

Senate



Sénat

CANADA

**STANDING SENATE  
COMMITTEE ON  
FOREIGN AFFAIRS AND  
INTERNATIONAL TRADE**

***CANADA AND RUSSIA:***

***BUILDING ON  
TODAY'S SUCCESSES  
FOR TOMORROW'S  
POTENTIAL***

March 2010

Ce rapport est aussi disponible en français.

Des renseignements sur le comité sont donnés sur le site :

[www.senate-senat.ca/foraffetrang.asp](http://www.senate-senat.ca/foraffetrang.asp).

Information regarding the committee can be obtained through its web site:

[www.senate-senat.ca/foraffetrang.asp](http://www.senate-senat.ca/foraffetrang.asp).

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# ACKNOWLEDGEMENT

*The Standing Senate Committee on Foreign Affairs and International Trade has spent two years studying the rise of Russia, India and China in the global economy and the implications for Canadian policy. I would like to express my personal thanks to the members of the Committee who were available for many extended meetings in order to hear the evidence of all of the witnesses who appeared before us over the course of our study.*

*Senators Raynell Andreychuk, Dennis Dawson, Percy E. Downe and David P. Smith also made time in their hectic schedules to visit Russia, in particular Moscow and Khanty-Mansiysk. I was greatly assisted by the Deputy Chair, Senator Peter Stollery, whose knowledge of Russia was invaluable.*

*Additionally, I would like to thank in particular my counterpart in the Russian Council of the Federation, Mr. Mikhail V. Margelov, Chairman of the Committee for Foreign Affairs, Senator Gennady Dmitrievich Olynik, Governor Aleksander Vasilievich Filipenko and Mr. Vasily Sondykov for their assistance and support.*

*I would also thank all of the witnesses who appeared before us, representing the various stakeholder groups. The quality of the evidence presented to us, both orally and in written submissions, and the ability of the witnesses to respond, on short notice, to often complex questions demonstrated their expertise and dedication to improving our understanding of present day Russia and in particular of Canada-Russia relations. They were of great assistance to the Committee in completing this report.*

*Particular mention should be made of the assistance we received from both the Canadian Embassy in Moscow, in particular from H.E. Ambassador Ralph Lysyshyn and Ms. Deborah Dunton, and from the Russian Embassy here in Canada, H.E. Ambassador Georgiy Mamedov.*

*The Committee could not have functioned as well if it was not for the work of our analysts from the Parliamentary Information and Research Service of the Library of Parliament, in particular, Ms. Natalie Mychajlyszyn, Ms. Jennifer Paul and their predecessor, Mr. Peter Berg. I would also like to thank the Clerk of the Committee, Denis Robert, and his predecessor, Keli Hogan, Senate support staff and translators and interpreters who assisted the Committee in this study. I wish to express my appreciation to Alicia Wanless who worked in my Ottawa office for her assistance and advice.*

*I know I speak on behalf of our entire Committee in expressing our sincere hope that this report will help to improve and strengthen Canada-Russia relations.*

*Senator Consiglio Di Nino  
Chair of the Committee  
during the Second Session of the Thirty-ninth Parliament  
(October 16, 2007 - September 7, 2008)  
and during the Second Session of the Fortieth Parliament  
(January 26, 2009 - December 30, 2009)*





# THE COMMITTEE

The following Senators have participated in the study:

- \* The Honourable Raynell Andreychuk, Chair of the committee
- \* The Honourable Peter Stollery, Deputy Chair of the committee

and

The Honourable Senators:

- Eymard Corbin (retired August 2, 2009);
- \* Dennis Dawson;  
Pierre De Bané, P.C.;
- \* Consiglio Di Nino (former chair of the committee);
- \* Percy Downe;  
Doug Finley;  
Suzanne Fortin-Duplessis;  
Jerahmiel S. Grafstein (retired January 2, 2010);  
Mobina Jaffer;  
Frank Mahovlich;  
Pierre Claude Nolin;  
Hugh Segal;
- \* David P. Smith, P.C.;
- Carolyn Stewart-Olsen;  
Pamela Wallin.

\* Indicates senators who participated in the fact-finding mission to Russia.

**Ex-officio members of the committee:**

The Honourable Senators Marjory LeBreton, P.C. (or Gérald Comeau) and James Cowan (or Claudette Tardif)

**Other Senators who have participated from time to time in the study:**

The Honourable Senators Leo Housakos, Rod A.A. Zimmer, Céline Hervieux-Payette, P.C., David Tkachuk and Fernand Robichaud, P.C.

**Staff of the committee:**

Natalie Mychajlyszyn, Analyst, Parliamentary Information and Research Service, Library of Parliament;  
Karen Schwinghamer, Senior Communications Officer;  
Sylvie Simard, Administrative Assistant; and  
Denis Robert, Clerk of the committee.

**Other Staff who have assisted the committee from time to time in the study:**

Jennifer Paul and Peter Berg former analysts with the Parliamentary Information and Research Service, Library of Parliament, and Keli Hogan, former clerk of the committee

## ORDER OF REFERENCE

Extract from the *Journals of the Senate*, Tuesday, March 16, 2010:

“The Honourable Senator Andreychuk moved, seconded by the Honourable Senator Wallin:

That the Standing Senate Committee on Foreign Affairs and International Trade be authorized to examine and report on the rise of Russia, India and China in the global economy and the implications for Canadian policy;

That the papers and evidence received and taken and the work accomplished by the committee on this subject during the Second Session of the Thirty-ninth Parliament and during the Second Session of the Fortieth Parliament be referred to the committee; and

That the committee presents its final report no later than June 30, 2010 and retain all powers necessary to publicize its findings until December 31, 2010.

After debate, [...]

The motion was adopted on division.”

ATTEST

Gary W. O'Brien  
Clerk of the Senate



## EXECUTIVE SUMMARY

Russia is a dynamic country. Nearly twenty years after it began to move away from a centrally planned economy, its journey towards progress cannot be denied. But neither can its ongoing challenges which, as the President of Russia, Dmitry Medvedev, himself pointed out, are holding Russia back from realising its full potential as a world economic leader.

Notwithstanding these challenges and their impact on Russia's business climate, there is a positive future in Canada-Russia trade and investment. This is the preliminary assessment of the Standing Senate Committee on Foreign Affairs and International Trade (SCFAIT) following extensive hearings in Ottawa and its six-day fact-finding mission to Russia.

There is a tremendous amount of good news about how far commercial relations between Canada and Russia have come, and where they can still go. The Standing Senate Committee on Foreign Affairs and International Trade (SCFAIT) carried out a fact-finding mission to Russia from 11 to 16 October 2009 and included meetings in Moscow and Khanty-Mansiysk. This mission was carried out as part of our larger two-year study of the rise of China, India and Russia and its implications for Canadian policy. It focused on improving our understanding of the trade in goods and services as well as investment flows between Canada and Russia. It also examined the ways in which the commercial relationship can be enhanced in order to result in greater mutual benefits. We also wanted to identify potential opportunities for Canadian businesses in order to ultimately benefit the Canadian economy.

Throughout our mission, we were impressed with Canada's record of commercial success. It became clear to us that these companies succeeded because they have invested time and effort into their Russian ventures. Unanimously, the Committee heard that success in Russia requires a long-term perspective because it is only over the course of a period of time that one gets to know clients and partners, cultivates personal relations with partners and with the appropriate government authorities locally, regionally and federally.

We were also impressed with the opportunities for strengthening our commercial relationship. Our Russian interlocutors, for instance, repeatedly listed Canadian innovation and technology among their needs in order to modernise their economy. Other sectors where Canadian trade and investment were noted to have been and would continue to be warmly received included: infrastructure, transportation, railways, agriculture and agri-food, timber and paper, construction (particularly of wood frame housing), and other natural resource sectors such as the extractive industry. In addition, we heard about opportunities for Canadian businesses in the green economy and who promote energy conservation and efficiency, as well as the use of green technologies. Our visit to the Siberian city of Khanty-Mansiysk reinforced our impressions about the opportunities for the commercial development of the region's industries, including tourism and emphasising in this way its northern experiences and activities as worthwhile attractions.

At the same time, we gained a better understanding of Russia's economic reform priorities, its demographic challenges and their impact on the country's future prospects and modernisation. We also became aware of concerns that have hindered the realisation of the relationship's true potential, such as Russia's protectionist

tendencies, particularly in the strategic industries of oil and gas, onerous bureaucratic processes and corrupt practices.

We also heard concerns about the manner by which the processing of Canadian visas for Russian business partners has hindered the development of business relations and the advantages gained by Canadian competitors because of high-profile visits and contacts.

The Committee was told by representatives of the Canadian business community in Russia that Russians like Canadians and like doing business with Canadians. We also heard from Russian government officials themselves how pleased they were by our presence in the country and our interest in Canada-Russia trade and investment relations. Whether or not Canada joins the ranks of Russia's most important trade and investment partners in terms of volume and dollars may be less important than Canada and Russia realising a more mutually satisfying trade and investment relationship and which reaches its full potential. To this end, the Committee believes that Canada's business successes are an important good news story that needs to be given greater prominence. Indeed, it is by virtue of the work and reputation of successful companies from a variety of sectors that Canada has a good reputation on which to enhance its commercial relations with Russia and build future successes. While not without its challenges, it is also not impossible.

This interim report and our overall study of China, India and Russia is mandated to consider the rise of these countries in the global economy and the implications for Canadian policy. It follows that this interim report focuses on this theme and examines the trade and investment relationship between Canada and Russia more precisely. We also believe that, in focusing attention on opportunities and potential

partnerships, our report might serve to hasten their realisation, place Canada-Russia commercial relations on track for continued mutual benefits for the future, and benefit the Canadian economy.

This interim report is intended to contribute not only to a better understanding of Russia's economic, political and social situation, but also to the public policy process in our own country concerning the impact on Canada of the rise of China, India and Russia. Their emergence onto the global economic stage over the last several years has been nothing short of impressive. However, Canada's trade and investment relations with these countries, while increasing, has not reflected their full potential. The stakes, measured in terms of Canada's own global competitiveness and economic well-being, are indeed high. The level of debate on the surrounding issues, however, has been less so. By preparing this report, we hope to raise the level of debate, strengthen awareness of what is at stake, and, ultimately, enrich the public policy discussion about Canada's trade and investment future in a changing global economy.







## INTRODUCTION

From our size and climate to our endowment of natural resources and fertile plains, from the richness of our peoples and aboriginal communities to our pride in national achievements, Canada and Russia have much in common. We are partners in many successful commercial initiatives, including the development of the oil and gas industries using up to date technologies and the management of healthy and productive beef, dairy and pork farms. We have also cooperated successfully in cultural initiatives such as the protection of indigenous languages. Nearly twenty years after the Soviet Union – and later Russia – began to strip away the principles of its centrally planned economy, there is a tremendous amount of good news about how far commercial relations between Canada and Russia have come, and where they can still go.

Russia's dynamism is certainly impressive. Indeed, its journey towards progress cannot be denied. But neither can its ongoing challenges, which the President of Russia, Dmitry Medvedev, himself pointed out in his 10 September 2009 article, "Go Russia!"<sup>1</sup> In this article, President Medvedev very publically and succinctly highlighted Russia's problems, writing that "Bribery, theft, intellectual and spiritual laziness, and drunkenness, ..., are vices that offend our traditions." He also used such words and phrases as "a primitive economy, "endemic corruption," "backwardness," "humiliating dependence on raw materials," "paternalistic attitudes," and "social ills" to illustrate his point that these issues need to be addressed in order for Russia to become a "modern and viable" country. Without a doubt, these are among the major challenges that are holding Russia back from realising its full potential as a world economic leader.

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<sup>1</sup> President Dmitry Medvedev, "Go Russia! [Rossiya Vperyod!]", 10 September 2009, available at [http://eng.kremlin.ru/speeches/2009/09/10/1534\\_type104017\\_221527.shtml](http://eng.kremlin.ru/speeches/2009/09/10/1534_type104017_221527.shtml).

Notwithstanding these challenges and their impact on Russia's business climate, there is a positive future in Canada-Russia trade and investment. This is the preliminary assessment of the Standing Senate Committee on Foreign Affairs and International Trade (SCFAIT) following extensive hearings in Ottawa and its six-day fact-finding mission to Russia. This mission, carried out as part of our larger two-year study of the rise of China, India and Russia and its implications for Canadian policy, focused on improving our understanding of the trade in goods and services as well investment flows between Canada and Russia, and the ways in which the commercial relationship can be enhanced in order to result in greater mutual benefits. We also wanted to identify potential opportunities for Canadian businesses in order to ultimately benefit the Canadian economy.

The mission took place from 11 to 16 October 2009 and comprised six members of our Committee and two staff. We travelled to Moscow and Khanty-Mansiysk in Russia's sub-Arctic where in total we had 26 meetings with over 40 interlocutors representing the Russian federal and regional governments and parliaments, Canadian and Russian businesses, international organizations, the media and research institutes, and officials from the Canadian embassy. We also visited Russia's annual "Golden Autumn" agricultural exhibition at which many Canadian businesses participated and showcased their products and services.

Throughout our mission, we repeatedly heard of Canadian businesses that have succeeded in Russia – successes that are not covered in the western media, which instead focuses on stories related to business failures, Russian corruption and activities of criminal groups. We also regularly heard of the range of opportunities and potential for strengthening our commercial relationship as Russia continues to move

forward toward modernisation and economic efficiency. In particular, our Russian interlocutors repeatedly listed Canadian innovation and technology among their needs in order to achieve their goals.

During our mission, we also became aware of concerns that have hindered the realisation of the relationship's true potential, such as the processing of Canadian visas for Russian business partners and the advantages gained by Canadian competitors because of high-profile visits and contacts.

Having gathered such impressions, the Committee unanimously believes that they are of such pertinence to Canada-Russia commercial relations that they needed to be presented in an interim report of our overall study of China, India and Russia.

Russia is by no means an uncomplicated country. Indeed, its challenges are multifaceted and are evident in areas in addition to those in the commercial field. As we heard during our meeting with the Moscow Centre of the Carnegie Endowment for International Peace and at a roundtable with local journalists, Russia continues to face instability in the Northern Caucasus, including in Chechnya, human rights concerns, weak media independence, and state controlled electoral process.

However, this interim report and our overall study of China, India and Russia is mandated to consider the rise of these countries in the global economy and the implications for Canadian policy. It follows that this interim report focuses on this theme and examines the trade and investment relationship between Canada and Russia more precisely. We also believe that, in focusing attention on opportunities and potential partnerships, our report might serve to hasten their realisation, place

Canada-Russia commercial relations on track for continued mutual benefits for the future, and benefit the Canadian economy.

This interim report is intended to contribute not only to a better understanding of Russia's economic, political and social situation, but also to the public policy process in our own country concerning the impact on Canada of the rise of China, India and Russia. Their emergence onto the global economic stage over the last few decades has been nothing short of impressive. However, Canada's trade and investment relations with these countries, while increasing, has not reflected their full potential. The stakes, measured in terms of Canada's own global competitiveness and economic well-being, are indeed high. The level of debate on the surrounding issues, however, has been less so. By preparing this report, we hope to raise the level of debate, strengthen awareness of what is at stake, and, ultimately, enrich the public policy discussion about Canada's trade and investment future in a changing global economy.

## CANADIAN COMMERCIAL SUCCESSSES IN RUSSIA

Canada's merchandise trade with Russia has been growing in recent years. Two-way merchandise trade totalled \$787 million in 1999 and grew to almost \$3.6 billion in 2008, rising at an average of 16.3% annually over the period. In 2009, bilateral merchandise trade was valued at almost \$4 billion.<sup>2</sup>

With merchandise exports increasing by an average of 23.6% annually between 1999 and 2008, Russia is now Canada's 18<sup>th</sup> most popular destination for merchandise exports, at \$1.5 billion in 2008. The major exports include pork, machinery, motor vehicle parts, aircraft, and shrimp and prawns. More specifically, in 2008, 80% of Canadian agricultural exports to Russia consisted of meat and edible meat offal; 75% was made up of various cuts of pork and swine products, while the remaining 5% represented mostly live cattle. In terms of dollar value, in 2008 Russia imported US\$505 million of agri-food and fish and seafood products from Canada. In the same year, Russia ranked 4<sup>th</sup> as a destination for Canadian exports of consumer oriented products, ranking higher than China or any European Union country, and just behind Mexico.<sup>3</sup> In 2009, however, Canada's exports significantly declined by 41% to \$885 million. These declines were most notable in the export of agri-food and fish and seafood products. In addition, Canadian services exports to Russia were \$281 million in 2007, while Canadian direct investment in Russia reached \$540 million in 2008.<sup>4</sup>

The Committee's fact-finding mission helped to put names and faces to the preceding statistics and reinforced the profile that Canadian businesses have in Russia across a

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<sup>2</sup> Statistics Canada.

<sup>3</sup> Meeting, Moscow, Russia, 11 October 2009.

<sup>4</sup> Statistics Canada.

variety of sectors and different regions. Our visit to the “Golden Autumn” Agricultural Exhibition was particularly valuable in this regard. For instance, the executive vice-president from the Canadian Beef Breeds Council, Herb McLane, supported by representatives from the Canada Beef Export Federation, and Alberta Exports International Ltd., was an invited speaker on a panel at the Agricultural Exhibition which examined Russian tendencies and perspectives in cattle development. Other Canadian exhibitors included Semex, the internationally renowned Guelph-based company that has been providing breeding services to the Russian market since 1998. As a measure of its success, Semex has an exclusive contract for semen imports into Russia. Xports International from Manitoba was another exhibitor and shared with the Committee its activities as a consultant in promoting dairy and beef exports to Russia. Genesus Inc. from southern Ontario has seen its business as the largest Canadian pork and pork genetics supplier in southern Russia grow since it entered the market in 2007. From its perspective, the Russian market with its approximately \$100 a head price offers more lucrative opportunities than the Canadian market.

Other Canadian companies with a record of success in Russia include those in the extractive industries. For instance, Kinross Gold Corporation, the largest foreign investor in gold mining in the country, has been in the Russian Far East, Chukotka specifically, since the mid 1990s. Even though it has since sold some of its assets, Kinross has remained a leader in the industry by way of various high-value acquisitions, including the 2007 acquisition of Kupol, the second largest gold mine in Russia. Moreover, NewCo Well Services in Nizhnevartovsk in the sub-Arctic autonomous okrug (district) of Khanty-Mansiysk, has been providing western technology and innovation to the Russian oil industry since it was established by Calgary’s TriCan in 2000.



Other Canadian companies have also met with success in Russia and are prominent players on the commercial landscape. These include Bombardier which has been successful with the exports of the 50 seat CRJ200 regional jet for domestic airlines. It has also been moving to expand its presence in the rail and in the private jet sectors. Indeed, Bombardier Transportation (RUSIG) LLC is a joint venture with Russian Railways.

For its part, SNC-Lavalin has had a permanent presence in the region since 1989 and has executed more than 170 contracts concerning various services and sectors, including oil and gas, construction, mining and metallurgy, hydro and thermal power, agri-food, water, transport and infrastructure among others. Most importantly, it has obtained Russian licenses for design, construction and general contracting activities in different industrial sectors in order to facilitate its business activities. Its current major projects in Russia include the development of a 46 km rail and motor way for the 2014 Olympic Winter Games in Sochi, the design, procurement and construction supervision of SUMZ, an sulphuric acid plant in Ekaterinburg, the construction of a new L'Oreal cosmetics factory in Kaluga region, and a new potash complex in Volgograd on behalf of Eurochem.

Canada's success in Russia's arts and performance industry also needs to be recognised. Indeed, during our stay in Moscow, one could not ignore the presence of the Montreal-based Cirque du Soleil and the advertisements for its *Varekai* show in Moscow. This achievement follows the December 2008 establishment of Cirque du Soleil Rus by two businessmen with tremendous experience and success in Russia: George Cohon, who founded McDonald's in Canada and Russia and Craig Cohon who built Coca-Cola's operations in Russia in the early 1990s and is the current Vice-

Chairman of Cirque du Soleil Rus. The *Varekai* show is intended to lead to Cirque du Soleil's greater business development in Russia.<sup>5</sup>

## Recipe for Success

While we did not have an opportunity to meet with businesses that had contrary experiences in Russia, the experiences of those with whom we did meet clearly demonstrate that it is possible to succeed in Russia.

We learned that there is no one particular pattern or formula to a Canadian business finding success in Russia. While it was always essential to engage local staff, some companies have found success without having to work with a middleman (Xports International, Kinross Gold Corporation). Still others established a holding or subsidiary company in Russia (Semex in Nizhny Novgorod, Trican Well Service Ltd. of Calgary established NewCo Well Service in Nizhnevartovsk in Khanty-Mansiysk) or a branch office (Genesis in Moscow, Bombardier Transportation in Moscow, St. Petersburg and Novocherkassk in southern Russia) in order to grow their business. Other companies, such as Vanden Bussche Irrigation from Ontario, which is active in the development and implementation of technical solutions in several agricultural areas, including waste disposal, potato cultivation, irrigation, and vegetable storage, have their business interests in Russia represented by a Russian company, Agroinzhiniringovaya.

What became clear to us was that these companies have succeeded because they have invested time and effort into their Russian ventures. Unanimously, the Committee

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<sup>5</sup> "Cirque du Soleil Plans Long Term Investment and Partnership with Russia," 2 December 2008, available at: [http://www.cirquedusoleil.com/cirquedusoleil/pdf/pressroom/en/Russie\\_comm\\_EN.pdf](http://www.cirquedusoleil.com/cirquedusoleil/pdf/pressroom/en/Russie_comm_EN.pdf)

heard that success in Russia requires a long-term perspective because it is only over the course of a period of time that one gets to know clients and partners, cultivates personal relations with partners and with the appropriate government authorities locally, regionally and federally. Equally important, long-term commitment and action will improve one's understanding of the business culture in Russia and appreciation that Russian norms and processes may not be Canadian norms and processes. In this respect, we heard that Canadian businesses needed to adjust to one particular difference between the Canadian and Russian business cultures: the role that government plays in guiding business decisions. Specifically, whereas governments are less involved in Canada, the opposite is the norm in Russia.

The long-term investment also relates to being good corporate citizens, hiring local employees, and giving something back to the community, thereby giving the local client an additional stake in entering into a partnership. Terralink and Kinross practice the principles of corporate social responsibility; specifically, Kinross established the Kupol Foundation, a development fund for local communities. In addition, Kinross built the first private airport in Russia in Chukotka that would accommodate an Antonov 74. In other respects, Kinross employs approximately 1150 people in Chukotka, plus an estimated 300 contractors and has a partnership with approximately 50 Chukotka-based enterprises and entrepreneurs. As a result, Kinross alone was responsible for approximately 40% of the Chukotka gross regional product (GRP) in 2008, and was forecasted to increase that amount to approximately 60 - 65% in 2009.<sup>6</sup>

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<sup>6</sup> Meeting, Moscow, Russia, 12 October 2009.

## Persisting through Systemic Challenges

Thus, establishing good relations with one's partner and with government authorities are some of the strategies required to succeed in a system such as that in Russia fraught with numerous challenges and obstacles. Indeed, as Terralink emphasised to the Committee, part of having a long-term commitment means having perseverance and a tolerance for risk in order to overcome the numerous challenges that will arise, doing what it takes within reason to succeed, and working with the system rather than being co-opted by it.<sup>7</sup>

Indeed, the Committee is not so naive about the business climate in Russia as to think that there are no negative experiences, that the climate is straightforward and without difficult challenges or frustrations. The Committee heard from Canadian businesses and from Russian government officials alike that the Russian bureaucracy is not for the faint at heart and can certainly delay without an apparent rationale the pace at which business is carried out. In effect, the bureaucratic process is hampered by numerous regulations, onerous procedures, inconsistent application, ambiguity and lack of transparency.<sup>8</sup> For instance, we heard how applications for tariff relief and government subsidies are prolonged and are aggravated by the opaque regulations governing what constitutes a Russian company, thereby affecting many Russian partners of Canadian businesses.<sup>9</sup> In another case in point, Canadian companies relying on the professional services of foreigners to advance their business interests noted that their ability to operate at optimal conditions is also affected by the onerous procedures related to obtaining work-visas for highly skilled foreigners.<sup>10</sup> In yet

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<sup>7</sup> Meeting, Moscow, Russia, 12 October 2009.

<sup>8</sup> Meeting, Moscow, Russia, 13 October 2009.

<sup>9</sup> Meeting, Moscow, Russia, 13 October 2009.

<sup>10</sup> Meeting, Moscow, Russia, 13 October 2009.

another, the Committee was told by Rod Lever, Export Development Canada's (EDC) Chief Representative in Russia and the Commonwealth of Independent States (CIS), that EDC was trying for over a year to obtain a line of credit with a Russian bank in order to offer its clients an important source of financing and allow them to compete with the financing terms given to their competitors from other countries.<sup>11</sup>

Russia's tendency towards protectionism was also raised as a challenge that has complicated the pursuit of business initiatives. Certainly, other countries with which Canada has or is interested in developing commercial relations have promoted economic nationalism to one extent or another. But in the case of Russia, it is the combination of protectionism and onerous bureaucratic processes that have affected a fuller realisation of the commercial potential between Canada and Russia.<sup>12</sup> For example, the terms of the restrictions on foreign ownership of Russia's strategic industries, which include natural resources, military, aerospace, timber, among others, were noted to be opaque and unpredictable.<sup>13</sup> Moreover, the approval of any foreign investment application is subject to at least a six month process during which time any number and type of previously unknown conditions can appear which serve to complicate matters further.<sup>14</sup>

The agriculture industry was noted to have been particularly difficult for Canadian agriculture exporters to penetrate in the past due to this combination of bureaucratic ambiguity and protectionism. For instance, while Russia's bans of Canadian pork and beef imports in and of themselves were a serious hindrance, the bureaucracy and ambiguity surrounding the application of the relevant import codes aggravated the situation by making it difficult to ascertain precisely which codes were being used

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<sup>11</sup> Meeting, Moscow, Russia, 12 October 2009.

<sup>12</sup> Meeting, Moscow, Russia, 13 October 2009.

<sup>13</sup> Meeting, Moscow, Russia, 12 October 2009.

<sup>14</sup> Meeting, Moscow, Russia, 13 October 2009.

against the imports. The impact was apparent in trade statistics for 2009 during which time Canadian pork exports to Russia declined by 65.1% compared to the same period of the previous year.<sup>15</sup>

In another respect, the Committee heard how Russia's zero tolerance for contamination of food imports was used against Canadian products to protect Russian producers who are otherwise not competitive.<sup>16</sup> Specifically, the Canadian beef industry was subjected to BSE-related import bans with the result of limiting access to the Russian market. Pork was also subject to temporary import bans for various reasons ranging from fraudulent export certificates, to H1N1 and overly stringent Russia microbiological standards.

The effect of Russia's protectionism on Canadian exports to Russia is noteworthy; specifically, Canadian exports declined by 41% in 2009 compared with 2008.<sup>17</sup> At the same time, the global economic crisis added to the decline of Canadian exports to Russia.

In another example of Russia's economic nationalism, the Committee heard about Bombardier's two year-long effort to certify its CRJ 900 jet for Russia. That the plane is a direct competitor to a Russian-made plane that also seats over 50 passengers and which has strong Russian government support have been raised as factors behind the delay in the certification. These certification issues faced by Bombardier are over and above the tariff barriers it has faced, including the 20% tariff on 50-300 seat planes.<sup>18</sup>

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<sup>15</sup> Statistics Canada.

<sup>16</sup> Meetings, Moscow, Russia, 11 October 2009, 13 October 2009.

<sup>17</sup> Statistics Canada.

<sup>18</sup> Meeting, Moscow, Russia, 12 October 2009.

Rather than being unique to Canadian businesses or to Bombardier, these difficulties are shared by the high profile experiences of other large international enterprises. For instance, we were told that De Beers Diamond Jewellers decided to not invest in Russia because the authorities kept changing the terms and conditions for its investment. IKEA also experienced some difficulties in securing the electricity for stores that were set to open in a matter of days. These incidents show that large companies are vulnerable to the peculiarities of the Russian commercial environment. However, the consequences of these peculiarities for smaller and medium-sized enterprises (SMEs) can be potentially financially damaging and not worth the time and effort required, thereby affecting an important avenue by which Canadian commercial relations in Russia can advance.<sup>19</sup>

Such high profile incidents inevitably dominate the media coverage of the Russian business environment and feed the perception of a system that is corrupt. But the negative experiences are only part of the story and do a great disservice in scaring away a greater number of trade and investment initiatives that might lead to systemic reforms. Notwithstanding the failed ventures, the Canadian businesses with whom the Committee met were firm in their assertions that they were proof that businesses can succeed in Russia cleanly and without reproach, but that a long-term perspective was required. According to the view of one Canadian businessman, the bureaucratic process, as onerous as it is, actually serves as an important tool of accountability and provides an invaluable paper trail.<sup>20</sup> We also heard that the problems of manoeuvring through the bureaucratic challenges and protectionist sentiment are not insurmountable; for instance, the IKEA situation was eventually resolved.

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<sup>19</sup> Meeting, Moscow, Russia, 13 October 2009.

<sup>20</sup> Meeting, Khanty-Mansiysk, Russia, 16 October 2009.

At the same time, corruption is not unique to Russia. In recent years, there have been many high profile cases in more developed economies around the world, including Canada, the United Kingdom and the United States, of self-serving abuse and misuse of public money as well as investment fraud and other related criminal activities in the financial and economic sector. In the case of Russia, however, its struggle with corruption will continue to serve as a symbol of what reforms are still necessary before it can be considered without serious reservation as a good place to do business.



## RUSSIAN DOMESTIC CHALLENGES AND EFFORTS AT REFORM

It follows that while business success can be achieved in Russia, the system is not without the need for reform. In this respect, it must be emphasised that Russia is a relatively new country, having only existed in its present political and economic form for the last twenty years. Therefore, it is normal to expect that Russia's evolution toward a modern and open country would not occur overnight. Indeed, as mentioned in the introduction of this interim report, President Dmitry Medvedev himself has acknowledged the distance that Russia has yet to travel and the reforms that are necessary in order to modernise its economy, particularly regarding bureaucratic inefficiencies and widespread corruption. We acknowledge the dramatic and impressive economic developments in Russia since its last crisis in 1998 as well as the extent to which the middle class in the country has expanded. But we are also aware of the weaknesses that remain and the levels of impoverishment that persist. Thus, we are not envious of Russia's economic challenges and the reforms that are necessary in order to strengthen the domestic landscape and broaden the scope and number of traders and investors.

For instance, many of the business challenges and difficulties relayed to us, such as the onerous bureaucratic processes and the tendency toward protectionism, cannot be considered separately from the larger system that continues to prevail even twenty years after the fall of communism and which is perpetuated to the advantage of a few but the detriment of many. One example is the role played by inefficient heavy industries and whose prominence relates to their strategic value and contribution to

Russia's self-sufficiency. As a result, these industries are artificially maintained and protected from foreign competition.<sup>21</sup>

Russia's dependence on oil, gas and other valuable commodities can be considered both a blessing and a curse. We heard that approximately 60% of Russia's GDP is based on revenues generated from commodities such as oil, gas, diamonds, gold, forests.<sup>22</sup> On the one hand, the high prices for oil served Russia well in terms of allowing the government to build up its foreign reserves and create a budgetary surplus. On the other hand, the rapid drop in commodity prices reinforced Russia's vulnerability and also its need for diversification.<sup>23</sup> Falling from its July 2008 record peak of US\$145 per barrel, oil prices plunged to US\$40 per barrel in December 2008, reaching between US\$68-\$73 per barrel in August and September 2009. As oil prices fell, Russia's consolidated budget revenue also declined by 23% year-on-year for the first three quarters of 2009.<sup>24</sup>

Indeed, the Committee heard that, while the Russian government's response to the crisis was effective for the immediate purpose of stabilising the economy, even with such a dramatic motivation, the tendency to protect the status quo rather than view the crisis as an opportunity to make the necessary changes was too strong to resist.<sup>25</sup> The added concern lies in the expected depletion of Russia's natural resources at the current rate by 2050.<sup>26</sup> However, as long as the basic orientation towards the economic structure itself remains unchanged and diversification is not undertaken,

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<sup>21</sup> Meeting, Moscow, Russia, 12 October 2009.

<sup>22</sup> Meeting, Moscow, Russia, 12 October 2009.

<sup>23</sup> Meeting, Moscow, Russia, 12 October 2009.

<sup>24</sup> TD Bank Financial Group, *Quarterly Commodity Price Report*, 2 October 2009 (available at <http://www.td.com/economics/commodity/cpr1009.pdf>); The Economist Intelligence Unit, *Country Report Russia*, November 2009.

<sup>25</sup> Meetings, Moscow, Russia, 12 October 2009, 13 October 2009.

<sup>26</sup> Meeting, Moscow, Russia, 12 October 2009.

changes to the bureaucratic system that was built to administer Soviet-type political and economic structures will not be a priority.

In the end, the fundamentals of the Russian economy are wanting and their circumstances are manifested in the overbureaucratized processes, protectionism and dependence on commodities.<sup>27</sup> Several government officials admitted that the economic structure needs to be reformed in order to be diversified and modernised, with increased access to new technologies and innovation.<sup>28</sup> Indeed, Mr. Konstantin Kosachev, Chairman of the State Duma Committee on Foreign Affairs, told us that the government is examining ways to bring down Russia's dependence on oil and other energy commodities from 60% to 30% of its economy.<sup>29</sup>

We also heard that anti-corruption efforts and new legislation are required. The Carnegie Endowment for International Peace told us that steps already have been taken in the right direction. For instance, Russian business practices today are better, cleaner and more legal now than in the 1990s, and new legislation governing commercial activities is in the pipeline.<sup>30</sup> In addition, Mr. Ivan Materov, Deputy Minister of Industry and Trade, told the Committee that the federal government is trying to bring down corruption in the bureaucracy by way of an anti-corruption program that would, as a start, reduce the number of permits and licensing required for commercial activities. Moreover, the Committee heard from Mr. Kosachev that legislation governing sub-soil extraction would be revisited and changed based on consultations with foreign businesses in order to improve investment in this sector.

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<sup>27</sup> Meeting, Moscow, Russia, 14 October 2009.

<sup>28</sup> Meetings, Moscow, Russia, 12 October 2009, 13 October 2009, 14 October 2009.

<sup>29</sup> Meeting, Moscow, Russia, 14 October 2009.

<sup>30</sup> Meeting, Moscow, Russia, 14 October 2009.

However, there is a high price to be paid for carrying out the necessary administrative, judicial and economic reforms that would support a more diversified and modernised Russian economy. Russia's economic policy that is built on protecting strategic industries and dependence on commodities has a strong constituency that is likely to obstruct such fundamental reforms.<sup>31</sup> At the same time, according to Mr. Rasmussen from the European Bank for Reconstruction and Development (EBRD), Russia's bureaucratic structure is essentially a job factory and any reforms will mean the loss of many thousands of jobs. And yet, such reforms are necessary for a good, sound economy and a productive employment policy that would mitigate the administrative restructuring.<sup>32</sup>

Indeed, the difficulties of pursuing any type of economic reform and in a short period of time are all the more complicated by statistics related to Russia's demographic decline. The Committee was told by the World Bank that Russia is projected to lose 50 million people by 2020. Its birthrate has been declining from 3.2 per cent in 1990 to 2.5 percent in 2008,<sup>33</sup> while its population has been aging. Male life expectancy is 57, comparable to that of Zimbabwe. Young men are dying at high rates due to alcoholism and risky behaviour, such as dangerous driving habits. Immigration might be a possible solution to these demographic challenges, and indeed Russia is experiencing high numbers of populations moving into Russia and into larger urban centres from the former Soviet republics, including Central Asia, and its own regions. However, as we were told, issues relating to discrimination against non-Russian groups mean that the benefits of these migration patterns and the integration of these populations will not be easily achieved. Moreover, the Committee heard that cities

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<sup>31</sup> Meeting, Moscow, Russia, 14 October 2009.

<sup>32</sup> Meeting, Moscow, Russia, 13 October 2009.

<sup>33</sup> World Bank Group, 2009, World Development Indicators database. Available at [http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=1&REPORT\\_ID=1336&REQUEST\\_TYPE=VIEWADVANCED&HF=N/IDGProfile.asp](http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=1&REPORT_ID=1336&REQUEST_TYPE=VIEWADVANCED&HF=N/IDGProfile.asp).

and regions dependent on a single industry are especially vulnerable to the economic crisis and the reforms necessary to modernise and diversify Russia's economy; among the possible solutions being considered include bailing them out or relocating their populations to another part of Russia.<sup>34</sup>

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<sup>34</sup> Meeting, Moscow, Russia, 13 October 2009.



## FUTURE OPPORTUNITIES

That Canadian businesses have been able to succeed in the Russian market despite the variety of challenges and the prevailing economic conditions in the country reinforces the general conclusion of this report: for too long the negative image of Russia has overshadowed the opportunities available, and that there is a future for an expanded Canada-Russia trade and investment relationship. Canada's high of \$1.5 billion in merchandise exports to Russia in 2008 and \$281 million in services exports in 2007, plus \$540 million in Canadian direct investment in 2008 while small are not insignificant and, equally so, have been growing, suggesting that the relationship is going in the right direction.<sup>35</sup>

The Committee believes that Russia is a worthwhile market and has a range of opportunities for Canadian businesses with a long-term perspective. We heard from many interlocutors about sectors where Canadian trade and investment have been and would continue to be warmly received, particularly those where Canada has experience.<sup>36</sup> These include the development of Russia's infrastructure combined with the development of a modern railroad in Russia, one of the largest and most intensely operated networks in the world for both freight and passenger. They also include expanded opportunities in agriculture and agri-food, transportation, timber and paper, and natural resource sectors. In addition, we heard about opportunities for Canadian businesses in the green economy and who promote energy conservation and efficiency, as well as the use of green technologies.

Canadian companies also have been involved in construction and housing, particularly

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<sup>35</sup> Statistics Canada.

<sup>36</sup> Meeting, Moscow, Russia, 12 October 2009.

in the far north.<sup>37</sup> Trilateral projects were also suggested as possible considerations for how to broaden trade and investment opportunities.<sup>38</sup> Indeed, that Canada and Russia are hosting back-to-back winter Olympics was raised as an opportunity for closer cooperation and one in which SNC Lavalin is already playing a prominent role. As the Deputy Minister of Trade and Industry told the Committee, the more Canadian investment into Russia, the better and the happier he would be.<sup>39</sup>

As part of its fact-finding mission, the Committee also travelled to Khanty-Mansiysk,<sup>40</sup> a sub-Arctic regional centre of the autonomous okrug (district) that bears its name. The district itself has a population of 1.5 million people and growing, with 46 ethnic communities. It is especially notable for its rich endowment of natural resources which include hydrocarbons, deposits of solid minerals, and timber. The district truly is “the energy heart of Russia.” It boasts over 400 discovered oil fields and a large network of oil and gas pipelines. As a result of such endowments, Khanty-Mansiysk is ranked first among districts in Russia in terms of oil production, power generation and volume of industrial output. Whereas Russia is responsible for 13.5% of the world’s oil production (Saudi Arabia by comparison is responsible for 12.2% and Canada for 3.5%), 7.7% of that is generated by Khanty-Mansiysk. Its wealth is remarkable: in 2008 the district’s gross regional product was 1.8 trillion RUR (C\$73 billion) and it paid 1.38 trillion RUR (C\$56 billion) to Russia’s central budget. It also has a strong profile in international cooperation, including its cooperation with Canada in the areas of support for the indigenous population, subsurface management, environmental protection, industrial and housing construction to name a few. It particularly prides itself on its high standard of life and culture and the leisure and recreation opportunities it offers its population due in large part to the

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<sup>37</sup> Meeting, Moscow, Russia, 12 October 2009.

<sup>38</sup> Meeting, Moscow, Russia, 12 October 2009.

<sup>39</sup> Meeting, Moscow, Russia, 12 October 2009.

<sup>40</sup> The city is located at 61 degrees latitude, just slightly north of Whitehorse, Yukon Territory.



revenues generated by its natural wealth and economic activities.<sup>41</sup> In large part, the district's success is due to the vision and commitment of its governor, Aleksander Vasilievich Filipenko, to use the wealth of its natural resources to support the social needs and services of the population; this observation was not lost on members of the Committee.

This visit to a regional centre reinforced for us that any initiative to expand Canada-Russia commercial relations must bear in mind that Moscow is not Russia. Indeed, the regions offer a wealth of opportunities, from potential markets of cities of at least 500,000 to resource development. Canadian businesses have already done well in pursuing opportunities outside the centre, whether in the Far East of Chukotka or the agricultural belt in the south, and there is no reason why these initiatives should not only continue but expand.

While our experience in Khanty-Mansiysk was very positive, we recognise that not every region or district will have equal conditions or opportunities. They will differ according to economic resources, performance and opportunities. Indeed, regional differences are another challenge for Russia to address.

It is worthwhile emphasising that future opportunities to expand Canada-Russia commercial relations can tie into Russia's economic priorities. More specifically, the Committee heard from government officials in Moscow and in Khanty-Mansiysk about Russia's interest and need for innovation and technology that Canada has in the oil and gas, agriculture, lumber and transportation. They fully acknowledged the necessity of diversifying Russia's economy in order to break free of the old ways that left Russia vulnerable to the economic crisis and facing the demographic challenges.

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<sup>41</sup> Meetings, Khanty-Mansiysk, Russia, 15 October 2009, 16 October 2009.

We also engaged in discussions about the opportunities for developing Russia's tourism industry, particularly in Khanty-Mansiysk and to promote its northern experiences.

The priorities for diversifying the economy include developing the high tech as well as the automotive and machinery industries. While we heard from the World Bank that Russia needs to open its doors wider to foreign direct investment less as a tool for accessing capital than innovation,<sup>42</sup> we also heard from EBRD that it is difficult to access the necessary capital from the government in order to diversify in a state-directed manner because it is tied up with stimulus spending.<sup>43</sup> The use of technoparks, or Special Economic Zones (SEZs), was cited as an important step in accessing innovation, investment and capital.<sup>44</sup>

The Committee witnessed for itself the importance placed on developing Russia's economic future based on knowledge and innovation when it visited Yugra University and the Arts School in Khanty-Mansiysk. After these visits, we came away impressed with the talents and enthusiasm demonstrated by the students and administrators. In particular, we were impressed that these institutions only came into existence over the last few years because of the investments generated by the oil and gas sector's growth in Khanty-Mansiysk. Indeed, Russia's youth is already showing itself to be an important ingredient in the country's future. As we heard from the Carnegie Endowment for International Peace, Russia's youth are learning foreign languages and travelling abroad as never before, either as tourists or as students, and bringing back with them the knowledge and ideas learned and integrating them to suit Russia's

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<sup>42</sup> Meeting, Moscow, Russia, 12 October 2009.

<sup>43</sup> Meeting, Moscow, Russia, 13 October 2009.

<sup>44</sup> Meeting, Moscow, Russia, 13 October 2009.

context.<sup>45</sup> We also saw that women are outnumbering men in undergraduate programs, and are especially prominent in non-traditional disciplines such as engineering and geology.

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<sup>45</sup> Meeting, Moscow, Russia, 14 October 2009.



## REALISING THE POTENTIAL

The future of Canada-Russia commercial relations may indeed be now. But in order to capitalise on these opportunities, several points of relevance need to be addressed in order to ensure that the commercial benefits of Canada-Russia relations are not needlessly held back.

### Make the Visa System More Efficient

One message that the Committee repeatedly and forcefully heard was that the Canadian visa system as it is currently legislated and applied is a serious detriment to growing Canadian-Russian trade and investment.<sup>46</sup> The Committee heard about the nature of Russia's economic evolution from communism to capitalism and that the Russian justice system has been often abused for private political and economic benefit. Therefore, these and other issues make it difficult for many Russian government and business officials to obtain a visa to travel to Canada in a timely manner. As a result, some applicants fall into inadmissible categories; this was the most recent experience of a prominent member of Russia's Federal Assembly. Temporary resident permits can be issued, but because they are issued under otherwise inadmissible categories, they are seen in a negative light.

Moreover, the process for a temporary resident permit is lengthy and does not keep pace with the speed of commercial or government business. It was particularly embarrassing to hear that a Canadian immigration official cited Wikipedia as evidence in denying one applicant a visa to Canada. As the Deputy Minister of Foreign Affairs for Russia, Mr. Sergey Ryabkov noted, with Canada hosting many high profile events

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<sup>46</sup> Meeting, Moscow, Russia, 12 October 2009.

in 2010, such as the Olympic Winter Games in Vancouver, which were recently held, the G-8 and G-20 Summits, the way in which visas are handled will be an important issue. The Deputy Minister added that creative ways of managing the visa process would need to be pursued. Indeed, coupled with the infrequency of Canadian government visits, the message being sent of the way in which visas are handled is that Russia does not matter to Canada.

## Increased Canadian Federal and Provincial Government Presence

The Committee heard a second forceful message: the need to increase the presence and visits of high-level Canadian federal and provincial representatives to Russia.<sup>47</sup> There are many elements to this message. First, that the Russian government itself plays such a prominent role in Russian business initiatives requires that the appropriate counterpart be equally visible where Canadian business interests are concerned. Second, such a relationship and high visibility demonstrates the respect and priority that Canadian governments at all levels place on trade and investment with Russia. Third, it would also serve to open a channel of communication with those that have the influence to address irritants as they arise.<sup>48</sup> A Canadian Ministerial visit to Russia at the same time as ours, for instance, resulted in an announcement that week that Russia agreed to allow Canadian imports of bone-in beef from cattle under 30 months and boneless beef from cattle over 30 months. Opening up these imports promises to help recover an important market that was lost following the discovery in 2003 of BSE in Canadian cattle. Moreover, we heard from

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<sup>47</sup> Meetings, Moscow, Russia, 12 October 2009, 13 October 2009.

<sup>48</sup> Meeting, Moscow, Russia, 12 October 2009.

several Canadian businesses with whom we met that our Committee's presence was invaluable and highly beneficial to Canada's profile in Russia.<sup>49</sup>

## Canada's Competition

The significance of these concerns being addressed is amplified whereby these are areas where Canada's competitors excel and, as a result, have been able to dominate the Russian market. Specifically, the Committee heard how the governments of Germany, France, Italy, the Netherlands, China, Japan, South Korea, Australia and the United States, pay regular high-profile visits to Russia which give their companies an advantage in the Russian market over Canadian businesses and across different sectors. That in some instances these countries also have a business culture more similar to Russia, i.e. their governments maintain a close working relationship with the private sector, is also considered to be an advantage that has translated into success for their businesses in Russia.<sup>50</sup>

In other respects, the Committee heard how the more prominent involvement of other governments has helped to resolve various concerns and issues on behalf of their businesses. For instance, we were told that the United States has undertaken initiatives with the Russian government that would facilitate procedures for American nationals to obtain Russian work-visas, particularly in the financial service sector, whereas Canadian nationals are still subject to a burdensome process.<sup>51</sup>

Another prominent element of Russia's business culture to which Canada's competitors are privy and at which Canada is disadvantaged is the 1961 Hague

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<sup>49</sup> Meetings, Moscow, Russia, 11 October 2009, 13 October 2009.

<sup>50</sup> Meetings, Moscow, Russia, 12 October 2009, 13 October 2009.

<sup>51</sup> Meeting, Moscow, Russia, 13 October 2009.

Apostille Convention Abolishing the Requirement of Legalisation for Foreign Public Documents. More specifically, Canada is not a signatory to this convention. As a result, our businesses undertake lengthy and costly procedures to have business documents notarised, approved, and legalised that their competitors from the United States, China, and many countries of Europe do not. Such costs can be particularly discouraging for small and medium enterprises with limited funds.<sup>52</sup>

## Bilateral and International Agreements

The Committee was pleased to hear that the Russian government is currently reviewing a draft of an upgraded Foreign Investment Protection Agreement with Canada and that its intention is to finalise the arrangement.<sup>53</sup>

Another instrument important to strengthening the predictability of Canada-Russia commercial relations is the World Trade Organization (WTO). Unfortunately, since the accession process began in 1993, Russia has not yet joined the organization. Canada concluded its bilateral agreements with Russia, but the United States has not. Moreover, Russia's accession may be further delayed because of its recent conclusion of a Customs Union with Kazakhstan and Belarus and its stated intention to accede to the WTO parallel with these two countries. According to our interlocutors, the delay for Russia acceding to the WTO in this way results from Belarus being far from ready to accede. Moreover, a great deal of uncertainty surrounds such an unprecedented proposition and we trust that the political will necessary to find a solution to the deadlock will be found sooner rather than later, for the benefit of all parties concerned.<sup>54</sup>

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<sup>52</sup> Meeting, Moscow, Russia, 13 October 2009.

<sup>53</sup> Meeting, Moscow, Russia, 12 October 2009.

<sup>54</sup> Meeting, Moscow, Russia, 13 October 2009.



We were reassured by several interlocutors from the Russian government and parliament that Russia is committed to joining the WTO.<sup>55</sup> Indeed, Russia's accession would be an important step away from protectionism. According to the Deputy Minister for Industry and Trade, WTO accession will occur in approximately fifteen years. But in the meanwhile, he reassured the Committee that Russia's legislative framework is already harmonised with WTO rules. Therefore, the Committee was told that we can consider that Russia is already 99% WTO compliant.<sup>56</sup>

## Increased Canadian Government Resources

The Committee also heard that more Canadian government resources are required on the ground to facilitate the expansion of Canadian business interests and opportunities. We heard in particular that the closure of the Canadian consulate in St. Petersburg in 2007 was a mistake and had impacted on some Canadian commercial opportunities. We also heard that in light of the number of Canadian business interests in the Russian Far East it would be beneficial to establish a trade office to cover that region. Indeed, the Pacific dimension in Canada-Russia commercial relations is not fully appreciated. It follows that developing this dimension would serve as an important contribution to the promotion and realisation of trade and investment opportunities between the two countries.

Following on the Committee's report and recommendations related to Export Development Canada, we would like to draw special attention to the EDC's representation in Moscow and encourage its work. In this respect, it bears noting that the work of the four EDC staff on the ground in Russia needs additional resources.

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<sup>55</sup> Meetings, Moscow, Russia, 12 October 2009, 14 October 2009.

<sup>56</sup> Meeting, Moscow, Russia, 12 October 2009.

We would also like to repeat our call that EDC more thoroughly access Canada's diaspora communities for their linguistic talents and particular knowledge of their home markets to the benefit of Canadian commercial opportunities.

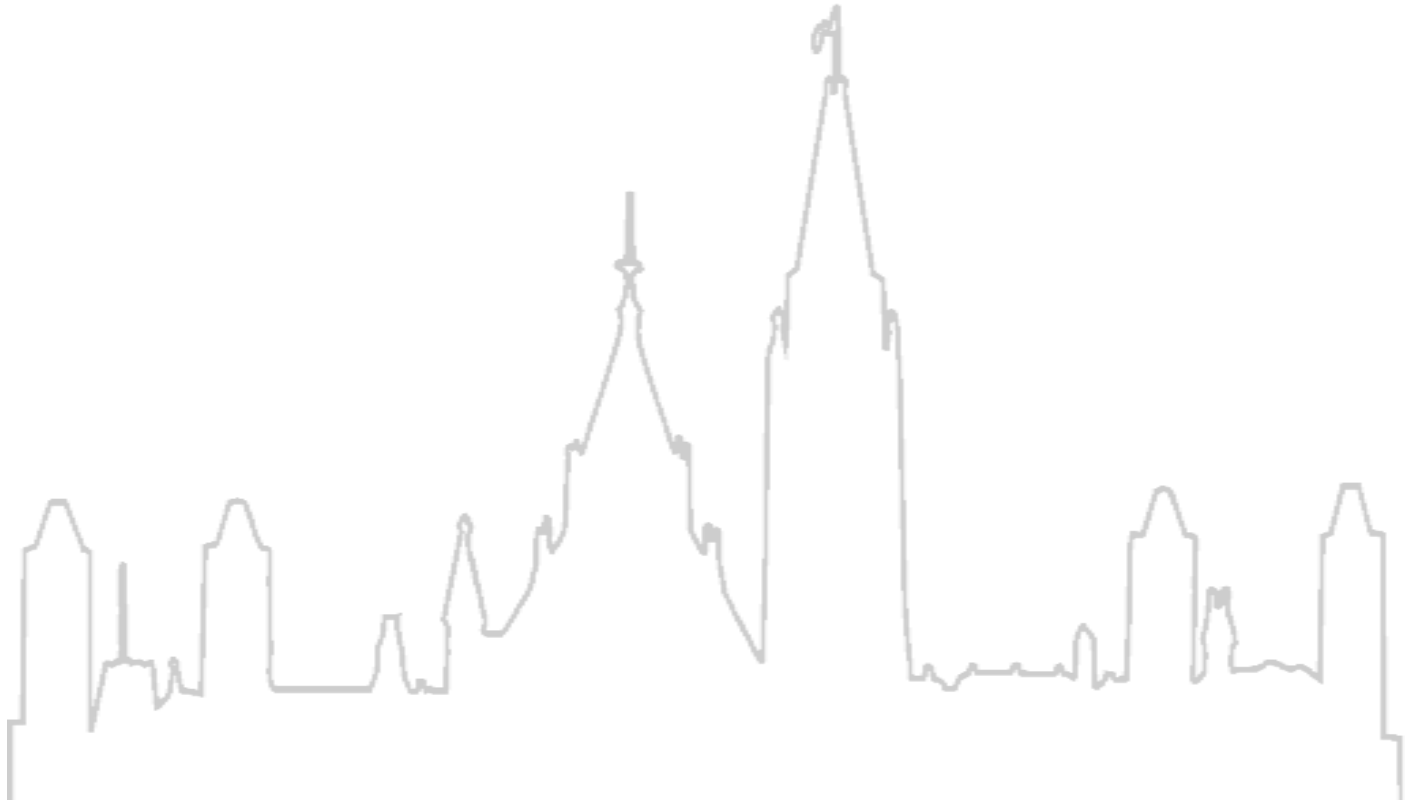
## CONCLUSION

The Committee was told by representatives of the Canadian business community in Russia that Russians like Canadians and like doing business with Canadians. Russian government officials themselves repeatedly voiced their pleasure that we came to Russia and that we showed such an interest in Canada-Russia trade and investment relations. Whether or not Canada joins the ranks of Russia's most important trade and investment partners in terms of volume and dollars may be less important than Canada and Russia realising a more mutually beneficial trade and investment relationship and which reaches its full potential. The Central Bank of Russia's announcement that it is considering adding the Canadian dollar among a few other currencies to its list of foreign reserves might be yet another case in point.

As the Committee considers tomorrow's potential in Canada-Russia commercial relations, it will review the visa situation with Canadian government officials. The Committee believes that Canada's business successes are an important good news story that needs to be given greater prominence. Indeed, it is by virtue of the work and reputation of companies from a variety of sectors that have succeeded in Russia that Canada has a good reputation on which to enhance its commercial relations and build future successes. While not without its challenges, it is also not impossible.







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Des renseignements sur le comité sont donnés sur le site :  
[www.senate-senat.ca/foraffetrang.asp](http://www.senate-senat.ca/foraffetrang.asp).

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