

SUBMISSION TO THE DEPARTMENT OF FOREIGN AFFAIRS AND TRADE ON IRELAND RUSSIA JOINT ECONOMIC COMMISSION 2011

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The Ireland Russia Business Association,
a subsidiary of the Irish Exporters Association

www.irba.ie



EXECUTIVE SUMMARY

The Ireland Russia Business Association (IRBA) is pleased to respond to the invitation from Eamon Gilmore, the Tanaiste and Minister for Foreign Affairs and Trade (DFAT), to provide a set of recommendations on what issues are of concern in bi-lateral trade between Ireland and Russia.

The trade between Ireland and Russia in the first seven months of 2011 accounted for only €70m in imports and €311m in exports¹. In terms of FDI to Ireland, the IDA has only 2 client companies of Russian origin employing 27 people². This level of trade is a fraction of what should be expected between Ireland and the world's 8th largest economy. While the potential of the Russian economy is recognised by the Irish government and noted in the Horizon 2020 Strategy, we are yet to see a concrete plan to deliver significant increases in economic activity on the ground.

The IRBA has held talks with Irish businesses trading with Russia. It was concluded that the Irish government needs to support bi-lateral trade in a systematic manner through the:

- Development of a cohesive and mutually attractive trade development strategy, with clear and informed objectives and aims;
- Organisation of sector-specific working groups with experts in the respective fields (both public and private) providing their input on a regular basis;
- Facilitation of favourable trade infrastructure - visas, direct flights, visitor registration, information exchanges, payment and taxation treaties.

In order to deliver and support this systematic approach, the IRBA would like DFAT to consider the following immediate and actionable steps:

- Prioritise the easing of bi-lateral visa requirements and improvement of visa processes to deliver a more efficient and visitor-friendly service;
- Propose the joint creation of a trade development strategy between both countries;
- Set-up a working group of Irish and Russian companies to share knowledge and encourage increased trade and investment;
- Address issues such as perception of investment risk in Russia due to concerns over application of rule of law, or perception of investment risk in Ireland due to financial instability, through all possible means including country promotion efforts;
- Develop an approach to deliver greater liberalisation of cross border payments;
- Implement a tax treaty whereby taxes paid between both countries could be offset, where tax exemptions to reduce the overall bill could be introduced, and agreement on favoured status could be setup;

¹ Central Statistics Office, External Trade, 21 October 2011.

² IDA, Ireland Vital Statistics, October 2011.

- Facilitate forums for dialogue (in the field of aircraft leasing and maintenance) between Irish aircraft lessors and the Russian finance and banking community to discuss trade, and the Russian aviation authorities and Ministry of Transport to discuss industry best practices and to raise issues with taxes and duties, aircraft age restrictions, and the adoption of the Cape Town Convention;
- Propose to develop a joint tourism plan to increase travel volumes between both countries and result in improved trade links;
- Facilitate the prioritisation of educational exchange initiatives, especially in business, finance and law between Ireland and Russia, with streamlined student and academic staff visas, and the inclusion of Russia in the Farmleigh Fellowship programme, to further enhance meaningful expansion of business activities;
- Consider a more active agenda for the IDA to attract FDI from Russia – the success of which will result in an improvement in overall trade, travel and tourism;
- Facilitate the creation of a cooperative information exchange platform for bilateral (including EI, IRBA, other stakeholders) that will act as a first port-of-call for Irish and Russian companies and entrepreneurs, and ultimately improve bilateral investment and trade flows;
- Revise the criteria for non-EEA nationals applying for business permission in Ireland (e.g., financial requirements) to create less constrained visa processes that facilitate business and entrepreneurship development.

INTRODUCTION

The Ireland Russia Business Association (IRBA), a subsidiary of the Irish Exporters Association (IEA), the national trade body representing and promoting the business interests of Ireland's 4,000 exporters, is pleased to respond to the invitation from Eamon Gilmore, the Tanaiste and Minister for Foreign Affairs and Trade, to provide a set of recommendations on what issues are of concern in bi-lateral trade between Ireland and Russia in the areas of export, import, investment, travel and tourism.

The trade between Ireland and Russia in the first seven months of 2011 accounted for only €70m in imports and €311m in exports. In terms of FDI to Ireland, IDA has only 2 client companies of Russian origin employing 27 people. This level of trade is a fraction of what should be expected between Ireland and the world's 8th largest economy.

However, there are encouraging signs. Year on year, exports to Russia are up 53.5% though imports are down 31.3%. For the first seven months of 2011, the Irish trade balance with Russia was €241m, up on €122m for the same period in 2010. In contrast, the Irish trade balance for the same period with Brazil was €54m, down from €62m; with China was -€91.5m, down on a €75m surplus; and with India was -€89.9m, down from -€80m.

Ireland's trade surplus with Russia for the first seven months of 2011 was larger than the trade surplus with Canada (€158.7m), Malaysia (€140.3m), Mexico (€178.3m), Singapore (€145m - note that Singapore acts as a major entry point for global trade to the broader South-East Asia region), South Africa (€99.3m) and Turkey (€138.8m).

Russia was the only BRIC country that delivered improved trade surplus for Ireland in this period.

The Ireland Russia Business Association aims to be a driving and constructive force in the development of trade between Ireland and Russia. It has facilitated discussion between Irish businesses operating in Russia, culminating in the submission of ideas and proposals outlined in the following paragraphs.

PROPOSALS

VISAS

Overwhelmingly the businesses involved in discussions asked for eased visa requirements in both countries. At present, visa application processes are unclear, time consuming and require personal presentations. It takes 2-3 weeks to process a visa application to Russia or Ireland. A review of the visa practices and consideration of proven approaches from other jurisdictions– e.g., issuance on entry and dedicated queues, would be welcomed.

FORMULATION OF TRADE DEVELOPMENT STRATEGY

While the importance of the Russian economy is recognised, a cohesive strategy on the development of trade between the countries has not yet been developed. The IRBA believes that rapid and positive developments are possible with a systematic approach that requires a formulated strategy, based on clear facts and objectives, which is understood and supported by both sides.

SECTOR WORK GROUPS

IRBA suggests that a number of sector-specific working groups be set up with experts in the respective fields (both public and private) giving their input on a regular basis. In addition, a separate working group should be established to assist in increasing trade and act as a knowledge-sharing forum where both Irish and Russian companies can be kept informed of news and updates relating to trade policy changes between the two countries.

The following sectors should be considered for prioritisation:

1. Agri-food
2. Education
3. Tourism
4. Environmental Technologies
5. ICT and e-Governance
6. Construction and Building Materials
7. Consultancy and Professional Services
8. Aviation and Aviation Finance, and
9. Financial Services

COUNTRY PROMOTION

There is a general lack of information in Ireland about Russia and vice-versa. This can lead to a lack of awareness and understanding of each country's issues and create uneducated speculations, often based on a mix of fact and fiction that can harm a country's image.

An example includes a perception amongst the Irish business community that there are risks to

business investment in Russia as a result of concerns regarding the application of the rule of law, and a lack of protection of property rights and adherence to common business practices. Equally, Russian businesses and the general public have little understanding of the Irish economy, and opinion is coloured by media coverage of the ongoing recession, property market crash and EU/IMF bailout as well as high unemployment and euro uncertainty.

All possible methods to address these issues, such as through strong country promotion would be welcomed by the IRBA.

TAXATION

The IRBA would welcome a tax treaty between the two countries whereby they could offset taxes paid between one and other, introduce tax exemptions to reduce the overall bill and set up an agreement with favoured status, etc.

AVIATION SECTOR

The Russian aviation sector has had set backs in recent years with the number of fatalities in commercial aircraft accidents primarily due to the use of old Soviet era aircraft. As such there is a directive at government level in Russia to improve the situation. The Prime Minister Vladimir Putin has taken this project on board as a personal aim. We understand the measures to be taken are as follows:

- Consolidate the large number of existing airlines into a smaller number of larger more efficient airlines.
- Remove from service, as soon as possible, the older Soviet built aircraft. Estimated at 3,000 aircraft.
- Replace the older fleet with either Russian built modern technology alternatives or replace the removed aircraft with older and newer Western (Airbus / Boeing) alternatives.

It is unlikely that the Russian aircraft manufacturing industry can meet the demands set by the Russian government. The Irish aviation leasing community have access to large numbers of western aircraft that are being returned / replaced by airlines in Europe/American and the Far East by newer more fuel efficient alternatives. Irish aircraft lessors can also finance new Russian aircraft.

These aircraft are ideal to place in Russia to replace the older equipment mentioned above. These aircraft transactions could result in aircraft sale and lease contracts valued at over €2 billion annually. In addition the aircraft acceptance and delivery maintenance contracts that would go with such transactions are valued at approximately €20m annually. Industry experts estimate that at least 1,000 new or used Western built jets are required in Russia in the next 10-15 years to replace older aircraft and to keep up with passenger demand. If even half of this demand were to come from the Irish aircraft lessor market and was supported by the Irish MRO community, then significant increases in employment of high net worth professionals and experienced technical personnel would automatically follow.

We have identified the following hurdles / barriers to increased business opportunities between Irish leasing and MRO companies in dealing with Russian airline counterparts. Rather than outline problems, we propose solutions that the minister could champion on behalf of Irish lessors and MRO at the JEC discussions in Moscow.

(i) Making permanent the current temporary suspension of certain import taxes on aircraft;

Proposed Solution: A clearly defined (aircraft type by aircraft type) list of what permanent or temporary import taxes apply by aircraft and when such taxes are payable and by whom.

Complete By: March 2012

Action by: Russian government finance department

(ii) Foreign aircraft age restrictions should be more clearly defined by Russian aviation authorities

Proposed Solution: A clearly defined (aircraft type by aircraft type) list of what age aircraft are permitted within the Russian aviation sector as new entrants and as existing operating types within Russia.

Complete By: March 2012

Action by: Russian civil aviation authorities.

(iii) Set-up a forum for dialogue between the Irish based lessors and the Russian finance community, and the Russian aviation authorities and Ministry of Transport to discuss industry best practices

Proposed Solution: Irish government to sponsor an annual industry ATO conference between Irish lessors and Russian finance communities and banks.

Complete By: April 2012

Action by: Irish Government and Russian civil aviation authorities.

(iv) Measures to reduce repossession risks and give greater visibility of those risks and how the Russian legal system responds to the rights of lessors

Proposed Solution: Adoption of Cape Town Convention in full by Russia. More widespread use of EI registration of Russian aircraft.

(v) Local office support in Moscow for the Irish aircraft lessor and MRO communities.

Proposed Solution: Consider utilisation of Irish Embassy or Enterprise Ireland in Moscow

(vi) Greater liberalisation of cross border payment processes.

TRAVEL AND TOURISM

Lack of regular direct flights between the two countries continues to serve as a significant barrier to the business and tourism sectors. Progress in this field has to be made.

While St. Patrick's Day events in Russia, and Maslenitsa events in Ireland have contributed to the development of interest in both countries, tourist and business traffic between Ireland and Russia remains low. Complicated visa regimes, and a lack of Ireland promotion coupled with a lack of direct flights has resulted in just 4,000-6,000 visas being issued annually.

The IRBA would welcome the formulation of a tourism plan for the development of travel volumes, which would also result in the creation of trade links.

EDUCATION

Education provides important foundation for the mutual understanding and development of long-term links between people. The Irish government could facilitate improved and streamlined processes for student and academic staff visas, and prioritise support for educational exchanges initiatives, especially in the area of business, finance and law. Inclusion of Russia into the Irish government-sponsored Farmleigh Fellowship programme can further enhance meaningful expansion of bilateral business activities.

FDI TO IRELAND AND ENTREPRENEURSHIP

The current level of FDI from Russia is unsatisfactory. It is thought that a certain level of FDI will provide a network effect to trade, tourism, transport, education and country awareness in general. IDA must have a more active and ambitious agenda in finding suitable niches and attracting companies of Russian origin to Ireland.

The criteria for non-EEA nationals applying for business permission to start a business in Ireland are considered to be failing in attracting entrepreneurial talent. The creation of less constrained business and entrepreneurship visa regimes with restriction to public funds is thought to be a more effective alternative.

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