

POSITION PAPER

Defining shared interests – Implementing projects together

A ‚New Agenda‘ for European-Russian economic relations

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Table of contents

A) Introduction	4
B) Solutions for the future – together is the only way	6
1. Efficiency partnership	7
2. Promotion and funding of SME's /additional qualification of SME's	8
3. Interlinking of education, science and industry	9
4. Digitalisation of the economy	11
5. Mobility of the future	13
6. Energy and climate	14
7. Agriculture and food	16
8. Nuclear safety	17
9. Healthcare, social systems and demography	17
10. Cooperation in space	18
11. Civil society	19
12. Liberalisation of visa requirements	20
13. Multilateral dialogue – a way to build trust	20
14. Shared economic region of EU and EAEU	21
15. Strengthening the WTO	22
Closing remarks	23
About the Publisher	24

A) Introduction

After a lost decade in EU-Russia relations with increasing levels of perceived mutual threats, we believe that it is high time to develop a joint agenda that once again focuses on the future. This position paper looks at new approaches for a European policy towards Russia that leads to more growth and improved relations and is thus in the interest of all EU countries and of Russia. It outlines 15 strategic topics that offer forward-looking opportunities for German-Russian as well as European-Russian cooperation. These are major cross-cutting issues such as improving labour productivity, expanding the SME sector, digitalisation of the economy, implementation of global climate objectives, Antarctic and space exploration, security of energy and natural resources, as well as developing the mobility of the future. In all of these fields modern innovative companies from the EU and Russia can work together to find solutions that will help both sides to significantly boost their international competitiveness. Projects that already exist in these fields or are currently at the planning stage are also included in the individual chapters.

The fields of work and projects described in this position paper do not represent a final list, but are designed to stimulate the debate about a joint European-Russian agenda. This closer cooperation between the EU and Russia would be made significantly easier through a shared policy framework, the removal of mutual trade barriers and visa requirements, the strengthening of multilateral organisations like the WTO and the creation of a common European economic space as soon as possible. Particularly helpful would be a revitalisation of the annual EU-Russia Summit and the resumption of other suspended dialogue formats, such as the German-Russian Government Consultations. In addition, Russia should also be involved in existing or new formats of the EU with the countries of the Eastern Partnership.

The existing serious political differences and conflicts that have led to reciprocal sanctions should not be ignored or swept under the carpet. The different interpretations of Russia's conduct in Crimea, the war in Eastern Ukraine and ongoing reports of intelligence operations and cyber-attacks have generated massive uncertainty, particularly for the economy. Investors have to be able to trust that law and order will prevail. Against the background of these uncertainties, some European companies have left Russia. However, the vast majority has remained faithful to the market and believes in a positive future. These companies form a bridge between West and East that will continue to offer strong support.

Investors require an environment that offers long-term stability. Here, we expect the Russian Government to contribute to a new level of trust and to play an active role in working on peaceful solutions to the existing conflicts. At the same time, we are in favour of taking advantage of joint opportunities and intensifying cooperation in fields in which the results required and hoped for by the EU and Russia can be achieved. This is also linked with the hope that the new impulses for economic cooperation will contribute to positive dynamics in the political arena.

In his speech on Europe on June 13, 2018 at the Berlin Postbahnhof, German Foreign Minister Heiko Maas emphasized the need for new approaches in European-Russian relations. Maas said: "We also need a 'new Ostpolitik', that is a European Ostpolitik that also shows new ways to cooperate with Russia in the interests of all European countries – and not merely those chosen by Russia – given the dangerous silence between Washington and Moscow."¹ According to Maas, it is essential that this policy should also take into account the interests of the EU countries

bordering Russia. On the occasion of the inauguration of the German-Russian Petersburg Dialogue on October 7, 2018 in Moscow, German Federal Minister for Economic Affairs Peter Altmaier proposed a joint approach to working on an “European area of prosperity”². He stated that the creation of a common economic space from Lisbon to Vladivostok was the long-term objective; the short-term objective was to concentrate on generating more growth in Europe together.

This position paper addresses this political debate. The proposals were developed under the leadership of the German Eastern Business Association (OAOEV) in an exchange with scientists, experts in international relations as well as representatives of companies and ministries. OAOEV supports the German economy in 29 countries from Prague in the west to Vladivostok in the east. Founded in 1952 as the first regional initiative of the German economy, the association can draw upon its vast experience in relations with Russia, Poland, Ukraine, Kazakhstan and many other countries in the region. OAOEV draws upon six German industry umbrella organisations and 350 member companies.

Despite all the crises and conflicts, business and commerce have proved to be the best bridge to date between Russia and the EU. Despite the reciprocal sanctions, Russia still remains the third most important trade partner of the EU after China and the USA. Around 70 percent of foreign investments in the Russian economy come from the EU. In addition, around 4,600 companies with German involvement are active on the Russian market, where they have created some 270,000 jobs. Day-to-day experiences from joint projects with Russian partners have shown that collaboration in the interests of all involved parties is not only possible, but that it can also be highly successful. The German-Russian Year of University and Scientific Cooperation (2018-2020) and the German-Russian Roadmap for Cooperation in Education, Science, Research and Innovation offer further stimulus for getting new economic cooperation projects off the ground.

¹ The full speech given by German Foreign Minister Heiko Maas can be downloaded here: <https://schwarzkopf-stiftung.de/events/aussenminister-heiko-maas-haelt-grundsatzrede-zu-europa-vor-150-jungen-gaesten-der-schwarzkopf-stiftung/> (last accessed on 11 October 2018)

² Speech given by Altmaier at the inauguration of the 17th Petersburg Dialogue in Moscow, quoted from <https://www.oaoev.de/index.php/de/altmaier-kaempft-um-die-deutsch-russische-zukunft> (last accessed on 15 October 2018)

B) Solutions for the future – together is the only way

As the country with the biggest land mass in the world, Russia plays a key role in many issues with global or European dimensions. This applies, for example, to the mining of energy resources and metals, to cereal production, to the developing of internationally successful IT applications, to climate protection, to combating terrorism, and to Antarctic and space exploration. As a nuclear power and permanent member of the UN Security Council, Russia also has considerable diplomatic leverage and special access to many regions of the world.

When it comes to many of the major issues that will shape the future, the interests and challenges of the EU and Russia are very similar. Examples of this include:

- Global food security
- Non-proliferation of weapons of mass destruction / Iran deal
- Establishing peace in the Middle East and Afghanistan
- International fight against terror
- Nuclear safety and disposal
- Resource security
- Climate change
- Migration and demographic change
- Digitalisation
- Antarctic and space exploration
- Multilateralism vs. protectionism

In most of these areas, solutions and progress will be most likely achieved through constructive cooperation between the EU and Russia, and certainly not by working against each other. At least on paper, the Russian Government supports multilateral solutions, and for example in dealings with Iran or in safeguarding supply lines to Afghanistan the country has already been an important partner of the EU.

In its own interests, the EU should therefore pursue new cooperative projects with Russian partners despite the existing differences in geopolitical and social issues. The new agenda can focus on collaboration in areas offering win-win solutions for both sides or in which Russia can be a strong partner to help solve international issues and to develop the technology of tomorrow. The purpose of this cooperation is to overcome the widespread zero-sum mentality (i.e. in order for one party to gain, the other party has to lose) and thus to build up new trust. This will work if cooperation can be established in which both sides are treated as equal partners. This applies to how Russia is perceived in Brussels, but also to how Moscow perceives the smaller EU countries.

Tools that would help a great deal with this would be the revitalisation of the annual EU-Russia Summit and the resumption of other suspended dialogue formats, such as the German-Russian Government Consultations. We also have high hopes for a direct dialogue between the EU and the Eurasian Economic Union about improved interconnectedness between the two economic regions. The joint goal is to generate more growth for all.

The German economy is ready to pursue the cooperation with Russia proposed in this position paper in 15 strategic subject areas – intensively and in dialogue with political leaders. Depending

on the topics, representatives from other European countries and from countries in the Eastern Partnership and the EAEU can be involved so that interests can be balanced and persistent mutual fears can be broken down or prevented in the first place.

1. Efficiency partnership

Russia is showing particular interest in a cooperation with German and European companies in order to rebuild and modernise the Russian economy. This is all about technologies for boosting labour productivity, modernising industrial plants and machinery and establishing efficient processes along the entire value chain. German companies already working in Russia are making a special contribution in this area by implementing modern management and manufacturing methods in Russia.

The joint initiative proposed by us in this area also includes an exchange between German/ European and Russian authorities to promote innovation, further education/professional training and qualifications and streamline administration processes. For their part, the German economy and the EU have a vital interest in preventing Chinese technologies and business models from becoming established as the options of choice in Russia, and in strengthening European-Eurasian partnerships instead. Furthermore, in order to significantly reduce the previously high costs of local procurement, many European companies who have invested in the country are reliant upon efficient and cost-conscious local suppliers.

The stated working approaches and projects for boosting the productivity and export capability of the Russian economy can be summarised under the heading “efficiency partnership”. Learning with and from each other to get even better together – these are the goals that need to be focused on. Flanking support and funding programmes from the Russian Government for Russian and European SMEs in Russia would help with this.

Ongoing Projects:

Labour productivity in Germany is among the highest in the world. It is around twice as high as in Russia. In total, German companies have created around 270.000 jobs in Russia. From the Russian perspective, this makes the German economy a preferred partner for modernising the Russian economy and helping Russian employees gain further qualifications. At present, discussions are under way between the Russian Ministry of Economic Development, the German Eastern Business Association and the German-Russian Chamber of Foreign Trade (AHK) in order to launch a German-Russian “efficiency partnership” and to set up a range of corresponding projects. The existing GRID initiative (German-Russian Initiative on Digitalisation) is already helping bolster efficiency in some areas of the economy (see chapter 4).

2. Promotion and funding of SMEs /additional qualification of SMEs

There is strong demand from a Russian point of view for initiatives to help build up and develop small and medium-size companies (SMEs) in Russia. Innovative SMEs are the driving force behind

the necessary modernisation and will strengthen diversification in each economy. In Russia there is a particular need to develop the economy from the existing strong concentration on raw material extraction to longer value chains within the country. SMEs are also required by German and European investors in Russia as reliable supplier companies in order to expand involvement here. Some 40 percent of Russian SMEs are located in the services sector alone, which makes them interesting partners for German/European investors along with manufacturing companies. Together, projects for qualifying existing companies and founding new ones can be set up. In this context, there is still a great deal of interest in Russia in the **German dual training system**, which combines theoretical learning with on-the-job practice.

The efforts to facilitate the development of Russian SMEs could be supported through **programmes of KfW** (Reconstruction Credit Institute), **DEG** (German Research Foundation) and **EBRD** (European Bank for Reconstruction and Development). However, these organisations are at present banned from activities in Russia; the former two organisations due to the decision taken by the German Government, even though this measure is not part of the EU sanctions package. We therefore propose a resumption of the activities of DEG (which only operates in the private sector) as soon as possible and the activities of KfW and EBRD once progress has been made in the political dialogue.

A stronger focus by the Russian Government on supporting SMEs would also be helpful. This could take the form of programmes to attract more German SMEs, state aid measures and qualification programmes for Russian SMEs, cutting red tape and regulations and boosting promotional activities for existing companies via trade exhibitions and supplier fairs. Measures to promote the training of skilled employees and to integrate digital technology specifically into small&medium-sized companies (SME) are also required.

SMEs on both sides (EU and Russia) are disproportionately affected by trade barriers, clashing standards and regulatory systems. For this reason, a major factor in supporting SMEs should be the reduction of mutual trade barriers and the highest possible level of harmonisation of standards and regulations (see chapter 15).

In the area of reforms to **social systems**, the employers' associations BDA (Germany) and RSPB (Russia) could further intensify their dialogue in the fields of employment assistance, retraining and qualification. An innovative economy relies not only on close exchange with cutting-edge research, the high rate of change in the globalised world also forces companies to develop and expand lifelong learning concepts for their employees. In the future, phases of working and learning will need to alternate repeatedly.

Ongoing projects:

*The **SME Liaison Office (KSM)** of the German Eastern Business Association (OAOEV) started its work in May 2013. The purpose of the Liaison Office is to support German SMEs who are planning a market entry or an expansion of their business activities in OAOEV partner countries, particularly in Russia. The Liaison Office provides corresponding information, brokers contacts and provides assistance for projects in dealings with decision makers from politics and the economy at federal, regional and local level. In particularly complicated cases, direct project support is also possible. The Liaison Office*

is financed by member companies of the German Eastern Business Association: BAUER COMP Holding GmbH, Commerzbank AG, Ernst & Young GmbH, Herrenknecht AG, Knauf Gips KG, RSP, Schaeffler AG and WILO SE.

*In 2017, in collaboration with the Russian “Federal Corporation for the Promotion of Small and Medium-Sized Enterprises MSP” and various German investors, OAOEV got several pilot projects off the ground for **further qualification of Russian supplier companies**. As part of this process, a catalogue of criteria of German companies for local supplier firms was drawn up, which defines the quality standards. Qualification partnerships between German companies and suitable Russian SMEs are being established on this basis.*

*In May 2018 OAOEV, the German Association of Materials Management, Purchasing and Logistics (BME), the German-Russian Chamber of Foreign Trade (AHK) and the Russian Export Centre initiated the **Russian Purchasing Initiative**, aiming to bring German companies together with qualified Russian suppliers. With German aid, Russian suppliers of goods and services should become part of the international supply chain. Partnerships between German corporations and Russian SMEs will boost the efficiency and international competitiveness of the latter.*

A project for establishing the principles of German dual training in Russia, which is being coordinated by the German-Russian Chamber of Commerce (AHK) under the involvement of many German companies, is developing very well. In cooperation with the Agency for Strategic Initiatives (ASI), in recent years the Russian Government has created the necessary legal and regulatory framework. However, it’s still important to provide long-term support for these initiatives.

*On the subjects of **professional qualification and further professional training**, within the framework of the Petersburg Dialogue, an exchange has already got off the ground between companies, ministries and employers’ associations including the German Federal Employment Agency (BA), and this can be intensified.*

3. Interlinking of education, science and industry

Major impulses for the broadening of German-Russian economic relations could also come from the “German-Russian Year of University and Scientific Cooperation”, which was launched in December 2018 and will run until 2020. At the same time, the Ministries of Science and Research of both countries presented an ambitious roadmap for collaboration in education, science, research and innovation on December 10, 2018 in Moscow.

Under the leadership of the Helmholtz Association of German Research Centres, German research and funding organisations have submitted around 30 working approaches to further intensify cooperation, with us supporting them from the industry side. The road map is set up for ten years and builds on four columns:

1. Cooperation in large-scale research infrastructures;
2. Priority areas of research cooperation (marine and polar research, bioeconomy, humanities/ the arts, social sciences and cultural studies, health research, renewable energies/energy

- efficiency, environment/climate/sustainability, laser technology and other innovative manufacturing techniques);
3. Young Talent Programme
 4. Interlinking of science, society and industry.

OAOEV has played an active role in the preliminary talks for the roadmap and is conducting the dialogue about ways in which industry can get involved in the individual columns of the roadmap.

Particularly **application-oriented research** offers many different possibilities for German-Russian cooperation. If we compare internationally with, e.g., the USA or some countries in Asia, it soon becomes clear that neither Germany nor Russia are satisfactorily exploiting their potential for translating successful research into products that are fit for global markets. We therefore propose to expand this topic into a special focus of the German-Russian **Year of University and Scientific Cooperation** (“Kreuzjahr”) and to put it at the centre of joint symposia for the exchange of success models.

With the foundation of the **Springboard Innovation Promotion Agency**, the German Government has just implemented a new approach to interlinking research and science more closely with industry. The aim of the agency is to ensure that highly innovative ideas from science, research and industry also translate into successful products, services and jobs. The first step will focus particularly on promoting applications in the fields of artificial intelligence (AI), medical research and new forms of mobility (autonomous driving). An exchange in this field should be of interest to the Russian side.

Ongoing projects:

*Together with the BMW Foundation Herbert Quandt and the foundation Robert Bosch Stiftung, OAOEV started the German-Russian Meetings in Baden-Baden in 2009 for **further training of senior corporate managers**. Every year, 15 German and Russian executives from both countries take part. Since then, an alumni network of over 250 former participants has grown.*

*Starting 2018 the two leading **business schools** in Russia and Germany, Skolkovo Moscow and ESMT Berlin, are offering a joint “German-Russian Fellowship Program”, intended for top management in German and Russian companies.*

*Collaboration between German and Russian scientists in **large-scale research projects**, such as the international accelerator facility FAIR in Darmstadt, the laser project XFEL in Hamburg, the fusion reactor Wendelstein 7-X in Greifswald or the research reactor in Gatchina near St. Petersburg, is already exemplary today. There are also positive cooperation projects between universities in both countries, for example in the form of joint degree programmes between the Higher School of Economics in Moscow and Humboldt University in Berlin at master’s level, or the Plekhanov Russian University of Economics and the University of Applied Sciences Würzburg-Schweinfurt at bachelor’s level. Further measures for simplified mutual recognition of university degrees and institutionalised mobility partnerships following the example of the Erasmus+ programme are important.*

German and Russian researchers have been working together intensively in the field of exploration of the Arctic. Since May 2017, the project “CATS – The Changing Arctic Trans-polar System”, a consortium of ten German and Russian research institutions, has been investigating how climate change will affect sensitive Arctic biospheres and how these changes will also impact the climate in Europe. CATS is collecting new sea-ice, ocean, and atmosphere datasets based on satellites, shipboard expeditions and autonomous sampling and data collection techniques.

In autumn 2019 the German research icebreaker Polarstern will start drifting through the Arctic Ocean. The MOSAiC Expedition, the biggest expedition in this region to date, will see around 600 scientists from 17 nations conduct research into the Arctic. They will spend the winter in a region which is almost unreachable in the polar night. Russia is one of the key partners of the expedition, providing two icebreakers and several helicopters for the project.

*As part of the German-Russian Raw Materials Forum, scientists from both countries exchanged views on future issues for the **raw materials industry**. Currently, main topics are sustainable mining, recultivation of post-mining landscapes, circular economy, digitalisation, raw materials for future technologies and the development of non-profitable deposits.*

4. Digitalisation of the economy

Digitalisation is changing the economy almost as dramatically as the invention of the steam engine did in the 18th century. Thanks to the availability of vast computing power at prices that continue to drop rapidly, it is now possible to exploit and utilise huge amounts of data. **Robotics, augmented reality, blockchain, 3D printing, drones and the “Internet of Things”** will change the face of industry. In view of the dynamic changes that have been unleashed by the USA and China in this field, Europe is at risk of losing touch in important fields. In contrast to the EU, Russia has its own software and Internet giants in the shape of companies like Mail.ru, Yandex and Kaspersky Lab. Many of these innovative IT companies have formed Russian research clusters e.g. in Skolkovo near Moscow, Innopolis near Kazan in Tatarstan and Akademgorodok near Novosibirsk or belong to the Russian network NTI, which has over 350 innovative companies as its members.

With around 90 million users, Russia is Europe's largest e-commerce market. Nowhere on our continent are there more Internet users or programmers. Moscow is set to be the first major city in which the new radio wireless standard 5G will be available throughout, which opens up an era of completely new potential applications. Whereas Germany lags behind in terms of day-to-day digital services and in terms of e-government and can definitely learn from Russia here, the German economy scores when it comes to Industry 4.0 and therefore the implementation of digital applications in day-to-day production environments. According to assessments by experts, use of digital applications can boost production efficiency by five to ten percent within a very short space of time, and in the long term it can even lead to GDP increases of around 30 percent, while saving energy and resources and reducing emissions. Collaboration in this area will therefore help both sides.

In order to be able to make the most of the opportunities presented by the digital revolution for Europe, dialogue is required between science, politics and industry on the subject of joint

guidelines for the digitalisation of Europe. Here, Germany and Russia can take a first step by developing joint standards with the aid of a joint expert committee, which can then be discussed further at the level of the EU and the Eurasian Economic Union. Alongside joint rules and standards for data protection and data storage, there also need to be joint investments here in infrastructure measures/networks. One potential partner is the Skolkovo Innovation Centre near Moscow, which is the biggest technology park in Europe. The cooperation between German, European and Russian companies in Skolkovo has already unfolded in a very positive way. Joint research and development projects could cover topics like Advanced Analytics, Computer Vision, Robotics, Autonomous Driving and Super Computers. All topics should be addressed with one eye on the potential market viability of applications.

In order to review and potentially intensify the collaboration, we support the idea of founding a **“Digitalisation” sub-working group** within the German-Russian Working Group for Strategic Questions of German-Russian Economic and Financial Relations (SAG), which is supposed to draw up a concrete timetable for cooperative projects in this area at short notice.

Ongoing projects:

The German-Russian Initiative on Digitalisation (GRID) (partners: i.e. OAOEV, AHK Moscow, RSPP, Siemens, SAP, VW, Bosch, Rostelekom and Skolkovo) was launched in 2017 as a pilot project for closer German-Russian coordination in the field of digitalisation. The initiative brings together German and Russian companies on the subject of digitalisation and future technologies. Another important partner on the Russian side here is Sberbank.

Similarly, an Initiative for the Harmonisation of Technical Regulations has also already been launched. The Russian trade association RSPP and OAOEV are working on harmonisation of the technical regulations of both countries. This should also contribute to significantly improved framework conditions for companies in both countries in cooperative ventures with the Eurasian Economic Commission. Particularly when it comes to calls for tender, it is extremely important for international companies to be able to satisfy the required parameters. The topic of digitalisation also plays an important role in these discussions. With this in mind, the initiative has set up joint sub-working groups on the topics of Architectural Frameworks, Ontologies & Semantics, Interoperability and IoT, Industrial Wireless and on the cross-cutting issues of Smart Energy Grid, Smart Buildings and BIM and Smart Manufacturing.

In 2019 the first CEBIT Russia computer trade fair will take place in Skolkovo in cooperation with Deutsche Messe. Main topics include: Internet of Things, Artificial Intelligence, Blockchain, Mobile Solutions, Future Mobility, Start-ups, Security Solutions and Drones.

Russian partner institutes are also involved in a number of cooperation projects in the field of digitalisation at the Karlsruhe Institute of Technology (KIT), one of the leading German research clusters for digitalisation. The university is one of the top addresses in Germany for digitalisation. Here, intensive research is under way on topics such as “Industry 4.0”, technologies for digital encryption, blockchain, human-centred engineering or virtual reality. Every year, 20 new start-ups emerge from KIT. According to infor-

mation provided by the management of the institute, 60 projects are currently being run with 30 Russian research institutes.

On behalf of the Russian Ministry of Economic Development, Sberbank has developed the digital platform “Delovaja Sreda” for small and medium-sized enterprises (SMEs). Metro AG, for example takes part with its own training module for retailers and restaurants. Further digital services for SMEs are planned.

*As part of the German-Russian Raw Materials Forum there is an active **working group for the “Digitalisation of the Raw Materials Industry”**, which is currently working on the topics of Mining 4.0 and occupational safety.*

5. Mobility of the future

Russia is the largest country in the world and has by far the highest population of any country in Europe (approx. 145 million). The travel distance between Kaliningrad in the west and Vladivostok in the far east of the country amounts to almost 10,000 kilometres. 15 megacities exist in Russia with over a million inhabitants – in part due to continued migration from urban regions to cities. For transport planners, the challenges of bridging large distances, connecting remote areas and ensuring mobility under extremely varying climatic conditions, but also the challenges posed by traffic in growing megacities are difficult – but these things also represent great opportunities. The demand for modern and well-developed underground railway networks, high-speed trains linking the megacities, climate-resistant rail, road and path networks, and weather-independent mobility and logistics is high, and far from adequately met. Many companies in German automotive manufacturing and machine construction have invested in Russia and have set up large production sites or are involved in underground railway or road construction. A new funding programme from the Russian Government is in preparation specifically for the automotive industry and its suppliers. This will set the agenda for key areas of development in a difficult market environment. At present, German companies have also submitted tenders for contracts for new **high-speed routes** within Russia. To this end, the German Initiative for High-Speed Rail Traffic in Russia (HGV) has been formed with the support of AHK Moscow, to which over a dozen industry-leading companies and experts from Germany developing tailor-made solutions.

Furthermore, with its many remote settlements, some of which can only be reached by air, Russia is an ideal testing ground for the mobility and logistics concepts of tomorrow – such as delivery drones and air taxis. The challenge of overcoming long distances in Russia, which sometimes follow dead-straight routes, is ideal for implementing concepts for **autonomous driving** and new technologies such as Hyperloop or magnetic levitation (“maglev”) trains. At present, Russian-Dutch IT company Yandex is planning a first test run with autonomous taxis in the Innopolis industrial park in Tatarstan. Particularly in this early phase of the discussion and development of future topics, foundation stones are often put in place that strongly shape the standards and regulations that are developed during later phases. It is thus essential to ensure early involvement of German manufacturers in the current discussions and projects.

The Chinese **Belt & Road Initiative** is currently prompting massive investment in the traffic infrastructure on the overland route between Western China and the EU. The EU has in turn developed a connectivity strategy aiming to improve the connection of Central Asia to the European

Union. Russia and the Eurasian Economic Union should be involved more intensively in the planning of cross-border **traffic infrastructure projects**. To this end, it would be important to revive the transport dialogue between the EU and Russia.

Ongoing projects:

A regular container service has already been running between China and Europe since 2008 under the leadership of Deutsche Bahn and Russian Railways. Now, some 90,000 containers are moved every year. The different routes of the Trans Eurasia Express lead – among others – through Mongolia or Kazakhstan and then come together at the intersection Yekaterinburg. The terminal stations in Germany are Duisburg, Leipzig and Hamburg. It takes around 15 days to transport containers from China to Europe, which is approximately half the time it takes by sea. Extension of the logistics chain via new port connections (Kaliningrad-Rostock) is currently being planned.

*Since December 2009, German-Russian high-speed **Sapsan** trains, which were developed by Siemens for the Russian market, have been running on the regular commuter line between Moscow and St. Petersburg. Planning is currently under way for a third series of these trains. German companies are also ready to play an active role in the implementation of new high-speed links between Russian megacities and in the expansion of the urban public transport sector.*

6. Energy and climate

In terms of relations to the EU, Russia is very focused on the subject of energy and raw materials. In turn, Germany offers great expertise in the field of renewable energies (solar, wind, water), which has great potential for development and expansion in Russia in particular. For its part, Russia could profit from the German expertise in this field and could make a further valuable contribution on the path to the envisaged **decarbonisation** of industry in Europe. As a result of Germany's phaseout of nuclear energy by 2022 and the political efforts to phase out power generation with lignite and coal and to improve alternative fuels and drive systems for private and public mobility, Germany and the EU will be reliant on Russian natural gas, among other things, as an interim energy source. German companies have also made an important contribution to the development of the Russian energy market with high direct investments in e.g. the electricity sector. For their part, Russian companies have made important investments in the natural gas infrastructure, which benefit the security and reliability of supplies to Germany.

There has been successful cooperation between German and Russian companies for over 50 years in the energy sector. Around 35 percent of German natural gas and petroleum imports come from Russia. It is in the interests of Europe and Russia that this supply relationship remains secure and reliable. Russian natural gas presents an opportunity for attaining the medium-term CO2 reduction targets. The EU and Russia could also work with interested companies on upgrading the **Ukrainian transit pipeline network**. Joint projects for efficient and environmentally safe exploitation of raw materials for future technologies, such as rare earths and other high-tech materials urgently required to develop European industry, could also be topics

for cooperation. It would be desirable to see a resumption of the **EU-Russia Energy Dialogue**, which delivered good results in the years 2000 to 2005, in order to provide a regular exchange on the development of technologies and projects. A more closely coordinated energy market can be an important pillar of a joint economic space from Lisbon to Vladivostok. Beyond business with oil, coal and natural gas, we see potential in **trans-European electricity trading**. In addition, forward-looking topics like energy efficiency, decentralised and renewable energy sources, natural gas as a fuel for climate friendly mobility (compressed natural gas CNG/liquefied natural gas LNG), green gas (power-to-gas technology) or hydrogen applications could be suitable fields for cooperation.

Methane cracking is a new technology in which natural gas is broken up into hydrogen and high-value black carbon. Russian companies are working on this method, which German companies have met with great interest. This technology could also be jointly developed further with a focus on climate protection. In turn, this could lead to other projects in scientific-technical collaboration, for example the usage of natural gas infrastructure for hydrogen.

Ongoing projects:

*At present the European pipeline project **Nord Stream 2** is being implemented. In addition to companies from Russia, France, UK/Netherlands and Austria, the project is also being co-financed by two German companies, Wintershall and Uniper. Against the background of declining production in Europe, the project is intended to improve the security of supply in Europe. It also contributes to CO2 emissions reduction, and the gas supplied through Nord Stream 2 is cheaper and thus more competitive in comparison to LNG.*

*LNG is gaining increasing importance as a source of energy particular for cars, trucks and shipping as an alternative to the more climate-damaging oil. Member companies of OAOEV like Shell and Uniper have recently opened some first stationary LNG filling stations for trucks. Planning is also currently under way by Russian energy group Novatek and Belgian transmission pipeline network operator Fluxys for an **LNG terminal** project in Rostock. Growing sales opportunities are also forecast for liquefied natural gas in Russia itself. The construction of decentralised, smaller natural gas liquefaction plants in Russia with German technology partners promises to evolve into a successful model for the future. Discussions about German-Russian partnerships are already in progress.*

7. Agriculture and food

The food situation remains troubled in many parts of the world. According to the Food and Agricultural Organization (FAO), of the current global population of around seven billion, 821 million people face hunger. This problem is set to intensify by 2050 because of the rise in global population to over nine billion people. In order to meet demand from this growing number of people, food production would need to double over the next 35 years. Russian agriculture will play a key role in feeding more and more people thanks to its vast and particularly fertile arable lands. German technology can make a decisive contribution to help **increase acreage yields** while

ensuring sustainable use of resources in the long term. This applies to modern agricultural engineering, which enables higher crop yields, just as it does to animal husbandry that is designed for sustainability. In terms of expected impacts of climate change, strategies such as developing location-specific cultivation systems, funding for irrigation and crop insurance systems will also play a special role.

Crop research: Latest technologies and expertise are the ideal conditions for a close German-Russian partnership for sustainable agriculture. Particularly against the background of the recent statements issued by the Intergovernmental Panel on Climate Change (IPCC), this also includes **climate-resilient crops**, which are urgently required in the face of advancing climate change. Germany and Russia can work together to make significant progress in the research for salt and drought-resistant crop types. Both countries are already feeling the effects of climate change and could combine their efforts to discover new varieties that stand for food security and frugal use of resources.

Approaches for a deeper partnership could include: Workshops on methodological and procedural approaches to accelerating the joint breeding progress, exchanges of experience in crop research (e.g. seminars on the legal and breeding framework conditions for modern crop breeding), setting up a working group to improve the investment climate in the area of crop breeding, joint working groups for the national plant protection organisations (NPPOs) of both countries.

Commitment from the private sector and from the state to fund measures aimed at avoiding food waste as well as closer cooperation and exchange of best practices in consumer protection and food labelling are also conceivable. Here again, a resumption of the agricultural dialogue between the EU and Russia would be very important.

Ongoing projects:

*The **German Agribusiness Alliance** is an initiative set up by leading associations and companies in the agriculture sector and food industry. It serves as a platform for sharing and combining economic interests in collaborations with transition countries, emerging economies and developing countries (partner countries) in the agriculture and food sectors. It has become well known under its German name of “Arbeitsgruppe Agrarwirtschaft” at OAOEV. One of its priority countries is Russia. The goal is to support long-term, sustainable development of the agriculture and food sectors in Russia and to contribute to a long-term, sustainable improvement of crop yields and their further processing with an efficient allocation of resources.*

8. Nuclear safety

As a result of Germany’s phaseout of nuclear power by 2022, large projects will be implemented over the coming decades for decommissioning nuclear plants and **disposing of nuclear waste**. For its part, Russia faces the challenge of managing the nuclear legacy of the Soviet era and is developing modern technologies for permanent storage. We believe that joint research in this field is very important and urge the commencement of such projects in the year of University

and Scientific Cooperation. In the last few decades, the German Association for Reactor and Plant Safety (GRS) carried out major projects to expand nuclear safety with Russian partners, but these have come to an end. It is in the interests of both parties that this cooperation is reopened.

Rosatom is an experienced Russian partner for joint research in nuclear safety. On the one hand, this expertise could be helpful with the decommissioning of German nuclear plants, and on the other hand, German experts could in turn contribute to state-of-the-art **safety and disposal concepts** for Russian plants.

Ongoing projects:

In Autumn 2018 a first conference of Rosatom and German companies took place in Berlin. For Germany and the international community Rosatom is an important cooperation partner in the FAIR project in Darmstadt (Germany).

9. Healthcare, social systems and demography

Over the next few years, Russia and Germany (and many other EU countries) will be forced to intensively tackle the problems of an ageing and shrinking society. This phenomenon presents major challenges, for example for the healthcare systems and social systems of both countries. The Russian Government has declared that reforms in these areas will be a central task for the current legislative period. This also includes the controversial pension reform adopted in 2018. German companies, particularly from the fields of pharmaceutical and medical technology, can play a part in improving the Russian healthcare system. However, this requires authorisation conditions that enable rapid deployment of innovative procedures and methods. At the moment, the standard approval processes for both hardware and software solutions take around one to two years. A fast-track process could help here. Furthermore, it would also be conceivable to develop solutions for “e-medicine” together with Russian software firms or to work on concepts for marketable **medical care robots**.

Alongside improvements to the technical infrastructure, i.e. providing the Russian healthcare system with modern technology that allows to reduce costs and to improve the quality of medical services, education and **training of skilled professionals** play a very important role. Transfer of know-how and capacity building through workable and application-oriented qualification processes that fit the market requirements for skilled professionals whilst adapting the dual training concept and supporting development, digitalisation and dissemination of teaching and learning materials are the prerequisites for a functioning healthcare system. Due to its extreme size, Russia is affected even more by the urban-rural gap than other countries. Against the background of this ever-widening supply gap between cities and the countryside, the urbanisation of the country and an ageing society, general access to healthcare is a focus topic. **Telemedical health services** offer the potential of safeguarding access to healthcare services (telemedicine) for a broad community of users, in particular using simple technology (smartphones, tablets). At the same time, digital solutions will also make it easier to control the healthcare system and will help to increase the efficiency with which available resources are deployed. In this regard, applications are far more advanced in Russia than they are in Germany.

Ongoing projects:

The Russian Government has set up a strategy for monitoring and fighting oncological diseases. In this field, a close cooperation with the German Cancer Research Centre in Heidelberg is under discussion.

10. Cooperation in space

Another field for German-Russian cooperation and for linking science and industry is the topic of **mining resources in space**. Apart from the moon, there is an increasing interest in asteroids. Advocates are convinced that space mining will evolve into a billion-Euro industry and supply metals and water for living spaces as well as fuel for space travel. Countries like the USA and even Luxembourg have already drafted space mining laws. In its coalition agreement, Germany's grand coalition has also undertaken to draft a space act in order to create investment security and legal certainty for non-state space activities. International corporations have long been working on implementable concepts. With the start of commercial space travel in the USA, the topic is becoming increasingly relevant. This makes it all the more important to promote and fund innovative projects for space mining in Germany as well. For Europeans, Russia would be a natural and well-established partner in this area. Based on latest plans, Russia is aiming to put a person on the moon by 2030. Economic aspects and the topic of mining will play an important role.

However, our cooperation must not lose sight of "traditional" raw material supply routes and raw material security. The **raw materials strategy** for the supply of high-tech raw materials developed by the Federation of German Industries could become a good framework in this regard. This could also become an exciting topic for the German-Russian Year of University and Scientific Cooperation.

Ongoing projects:

*On 6 June 2018 the German astronaut Alexander Gerst flew in a Russian Soyuz rocket from the spaceport in Baikonur to the **International Space Station ISS** together with a Russian cosmonaut and a female American astronaut. The expedition, during which Gerst became the first German astronaut to assume temporary command, is a flagship project for European-Russian cooperation in space.*

*One of the experiments being performed by the current ISS crew is the German-Russian project **ICARUS (International Cooperation for Animal Research Using Space)**. On 15 August 2018 an antenna was affixed to the ISS by two Russian cosmonauts under assistance from Gerst for global observation of animal migrations (e.g. birds, insects, fish) from space. On the German side, the project is being supervised by DLR (German Aerospace Centre) and the Max Planck Institute for Ornithology, and the partners on the Russian side are Roskosmos, RKK Energia and the Russian Academy of Sciences. The scientific project will allow conclusions to be drawn about the spread of diseases and will provide findings about climate change and predictions of catastrophic events and could develop major commercial importance (e.g. for insurance companies, agriculture, medicine). ICARUS could become a German-Russian paradigm for applied research if close support from industry can be established.*

11. Civil society

An **active civil society** is the foundation of a modern and innovative market economy and of a functioning social system. For this reason, many companies and also the German Eastern Business Association are advocating a vibrant civil society. In order to mitigate existing conflicts relating to the role of and support for civil society involvement between the EU and Russia, we encourage a **more open and transparent dialogue** on both sides about relevant activities. Such a dialogue can also help to define fields for joint efforts in which there are strong shared interests. Examples include strengthening of **town partnerships**, intensifying **exchange programmes for young people, students and scientists** and **cultural exchanges**. Russia and the countries in the Eastern Partnership could be included in the **European Capital of Culture** programme, which has been running for over 30 years. The German-Russian **partner years**, which have been running successfully for a few years and include youth exchange programmes, municipal partnerships and – more recently – university and science cooperation projects, could be continued and Europeanised more strongly. For example, the 300th anniversary of the birth of Immanuel Kant in 2024 is an opportunity for a Russian-European Kant Year.

So-called **social start-ups** can play an important role in bilateral cooperation in the area of civil society. Crowdfunding platforms like Planeta.ru have also sprung up in Russia, via which donations for local projects can be collected and social concerns can be brought to the attention of a wider audience. Social media can be used to organise participation procedures for local projects. Citizens and the administration can thus engage in a more intensive dialogue. Platforms for e government or electronic tendering procedures increase the transparency and efficiency of administrative procedures. All of these areas are suitable for an exchange of experience in best-practice applications between Germany, Russia and other European countries.

Ongoing projects:

The Foundation German-Russian Youth Exchange gGmbH was founded in February 2006 as a public-private partnership in order to implement the intergovernmental agreement between Germany and the Russian Federation on cooperation in youth politics. The remit of the foundation is to promote and give fresh momentum to German-Russian youth and student exchanges. The foundation, which is assisted and co-funded by the German Eastern Business Association, has helped promote and fund over 6,000 exchange programmes with more than 174,500 young people, teachers and professionals.

OAQEV is one of the initiators of the German-Russian Petersburg Dialogue, which has been connecting important representatives of civil society in both countries since 2001.

12. Liberalisation of visa requirements

In 2016 over three million Russian citizens applied for a Schengen visa. This was the highest number of Schengen applicants from a country. The rejection quota was just two percent, which is one of the lowest rates. In return, around two million EU citizens applied for Russian visas. The visa application process is long-winded, expensive and ineffective. It obstructs tour-

ism and makes it harder for people to meet, for scientific exchanges and for business contacts to be established. An urgent measure is therefore the resumption of the discussions that were running until 2014 between the EU and Russia to **simplify the system for granting visas** and even completely scrap them. Here, we welcome and support the new initiative of generally lifting visa requirements for young people in both countries up to the age of 25 in order to facilitate a closer exchange between people in this population group in particular. The EU agreements on visa-free travel with other neighbouring countries in Eastern and Southern Europe have shown that visa requirements can be scrapped without compromising security. In turn, Russia made some very positive experiences with the temporary lifting of visa requirements during the 2018 FIFA World Cup.

13. Multilateral dialogue – a way to build trust

One of the root causes for the disputes between the EU and Russia is the Russian mistrust of EU activities in the countries of the Eastern Partnership (Ukraine, Belarus, Armenia, Azerbaijan, Georgia, Moldova). Conversely, there are many eastern EU countries which, for historical and current reasons, are highly critical of Russia. Trust needs to be built on both sides. Germany and the EU should therefore place special focus on the development of trilateral (e.g. including Ukraine) or multilateral formats with Russian involvement that take into account Russian interests. As well as reactivating the biannual EU-Russia Summit – at least at expert level – the **foundation of joint formats for discussions between the EU and Russia and the countries of the Eastern Partnership** would be important. Where interests overlap, these can be used together, while the dialogue should enable solutions to be found that are acceptable for both sides.

This new dialogue could also take the form of joint working groups for expansion of economic cooperation and for the topics listed in this paper. Although both sides (the EU and Russia) are competing for political influence in Eastern Europe, both share interests when it comes to intensifying cross-border trade. A shared “European area of prosperity” is how this was described by German Federal Minister for Economic Affairs Peter Altmaier. In the medium term, it is all about developing a positive vision for economic exchanges between the EU, Russia and the “countries in between”, for example by strengthening the bridging function of these countries between the EU and the EAEU.

14. Shared economic region of EU and EAWU

An important building block for the resumption of a dialogue is **joint coordination committees for the EU and the Eurasian Economic Union** with the goal of harmonising standards and regulations and ensuring increasing interconnectedness between both economic regions. A dialogue on this subject is in the interests of both the EU economy and of the countries involved in the EAEU. This applies in particular against the background of the growing regulatory importance of the Eurasian Economic Commission, as a result of which bilateral agreements with individual countries are going to become increasingly ineffective. The vision of a joint European economic space is already over 25 years old, and discussions in support of this ideal should not be the object of political blockades in the EU. The EU should have a vital interest in ensuring that the EAEU Commission is strengthened in its role as a coordination body between Russia and its four partner countries Kazakhstan, Belarus, Armenia and Kyrgyzstan. This should also make it far

easier for Western companies to trade with the economic region of the EAEU. In the spring of 2018 this topic made its way into the coalition agreement of the new Federal German Government. It says: “We are holding on to the vision of a shared economic region from Lisbon to Vladivostok. Both sides and the whole of Europe can profit from this.” As a concrete step, we recommend extending an invitation as soon as possible to the Chairman of the EAEU Commission, Tigran Sargsjan, for official political talks in Berlin and Brussels.

Alongside the harmonisation of technical standards and regulations between the Eurasian Economic Union and the EU, concrete discussions about reducing trade barriers on both sides should be on the agenda so that mutual economic relations can be strengthened. The objective here should be to largely eliminate barriers within the framework of the WTO. In cases where this multilateral approach is unsuccessful, bilateral agreements between the Eurasian Economic Union and the EU are the goal.

Ongoing projects:

From 2013 to 2017, UniCredit, the German Committee on Eastern European Economic Relations and Metro organised the annual two-day conference “east forum Berlin” in order to further the debate on the joint economic space from Lisbon to Vladivostok. In addition, a Working Group for the Joint Economic Space from Lisbon to Vladivostok was founded at the end of 2015 in cooperation with further trade associations, companies and partners from Germany, Russia, Belarus and other countries. Since then, it has organised regular meetings, with representatives of the EU and the EAEU among others, and published position papers on standardisation of customs, certification and visa rules. In 2017 a memorandum for a joint economic space was drafted which has now been signed by many companies, associations and individuals.

Initiative for the Harmonisation of Technical Regulations. The Russian trade association RSPP and the German Eastern Business Association want to work on harmonising the technical regulations of both countries. Implementation of the project is set to lead to significantly improved framework conditions for companies in both countries (see also Chapter 4 for more information). A harmonisation dialogue should also be launched at the earliest possible opportunity in order to establish a standardised goods labelling system in Russia and/or the EAEU.

15. Strengthening the WTO

Economic development in the EU and Russia is being challenged by the two superpowers, the USA and China. Both countries are evolving, albeit in different ways, with their strategic objectives (“America First” and “Belt and Road Initiative”) and are challenging the existing global economy – and they both have the potential to carry these policies through. The EU has now set out the cornerstones of a strategy for interconnectedness between the EU and Asia, although Russia is barely mentioned as a factor. However, only by working together will the EU and Russia find satisfactory answers to dealing with the Chinese and US challenges. With this in mind, we recommend reopening the EU-Russia dialogue on financial and macro-economic policy and the trade and investment dialogue.

The building blocks of a joint strategy could be, for example, **strengthening the WTO** and other multilateral institutions, as well as new multilateral trade agreements. The jointly agreed rules must apply equally to all parties and must not serve the benefits of one party unilaterally.

When it comes to asserting the principle of multipolarity of the global community against unipolarity, Russia and the EU can achieve more together than when working against each other. Where multilateral, WTO-based approaches fail to bring success, bilateral agreements can be aimed at to facilitate trade relations.

However, it is important not to ignore the fact that, according to expert opinion, Russia is only reluctantly implementing its obligations arising from the WTO accession in 2012, which is explained among other things by concessions made by Russia to the remaining partners in the EAEU. It would be advantageous here if Belarus were to join the WTO soon as the last member state of the EAEU that is not yet a member. Under the combined pressures of the USA and China, as well as the UK's plans to leave the EU, there is a growing overall need for greater European unity in trade issues, which means that will definitely be opportunities for securing Russia in the long term as a partner to strengthen the WTO and the European voice in the global economy.

Closing remarks

In 2014 the EU imposed economic sanctions on Russia in response to the Ukraine conflict, to which Russia reciprocated with counter-sanctions. Perhaps contrary to expectations, the economic sanctions have not brought about any tangible movement in the Minsk peace process. However, what they have possibly done is underline the readiness of the EU to engage in a conflict and demonstrate the determination of the EU to oppose any further escalation with regards to Russia. If anything, this has led to further hardening of the opposing positions.

After five years of sanctions, with aggregated losses in excess of more than € 100 billion for Russia and European economies, both sides must have great interest in jointly overcoming the continuing strain on bilateral relations, which is a burden on the economic development of the whole of Europe, including Russia. However, the political conflicts should not be swept under the carpet. As long as there are no significant changes to the conditions that originally led to the imposition of economic sanctions, there will be no movement in this field. However, there are many areas in which cooperation bears fruit for both sides and in which new initiatives should be pushed ahead so that Europe can keep up overall with the highly dynamic pace of other regions in the world.

A Russia that is isolated and excluded from cooperation with the EU is not going to become a better neighbour. For this reason, it should be in the interests of even the proponents of a comprehensive sanctions policy for a regular exchange to be established between the EU and Russia again. We therefore believe that it is fundamentally possible and important that the EU attempts to overcome the downward spiral in relations with Russia with new offers of cooperative ventures and to start moving things in a positive direction again. The fields of work and project ideas described in this paper offer a basis for this. Germany should assume a leading role in this process. The German economy is ready as a partner and driving force.

However, the proposals outlined in this position paper should not be implemented in isolation, but must instead always be seen in the context of Russian policy. The EU will only be able to develop a growing scope for improved relations if Russia itself displays a corresponding willingness to cooperate. We need both sides – Russia and the EU – to switch mentality from “less-for-less” to “more-for-more”. The zero-sum notion that the advantages on one side can only be achieved by equivalent disadvantages on the other side is disproved on a daily basis by the global economy.

About the publisher

The German Eastern Business Association (*Ost-Ausschuss – Osteuropaveroin der Deutschen Wirtschaft e.V.*, OAOEV) promotes German businesses in 29 countries of Eastern Europe and Central Asia. It supports important economic developments in the bilateral relations with these countries and facilitates trade, investments and the transfer of services from German companies to the markets of the region.

Current statistics, position papers and a whole range of other information about German economic relations with the 29 countries covered by the German Eastern Business Association can be found on the website at www.oaoev.de

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