Parliamentary Assembly
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COUNCIL OF EUROPE
CONSEIL DE L'EUROPE

Resolution 1523 (2006)[1]

Europe's interest in the continued economic development of Russia

Parliamentary Assembly

1. Endowed with immense human, natural and economic resources, the largest and most populous of the Council of Europe member states, the Russian Federation has come a long and difficult way in its efforts to stabilise its economic and political system since the early 1990s. It is also the country that has faced the biggest development challenges in gradually embracing European democratic values and a market-oriented economy.

2. In the last seven years, the Russian Federation has succeeded where many thought that it would not. The profound shake-up of its economy during the August 1998 financial crisis led to a rebound in the country's competitiveness through a devaluation of the rouble, tighter budget discipline, a restructuring of foreign debt and improved supervision of the banks. It also ensured renewed support for reforms that resulted in macroeconomic and political stability, as well as dynamic growth, rising living standards, new wealth and confidence. However, significant income disparities, wide gaps in regional development, a continuing lack of diversification, shortcomings in the rule of law and widespread corruption represent serious obstacles to lasting economic growth.

3. The rapidly expanding Russian economy faces a series of short- and medium-term development challenges. These include a need to maintain macroeconomic and political stability, make more effective use of resources, continue reform policies and pursue the overall modernisation of the economy. There is also a pressing need to strengthen the rule of law, streamline the regulatory system, curb inflation, better define the "strategic" sectors, improve the administration, enhance policy transparency, especially as regards forthcoming regulatory changes, and ensure an impartial implementation of the taxation system.

4. The Parliamentary Assembly believes that the Russian Federation's chairmanship of the G8 group of countries in 2006 and of the Council of Europe's Committee of Ministers from mid-May to mid-November 2006 is a good opportunity for it to demonstrate its commitment to structural, judicial and democratic reforms, as well as to human development and strategic co-operation with other European countries on a large number of issues.

5. The aspiration for a Europe without dividing lines highlights the wish of European countries to seek greater unity based on shared values, justice, solidarity, security and mutual interests. Sustaining strong economic growth in the Russian Federation, as has been the case in the last seven years, and fostering good governance across all sectors and regions of the country is paramount for the harmonious development and prosperity not only of Russia but also of Europe as a whole.

6. Further integration of the Russian Federation into the European and global economy is assisted by its deepening partnership with the European Union. The parties' agreement to set up four "common spaces" provides a comprehensive framework for action, notably through the "Common Economic Area" aimed at putting in place conditions for increased and diversified mutual trade and investment, and the "Common Space of Freedom, Security and Justice" structured to tackle, amongst other problems, organised and cross-

1. Assembly debate on 6 October 2006 (31st Sitting) (see Doc.. 11026Doc.. 11026, report of the Committee on Economic Affairs and Development, rapporteur: Mr Sasi). Text adopted by the Assembly on 6 October 2006 (31st Sitting).

border crime. While welcoming the recent steps of the parties to facilitate free movement of people, the Assembly hopes that the forthcoming renegotiation of the Partnership and Co-operation Agreement in 2007 will give yet more concrete content to the four common spaces.

7. The current demographic situation in the Russian Federation has been acknowledged as a major weakness and indeed a threat to the country's lasting growth and development. Westward emigration and brain drain, very low birth rates combined with high death and abortion rates – due to inadequate health care, various diseases, accidents and unhealthy lifestyles – have caused an alarming demographic decline with rapidly eroding manpower, which has led to a mounting need for immigration of qualified labour. To reverse this trend, immediate remedial measures in the areas of health care, education, family planning, employment policies and migration control are called for.

8. Sound management of regional economies (with varying levels of resources, specialisation, development and autonomy) is key to fostering balanced economic growth and the country's territorial integrity. Stabilising the demographic balance, taking a more flexible approach to tackling the problem of working migrants in an irregular situation and ensuring a more even spread of the population across the country's territory are vital for stimulating economic activity beyond the central and western areas. Siberia and the far-eastern regions that account for three quarters of the Russian Federation's territory, and nearly all of the country's natural resources, should receive a fair share of income from the exploitation of their natural resources and use it for the development of regional infrastructure and social welfare networks.

9. Unique and diverse cultural heritage and natural sites dotted across Russia offer remarkable opportunities for developing tourism in a balanced manner. This would not only contribute to regional development but also help preserve the integrity of the national heritage. Measures should be taken to stimulate cultural tourism and ecotourism, drawing on the experience of other countries. In this context, the Assembly welcomes the planned creation, by the Council of Europe, of the European centre of interregional and cross-border co-operation in St Petersburg for dialogue between the regions of the Russian Federation and other European countries in the economic and cultural domains.

10. The European Union has been a staunch promoter of the Russian Federation's accession to the World Trade Organization (WTO). There is indeed a substantial body of opinion that WTO membership will galvanise domestic reform and improve the investment climate in Russia, leading to considerable medium-term gains for the Russian economy and welfare increases for virtually all Russian households. It is important, however, that the Russian Government act early to anticipate and mitigate any adverse short-term effects the adjustment to global competition may have on the most vulnerable domestic industries (such as food, chemical, pharmaceutical and microbiological, and motor and farming equipment industries), companies and certain layers of the population. It should also take measures to strengthen the competitiveness of domestic enterprises.

11. The Assembly hopes that the remaining negotiation difficulties (concerning subsidies to agriculture, the protection of intellectual property rights, the opening of the service and aviation sectors, and dual energy pricing), notably with the United States, will be resolved by the end of 2006, thus clearing the way for the Russian Federation's membership in the WTO. At the same time, it calls on the Russian authorities to abstain from unilateral trade-blocking measures that have been used on several occasions, lately with regard to Georgia and Moldova concerning wine imports.

12. Russia's good economic record, unprecedented macroeconomic stability and a strong budgetary surplus have been achieved in the context of a highly favourable external environment with high demand and rising prices for Russia's main exports – its natural resources. In fact, over 75% of all Russian exports and much of the industrial growth rely on the exploitation of these resources, in particular fuels, non-ferrous metals and forestry. However, this unique competitive advantage needs to be consolidated through investment in the development of more diversified and higher value-added production. This also offers excellent opportunities to make progress on structural reforms, designed amongst other things to stimulate the expansion of the service and retail trade sectors, and to carry out costly but vital upgrades in infrastructure. There is a huge potential for growth in the transport sector, which is also crucial for more harmonious regional and national development, and a need for specific measures to support the growth of small- and medium-sized enterprises.

13. Fair competition – as between large and small- or medium-sized enterprises, domestic and foreign companies – is paramount for a healthy economy in Russia which favours social and economic cohesion, is fully interconnected with global markets and flexible enough to resist external shocks such as those due to swings in commodity prices or volatility of financial markets. The roles of the state and of the natural ("strategic") monopolies in the economy need to be clarified and the powers of independent regulators should be reinforced for the benefit of both domestic and foreign investors.

14. Better protection and enforcement of intellectual property rights are necessary to ensure a smooth integration of the Russian economy into the multilateral trading system, to attract more venture capital and modern technologies – from both domestic and foreign sources – into Russian research centres and industries, to incite innovation, to assert fair competition and to fight counterfeiting.

15. International scientific and technological co-operation is an important factor in sustaining the competitiveness of the Russian economy. It is therefore important that scientific freedom is guaranteed, that officials do not get involved in research activities in the country and that the state secret protection system should not be used as an obstacle to international scientific co-operation.

16. Net capital outflows from the Russian Federation, having peaked in 2003-2004, declined considerably in 2005, giving proof of increased investor confidence in the Russian economy. Efforts should now be made to allow for the repatriation of transferred capital (estimated at about US$348 billion over 1996-2006). To this end, there is a need to clarify the relationship between the state and businesses, especially in sectors deemed strategic (energy, aerospace, etc.); to strengthen the effective protection of ownership rights and minority shareholders; to continue streamlining corporate taxation and regulations; and implement the International Financial Reporting Standards (IFRS) on the largest possible scale.

17. Energy resources are at the heart of Russia's economy and its trade relationship with other European countries. Their sales (in value terms) constitute 64% of the country's exports which are essentially Europe-oriented and growing. This demonstrates the extent to which interests in the energy sector are complementary and illustrates the legitimate expectations on both sides. As Europeans increasingly rely on Russian energy supplies, Russian companies need more foreign investment and technologies to develop new oil and gas fields, especially in the Arctic regions, to minimise losses incurred through oil spills and gas leaks, and to enhance their capacity for exploiting existing wells more fully, expanding pipeline networks and building up processing industries, notably for petroleum products and liquefied natural gas.

18. It is in Russia's long-term interest to ensure a reliable energy supply in Europe. There is therefore a pressing need to minimise the risks associated with capital-intensive investment in energy production and networks, and to facilitate cross-border flows. As a matter of mutual confidence, "rules should not be changed during the game", and the supply of energy should be guaranteed on purely commercial terms. Although the views of the European Union and the Russian Federation differ as to the means for achieving shared goals, maximum efforts should be made to reach a compromise leading to an agreement on Russia's ratification of the Energy Charter Treaty and its related Protocol on Transit. Dual energy pricing (or rather under-pricing) and abundant domestic energy resources should not be used as a pretext for the continuing waste of energy. No other country in Europe stands to benefit as much as the Russian Federation from efforts to enhance energy efficiency. It is important that Russia be able to expand its energy production, including through nuclear power plants, and stabilise its domestic energy consumption through more efficient use of energy.

19. The Assembly sees a need for continued improvements in the use of substantial revenues from energy resources (petrodollars), particularly those accumulated in the Oil Stabilisation Fund, in order to control inflation pressures, implement the four national development priorities (the modernisation of agriculture, education, health care and housing) and fight poverty; to enhance energy efficincy and the reliability of power supply in order to avoid power outages (such as the major blackout in and around Moscow in spring 2005); and gradually to liberalise domestic energy prices. There are also serious environmental concerns associated with the routing of certain pipeline projects, such as the planned North-European gas pipeline across the Baltic seabed and the Sakhalin-2 project.

20. The Assembly recalls its Resolution 1455 (2005) on the honouring of obligations and commitments by the Russian Federation, in which it signaled its concern over a series of measures meant to reinforce the "vertical of power" that may undermine the system of checks and balances, restrict political competition, tame the independence and impartiality of the judiciary, and muzzle the media. Moreover, the Assembly denounced the rise of oligarchic control over many of Russia's economic assets and resources, and the alleged corruption of some governors. The still prevalent perception of endemic corruption in the public sector continues to harm the country's image and deter investors. The Assembly welcomes the participation of the Russian Federation in the work of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and the fact that the country will soon join the Group of States against Corruption (GRECO).

21. The Assembly also recalls its Resolution 1418 (2005) and Recommendation 1692 (2005) on the circumstances surrounding the arrest and prosecution of leading Yukos executives and regrets that subsequent developments have shown that the Assembly's well-founded and constructive criticism was not taken into account by the competent Russian authorities.

22. The Assembly therefore proposes that the competent Russian authorities:

22.1. take steps to clarify the role of the state in the economy and the relationship between the state and businesses, especially with regard to sectors considered as strategic;

22.2. strengthen the powers of independent market regulators;

22.3. ensure effective protection of private ownership and intellectual property rights;

22.4. introduce legislative measures designed to better regulate lobbying activities and strengthen corporate ethics and liability, notably inspired by Parliamentary Assembly Resolution 1392 (2004) on corporate ethics in Europe, and the revised Organisation for Economic Co-operation and Development's Principles of Corporate Governance;

22.5. accelerate judicial and administrative reforms and ensure a more effective enforcement of existing laws across the whole territory and all levels of executive power;

22.6. continue streamlining corporate taxation and regulation, especially with a view to alleviating the administrative burden on small- and medium-sized enterprises;

22.7. improve customs administration;

22.8. accede to the Civil Law Convention on Corruption (ETS No. 174), the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism (CETS No. 198), the Convention on Cybercrime (ETS No. 185), the Convention on Insider Trading (ETS No. 130), the Council of Europe Convention on Action against Trafficking in Human Beings (CETS No. 197), the revised European Code of Social Security (ETS No. 139) and the European Convention on the Legal Status of the Migrant Workers (ETS No. 93);

22.9. ratify the revised European Social Charter (ETS No. 163);

22.10. consider appropriate domestic measures to tackle corruption on the "supply" side;

22.11. link measures for the modernisation of health care, education, family planning, social security, housing, employment policies, migration control and agriculture with adequate financial resources and relevant structural reforms;

22.12. encourage regional and local authorities to use a greater share of tax income from the exploitation of natural resources for improving local infrastructure;

22.13. provide a stable and transparent legal framework for public-private partnerships and foreign participation in concession agreements, in particular with a view to realising large projects for the development of infrastructure at national and regional levels and the exploitation of natural resources;

22.14. enhance policy and project co-operation with the European Bank for Reconstruction and Development in the field of energy efficiency;

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22.16. use the energy dialogue with the European Union to achieve progress on the ratification of the Energy Charter Treaty and the finalisation of the related Protocol on Transit;

22.17. invest more in the development of alternative energy sources and energy efficiency;

22.18. resolve current trade-blocking disputes with neighbouring countries;

22.19. strengthen financing mechanisms for private farming and rural development.

23. The Assembly also calls on the Council of Europe member states to:

23.1. further facilitate the integration of the Russian Federation into the WTO and the country's closer partnership with the European Union, in particular with regard to energy co-operation and the free movement of persons, in so far as this is justified in view of progress made by the Russian Federation as regards the rule of law and the fight against corruption;

23.2. ensure a rapid pace of negotiations between the European Union and the Russian Federation on the renewal of their Partnership and Co-operation Agreement and seek thereby to fix specific goals and implementation timetables and ensure that the European Union attaches due importance to the Council of Europe's concerns regarding the rule of law and human rights;

23.3. assist the Russian authorities in the reform of the country's public administration and in enhancing the good governance capacity of state institutions;

23.4. pursue investment opportunities in the Russian Federation beyond the natural resources sector;

23.5. encourage investment in favour of sustainable tourism in Russia and development projects in Siberia and the far-eastern regions of the country;

23.6. offer their know-how and technologies to joint projects on energy efficiency, industrial innovation, tourism development, health care improvements and migration control;

23.7. strengthen co-operation with the Russian Federation in the banking sector in order to reinforce bank supervision mechanisms, diversify retail banking and enhance the transparency of bookkeeping;

23.8. enhance partnership arrangements between universities and research institutions, especially through student exchange programmes and visits of researchers.