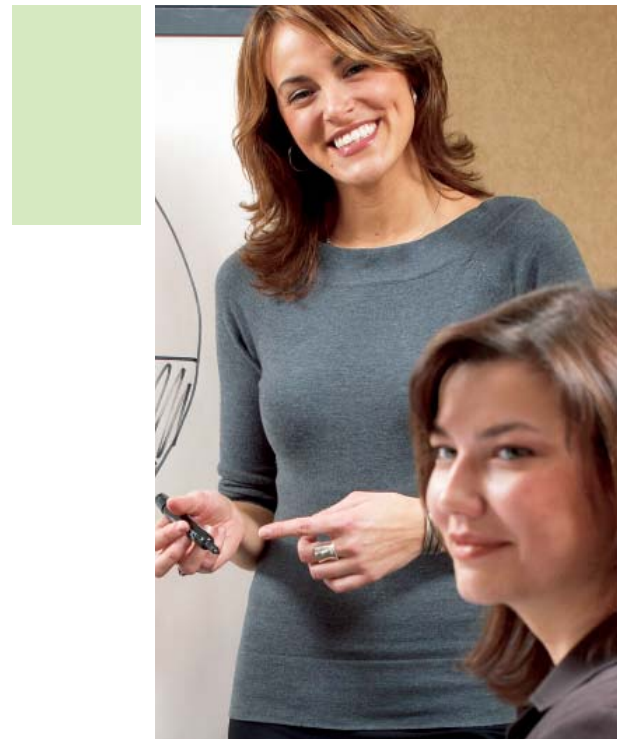
Learn more about the project “Support to Export-Oriented Innovative Small and Medium Enterprises” at www.ieo-smes.ru/en/



Conclusion

The constantly expanding economic cooperation between the Russian Federation and the European Union has found its natural continuation in the efforts to create the Common Economic Space, with both parties standing to benefit from continued and expanded cooperation.

Both partners agree that the potential for cooperation has not yet been used to the full. More dynamic economic interaction based on common harmonised and compatible rules would help to increase interaction. Experts believe that the results of the creation of the Common Economic Space will be very positive for the two parties. However, it should be emphasised that the economic integration of the EU and the Russian Federation is not an end in itself. The outcome – both for the EU and for Russia – will be growing prosperity, higher living standards, and better protection of their health and environment. All this will help strengthen political stability in Europe and around the world.



This publication is available on the website of the Delegation of the European Commission to Russia: www.delrus.ec.europa.eu

Road maps of four EU-Russia common spaces are available on-line at www.delrus.ec.europa.eu/en/p_494.htm

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