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**[RUSSIA'S ACCESSION TO  
THE WORLD TRADE  
ORGANIZATION]**

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**LIST OF ABBREVIATIONS**

<b>BRIC</b>	<b>Brazil, Russia, India and China</b>
<b>BTA</b>	<b>Bilateral Trade Agreement</b>
<b>DDR</b>	<b>Doha Developed Round</b>
<b>EU</b>	<b>European Union</b>
<b>GATT</b>	<b>General Agreement on Tariffs and Trade</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>FDI</b>	<b>Foreign Direct Investment</b>
<b>IPR</b>	<b>Intellectual Property Rights</b>
<b>LDC</b>	<b>Least Developed Countries</b>
<b>MFN</b>	<b>Most Favored Nation</b>
<b>NFTC</b>	<b>National Foreign Trade Council</b>
<b>OPIC</b>	<b>Overseas Private Investment Corporation</b>
<b>NTR</b>	<b>Normal Trade Relations</b>
<b>PNTR</b>	<b>Permanent Normal Trade Relations</b>
<b>SEZ</b>	<b>Special Economic Zones</b>
<b>SOEs</b>	<b>State Own Enterprises</b>
<b>SPS</b>	<b>Sanitary and Phytosanitary Measures</b>
<b>TBT</b>	<b>Technical Barriers to Trade</b>
<b>TRIPS</b>	<b>Trade Related aspects of Intellectual Property Rights</b>
<b>UNWTO</b>	<b>United Nation World Tourism Organization</b>
<b>UTM</b>	<b>Universal Transverse Mercator</b>
<b>WP</b>	<b>Working Party</b>
<b>WTO</b>	<b>World Trade Organization</b>

## INTRODUCTION

In an increasingly globalised economy, new opportunities for investment as well as competition became a widespread phenomenon. Enterprises and industries are under increased competitive pressures and hitherto competitive advantages are called into question. So, the World Trade Organization (WTO), with its rules and commitments, creates an open, transparent and non-discriminatory global trading system having in that way central role at this new economic environment.

Russia had been seeking membership to the WTO since 1993 as it was the largest economy in the world outside the organization. Initially, problems as corruption and the deficient legal framework hinder the creativity of new investors. Yet, Russia makes significant efforts to overcome these obstacles and, finally, after almost 19 years of negotiation its accession to the WTO, is a big success. Actually, paves the way for growth as well as for new economic and trade relations among the countries members.

Of course there are a lot of questions regarding the pros and cons of this accession for Russian enterprises and the benefits that Russian national economy cash in. Also, crucial issue besides the liberalization of trade and services presents the protection of intellectual property rights and the amendments that Russia has to implement in order to be harmonized with the spirit of WTO. Moreover, trade ties between Russia and USA come under question as trade relations with EU are currently under revision.

This dissertation in the first chapter outlines the role of WTO with its rules, commitments and principles for the global trade system. In the second chapter, follows a brief view of the originality of Russian market and the reasons that make it attractive for foreign investment and trade, as well. Then, the third chapter gives a

short description of the Russian effort to enter the WTO all the previous years, including problems that hindered the accession until recently. The fourth chapter outlines trade ties between Russia and USA and the problems arising with the Jackson – Vanik Amendment after the Russian accession to the WTO. Equally, the fifth chapter describes trade relations between Russia and European Union. In this context, EU taking into consideration the current situation, with Russia member of the WTO, tries to secure its trade interest reviewing the existing bilateral agreement with Russia.

Finally, concluding remarks are trying to shed light at the facts attempting to clarify the positive aspect of the Russian accession to the WTO both for Russia itself and the global trading system as a whole.

## **CHAPTER 1: THE ROLE OF WTO AT THE WORLD**

### **TRADE SYSTEM IN BRIEF**

It is generally accepted that one of the positive effects of globalization is that products and services have the ability to travel quickly, covering distances at times that in past seemed inconceivable. The pace with which international trade is developing increases rapidly, having in that way a central place to the development of a country and the progress of the economy as well.

However, international trade, beside its crucial as a tool is, also, a kind of weapon against other countries by imposing tariffs at foreign products making them, in that way, less competitive. In addition, another policy, toward this direction, is the subsidies of local products and enterprises in order to improve their production. So, it is obvious, that there is a need for a central authority, to impose rules and restrictions between countries in order to guarantee an open, transparent and non discriminatory trade which benefits both consumers and producers by ensuring a variety of choices for the former and market opportunities for the later.

In this context, WTO is the only international body dealing with the rules required for conducting a sound trade between countries. Officially, it entered into force in 1995, replacing its predecessor, the General Agreement on Tariffs and Trade (GATT), which was signed in 1948. One of the main goals of GATT was, to promote industrial production in order to restore the traumatized, by WWII, European industry. It took many years until the Uruguay Round, to be understood that there was a need for special treatment at developing and least developed countries. To be more specific, as those countries have a competitive advantage at agriculture, the liberalization of trade in agricultural products was imperative.

Therefore, the Uruguay round, which began in 1986 and ended in 1994, led to the creation of WTO and at the same time the members of the organization decided to extend the basic rules of trade including the agricultural products, services and intellectual property rights, as well. However, the results were not very satisfactory and the multilateral trade system ought to emphasize at the requests of developed and developing countries as well.

So, the Doha Round, which began in 2001, and is known also as Development Round (DDR), has as its goal to improve the trade condition of those countries with direct target the reduction of poverty. Yet, the multilateral trading system is quite complicated and with the developed and developing countries having, different and contradictory demands, negotiations, at many cases, lead in deadlock, endanger in that way the multilateral trading system and the WTO as a whole. To clarify, such sectors are the agricultural, where the developed countries demand the liberalization of their agricultural products, and the sector of services and intellectual property, of paramount importance for developed countries. Nevertheless, if the elimination of poverty for million people is main goal for WTO and the promotion and support of world trade as well, there is urgent need for mutual concessions.

Today the WTO acts also as mediator for the settlements of disputes and regulates trade with the view to a sustainable development. As the General Director of WTO, Pascal Lamy suggests, in a speech in Singapore, “shared values, is multilateralism, subsidiarity, coherence, enforceability, legitimacy: our task in the years to come is to re-invent a system of global governance founded on these elements”<sup>1</sup>.

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<sup>1</sup> WTO NEWS: SPEECHES DG P.LAMY [http://www.wto.org/english/news\\_e/sppl\\_e/sppl248\\_e.htm](http://www.wto.org/english/news_e/sppl_e/sppl248_e.htm)

At this point, it is necessary to be said, that in the context of negotiations central role hold the game of balance of power. So, it is well known that in this game United States had dominant power, at least since recently and consequently manages to influence the outcome of negotiations. Undoubtedly, with the passage of time, correlations have changed significantly. The emergence of new economies as China, India or Brazil, shifted the economic center of gravity and opened the road to new directions. In addition, crucial factor for the configuration of relations within WTO is the size of each country and the market dynamics, as well<sup>2</sup>. Consequently, it is obvious the importance of each accession, especially of countries with the dynamics of China and Russia which have far – reaching consequences for the world trading system.

Due to the Russian accession at WTO, the following chapter, in order to underline the importance of this accession for the global trade system as a whole, tries to shed light at substantial information that challenge and stimulate the interest for investment and trade transactions.

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<sup>2</sup> Kent, Jones, (2010), "The Doha Blues Institutional crisis and Reform of WTO ", OXFORD UNIVERSITY PRESS, New York, USA

## CHAPTER 2: RUSSIAN FEDERATION AND ITS POSITION AT THE WORLD ECONOMY

Since the beginning of 1990s, following the dissolution of the USSR and the transition to an open economy, Russia became a new player for the global trade and Foreign Direct Investment. So, with many significant advantages, Russia is placed in a favourable position at the global economy. To be more specific, the size of the country, both in terms of area and population, the geographical proximity to EU as well as the adequacy of raw material and the stable economic growth, are factors that challenged investors as it offers many opportunities for trade and development of business at international level, as well. The country gives opportunities such as:

- **Agriculture, manufacturing and food processing and beverages.**  
Due to the presence of unexploited raw materials and availability of good quality, non-standard agricultural products (vegetables, fruit and wine) manufacturing sector and food processing presents opportunities for business.
- **Construction.** This sector has experienced rapid growth with booming construction activity in all areas of infrastructure construction to building homes, offices and more shopping centers, especially in large cities.
- **Tourism.** According to the United Nations World Tourism Organization (UNWTO)<sup>3</sup>, Russia ranked ninth in terms of the total number of inbound tourist arrivals in Europe in 2010. Also, Travel and tourism in Russia form the 1.3% to the national GDP and 1.5% of the

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<sup>3</sup> UNITED NATION WORLD TRADE ORGANIZATION, <http://www2.unwto.org/>

country's total employment in 2011. Tourist volume in Russia increased from 152.88 million in 2007 to 170.65 million in 2011<sup>4</sup>.

So, this chapter outlines the situation in Russia, just before its accession in WTO taking at the same time into consideration both positive and negative determinants.

According to World Bank Data Base<sup>5</sup> there is a growing trend in Foreign Direct Investment which stopped in 2009 due to the impact of economic crisis and rises gradually in 2010.

YEAR	FDI NET INFLOW (US\$)
2002	3.461.131.800
2003	7.958.120.200
2004	15.144.370.800
2005	12.885.807.500
2006	29.701.427.100
2007	55.073.197.800
2008	75.002.416.000
2009	36.499.625.000
2010	43.287.698.500

Table 1 World Bank

<sup>4</sup> WORLD TOURISM ORGANIZATION, <http://www2.unwto.org/>

<sup>5</sup> The World Bank Database, <http://databank.worldbank.org/Data/Views/Reports/TableView.aspx> & <http://databank.worldbank.org/Data/Views/Reports/Chart.aspx>

Also, as we can see at table 2, according to the Russian Public Statistical Service, Cyprus holds the first rank among countries with the “Largest Accumulated Investments in the Economy of Russia”, followed by Netherlands and Luxemburg<sup>6</sup>.

COUNTRY	2010(US Dollars)	2011(US Dollars)
Cyprus	61961	78245
Netherlands	40383	49066
Luxemburg	35167	36952
Germany	27825	28717
China	27940	27616
UK	21578	26821
Ireland	11488	12727
Virgin Islands	7535	12767
Japan	9022	10193
France	10343	9804

Table 2 RUSSIAN PUBLIC STATISTICAL SERVICE

Moreover, the Euro Stat news release<sup>7</sup> shows us that Germany is by far the biggest exporter to Russia, followed by Italy, France. Additionally, Germany possesses the first rank as the largest importer followed this time by Netherlands, Poland Italy and France.

<sup>6</sup> Russian Public Statistical Service,

<http://www.gks.ru/wps/wcm/connect/rosstat/rosstatsite.eng/figures/investments/>

<sup>7</sup> Eurostat newsrelease, (2012), “Strong recovery of trades in goods between EU27 and Russia in 2011”, [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/6-01062012-BP/EN/6-01062012-BP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/6-01062012-BP/EN/6-01062012-BP-EN.PDF)

COUNTRY	EXPORT 2011(US Dollars)	IMPORTS 2011(US Dollars)
Germany	34324	37973
Italy	9314	18042
France	7464	13249
Netherlands	7106	25766
Poland	6085	18077

Table 3 EUROSTAT

However, according to Doing Business<sup>8</sup> in Russia there are still a lot of problems considering that the ranking of countries is from 1 to 183 in proportion to the degree of ease or difficulty encountered by enterprises. As we can see at table 3 below, Russia has the 111<sup>th</sup> position regarding the ease on “starting business” as well as “protecting investors”, the 178<sup>th</sup> position at the category “dealing with construction Permits”. If we see more carefully the indicators at table 4, again according to the guide “Doing Business in Russia”, we will notice that the procedure steps of starting a business, meaning any interaction of the company founders with external parties as government agencies, lawyers, auditors or notaries is 9 where at Eastern Europe and Central Asia is 6. Also, the days needed for “starting business” in Russia are 30 where at Eastern Europe and Asia are 16.

<sup>8</sup>Doing Business in Russia <http://www.doingbusiness.org/data/exploreeconomies/russia/>

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TOPIC RANKINGS	DB 2012	Rank
<u>Starting a Business</u>		111
<u>Dealing with Construction Permits</u>		178
<u>Getting Electricity</u>		183
<u>Registering Property</u>		45
<u>Getting Credit</u>		98
<u>Protecting Investors</u>		111
<u>Paying Taxes</u>		105
<u>Trading Across Borders</u>		160
<u>Enforcing Contracts</u>		13
<u>Resolving Insolvency</u>		60

Table 3 Doing Business in Russia

Indicator	Russian Federation	Eastern Europe & Central Asia
Procedures (number)	9	6
Time (days)	30	16
Cost(%of income per capita)	2,0	8,3
Paid – in Min.Capital(% of income per capita)	1,6	10,00

Table 4 Starting a Business – Doing Business in Russia

It is obvious that such problems have to be resolved, due to the accession of the country at the WTO. However, on the other hand, the cost which is recorded as a percentage of the economy's income per capita and includes all official fees and fees for legal or professional services if such services are required by law, in Russian Federation is 2% where at Eastern and Central Asia is 8.3%. Moreover, "paid in minimum capital", which reflects the amount that the entrepreneur needs to deposit in a bank or with a notary before registration and up to 3 months following incorporation and is recorded as a percentage of the economy's income per capita, in Russia is 1.6 where at Easter Europe and Asia is 10.00. So, it is clear that, entrepreneurs have strong motives to choose Russia for investments and trade ties as they look for cheap operation cost. The organizational structure or product differentiation, gives them the competitive advantages regarding the endogenous problem of the inadequate knowledge of the market.

Also, Russia's Soviet tradition of education produces plenty of brain workers. Moreover, while Russian salaries had been rising sharply before the crisis, they've now flattened out, and entrepreneurs can find workers with lowest cost of that in the West. So, Russian Federation became key destination for efficiency – seeking investors<sup>9</sup>.

Yet, according to Transparency International Tables and Rankings<sup>10</sup>, Russia has ranking 143 and score 2.4 where 0 means that a country has a lot of corruption and 10 means that a country is very transparent. This shows that corruption is definitely a big problem. An executive of one U.S. company operating in the St. Petersburg area says privately that payoffs are needed for routine tasks such as getting

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<sup>9</sup> John, Dunning,(1993) "Multinational Enterprises and the Global Economy", Addison – Wesley, Wokingham, pp.56 - 61

<sup>10</sup> Transparency International, <http://cpi.transparency.org/cpi2011/results/#CountryResults>

imported supplies cleared through customs. "We use customs brokers, and they build bribes into the invoice"<sup>11</sup>. Nonetheless, for large global enterprises Russia is simply too big and too rich to ignore. Although have past several years since the fall of communism, 140 million voracious consumers is a big challenge.

As we saw above, there are lot pros and cons regarding trade and investments in Russia. So, the next section tries to recapitulate and clarify why Russian market insist to fascinate investors, challenging, at the same time, the global trading system.

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<sup>11</sup> Bloomberg Businessweek, (2009), "The peril and promise of investing in Russia", [http://www.businessweek.com/magazine/content/09\\_40/b4149048673765\\_page\\_3.htm](http://www.businessweek.com/magazine/content/09_40/b4149048673765_page_3.htm)

## 2.1 THE UNIQUENESS OF RUSSIA

In an attempt to summarize all the potential reasons mentioned above, as well as including some more, enriching the list of motives that attract countries to create trade ties and invest in Russia, we are referring the followings:

- Russia is one of the most dynamically developing and attractive economy in the world where GDP grew from 7.4% in 2006 to 8.1% in 2007 where in Middle East those numbers were at 5.6% and 5.9% in the respective years<sup>12</sup>. The years that followed, due to economic crisis, there was a decline in GDP, but since 2011 the indicator rise again and now is at 4.8%. With the country's GDP growth fueled by high world oil prices, Russia placed just behind China with 9.5% growth and India with 7.8%. Also, regarding the industrial production, Russia was placed fourth with 4.7% after China, India and Germany<sup>13</sup>.
- Moreover, Russia is one of the largest consumer markets. According to Kearney's Global Retail Development Index 2011<sup>14</sup> Russia was ranked fourth something that, definitely, challenges investors coupled with the 140 million populations as mentioned above.

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<sup>12</sup> Invest in Russia, <http://invest.gov.ru/en/why/reasons/>

<sup>13</sup> RIA NOVOSTI, "RUSSIA 2011 GDO GROWTH WORLDS THIRD HIGHEST – PUTIN", <http://en.ria.ru/business/20120112/170725974.html>

<sup>14</sup> Retail Global Expansion, <http://www.atkearney.com/index.php/Publications/retail-global-expansion-a-portfolio-of-opportunities2011-global-retail-development-index.html>

2011 rank	Country	Market Attractiveness	Retail Development	Country Risk	Score
1	China	37,00	14,3	10,1	61,4
2	UAE	38,8	8,2	11,9	58,9
3	Kuwait	31,4	7,2	9,9	48,6
4	Russia	30,4	8,1	7,8	46,4
5	Saudi Arabia	25,6	7,4	10,9	43,9
6	India	25,8	8,0	8,2	42,0
7	Brazil	23,6	7,5	9,0	40,1
8	Turkey	21,3	7,3	8,8	37,4
9	Vietnam	23,3	6,9	7,1	37,3
10	Chile	16,4	8,3	12,2	36,9

Table 5 Kearney's Global Retail Development Index

- In addition, Russia has a World Renowned Human Capital. The quality and talent of Russian personnel is well known. This assumption is confirmed by many foreign investors which declare that the most valuable staff globally is, by far, that of Russia. To be more specific, employees at age about 20 – 25 years old are is the so – called “gold generation”, as they have gain significant education under the Soviet system but due to the short of their age, they didn't spoiled and contaminated from the Soviet ideology. This fact renders them even more receptive to innovative methods and technologies<sup>1516</sup>.
- As, mentioned above, Russia has a unique geographic position and as it links Europe with Asia and also borders the North American

<sup>15</sup> Economist intelligent Units, “Human Resources in Russia: the greatest opportunity the greatest challenge”, [http://www.amchamswe.se/\\$2/human-resources-in-russia.pdf](http://www.amchamswe.se/$2/human-resources-in-russia.pdf)

<sup>16</sup> The regional manager of one US company said:” our staff in Russia is the best in the world, better than Central Europe, better than Western Europe, better than California. Full stop. Another statement refers: “ our Russian staff are well qualified and well educated, but, even more than that, they are creative and imaginative”.

continent, offers at investors a lot of advantages and opportunities for future and potential customers.

- Furthermore, compared with other countries, Russia has an attractive taxation system. The main profit tax rate 20 percent is one of the lowest among the major economies<sup>17</sup>. Incentives, as the establishment of **Special Economic Zones** facilitate entrepreneurship. Customs facilities will help investors and exports as well. Raw materials and components will be imported into the country without paying VAT and duties, and products will be exported, also, under the same conditions. Tax incentives are also provided as the income tax reduction and the exemption of inhabitants from the property and real estate taxes for five years. All this combined with the quick resolution of issues with various authorities, obtaining the necessary permits and approvals, the so-called "principle of one-stop shop", is also an additional incentive for the investors<sup>18</sup>. Industrial zones require Russian and foreign companies to invest at least 10 million Euros, to become an official resident entitled to tax and customs privileges. Russia has 15 SEZs, 2 Industrial Production and Developments, 4 Technical Research and Implementation, 6 Tourist and Recreational and 3 Port zones. The Federal Agency for SEZ Management has been created to manage, monitor and give solutions at potential problems within economic zones. The agency assigns a support team of 10-15 specialists to each SEZ. Additionally, the federal agency helps each SEZ form a

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<sup>17</sup> Doing Business in Russia, p.6, [http://www.deloitte.com/assets/Dcom-Cyprus/Local%20Assets/Documents/PDF/dttl\\_Doing-business-in-Russia\\_2012.pdf](http://www.deloitte.com/assets/Dcom-Cyprus/Local%20Assets/Documents/PDF/dttl_Doing-business-in-Russia_2012.pdf)

<sup>18</sup> ОЭЗ. Оценка эффективности, <http://www.rosoez.ru/cheki/ojez-ocenka-jeffektivnosti.html>

Supervisory Board, consisting of the representatives of local authorities, trade chambers and the SEZ resident enterprises.

These tax and customs incentives facilitate investors and subsidiaries could export its product at a variety of markets.

- Finally, Russia is rich of natural resources as gas, oil coal, forest resources, reserves of peat, sodium and salt reserves, reserves of tin, zinc and titanium, reserves of fresh water and uranium. Also, Russia placed at the 1st place in actual volume of diamond exports and in explored world silver ore reserves as she placed at the 2nd place in explored world gold ore reserves as well as in explored platinum ore reserves and 1st place in exports of platinum ore<sup>19</sup>.

On 17 November 2011 the President of the Russian Federation signed a Federal law amending the Federal law “On Foreign Investments in the Russian Federation”. These amendments which enter into force on 18 December 2011, simplify certain significant investments by foreign investors in Russian strategic companies carrying out exploration and extraction of minerals from subsoil deposits of federal importance, as well as exempt some companies and transactions from the ambit of the Foreign Strategic Investments Law. In addition, certain changes have been made to the approval process. In this way President Putin tries to change Russia “not as fast as we want” as he said but by making significant efforts toward this direction<sup>20</sup>.

After, almost, 19 years of negotiations for the accession of the country in WTO it's time to discover if, finally, the Russian accession is a litmus test for the

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<sup>19</sup> INVEST IN RUSSIA, <http://invest.gov.ru/en/why/reasons/>

<sup>20</sup> Η ΦΩΝΗ ΤΗΣ ΡΩΣΙΑΣ, «Η ΡΩΣΙΑ ΔΗΜΙΟΥΡΓΕΙ ΕΛΚΥΣΤΙΚΕΣ ΣΥΝΘΗΚΕΣ ΓΙΑ ΤΙΣ ΞΕΝΕΣ ΕΠΕΝΔΥΣΕΙΣ», <http://greek.ruvr.ru/2010/10/18/26836590.html>

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multilateral trade system. To do so, it is necessary to outline the Russian attempt to enter the international organization as well as the effort made to harmonize its environment with the spirit of WTO.

### **CHAPTER 3: THE ODYSSEA OF RUSSIAN ACCESSION TO WTO AND THE HARD PATH TO MEMBERSHIP**

Some years ago, many were overwhelmingly optimistic about the progress of Russia towards modernization. In the early 1990s, when the Soviet Union collapsed, the country was confronted a new challenge: the transition from a centrally planned economy to a market economy. Two fundamental and interdependent goals that characterize this transition are macroeconomic stabilization and economic restructuring. The first involves fiscal and monetary policies that promote economic development in an environment of stable prices and exchange rate. The latter requires the necessary legal and institutional changes in property structure as well as commercial legal codes that will allow economy to function effectively.

The truth is that, real, political and economic transition in Russia is likely to take decades to complete. Yet, despite the difficulties has been produced considerable progress. Strive to transform into a modern society that provides the principles of fundamental freedoms, transparency, sound governance, competition and free trade.

Also, the country for many years tries to be a member of WTO and Russians were anxious not just to see their country as a great power but also as a modern one ready to compete and stand worthily at the global marketplace. With this intention, Russia applied for accession in GATT in 1993 and in 1995 its application was undertaken by WTO. Promoting this, ultimate goal was the amelioration of the general climate for investment by implementing the appropriate legal system, access of Russian products to the global market, as well as, access to the dispute settlements

mechanisms; improvement of domestic economy and opportunities for investments at countries member of WTO<sup>21</sup>.

Hence, taking into consideration the political and economical situation of the country, with the political elite controlling the state economy and State Own Enterprises (SOEs) trying to transform through a complicated privatization programme, both the accession process and negotiations were between the hammer and the anvil. After the application membership instituted a Working Party (WP) consisted by countries, already, members of WTO with jurisdiction the examination of the request recommending at the same time the draft Protocol to the General Council. The negotiation stages for the Russian accession were many as well as the meetings that took place<sup>22</sup>, with the first carried out in Geneva in 1995 and having as central topic the “Memorandum on Foreign Trade Regime”.

In the meanwhile the following meetings tried to shed light at the trading system of Russia making at the same time essential interventions at issues as the so – called “new areas”, meaning the trade in services and intellectual property rights. In addition, of major importance issues were the Russian agriculture, non – tariffs regulations and custom valuation and also sanitary and phytosanitary measures. Also, Russian legislation has to be harmonized with the principles of WTO. Actually this means that the country has to make significant steps to modernize its business environment and improve its position in the “Doing Business” index at categories as “starting business” and “protecting investors” in which, as it mentioned above, holds the 111<sup>th</sup> position, trying to be more perspective for foreign enterprises.

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<sup>21</sup>RUSSIA AND WTO, [www.wto.ru](http://www.wto.ru)

<sup>22</sup> For a detail description of the negotiations stages see: RUSSIA AND WTO, <http://www.wto.ru/russia.asp?f=etaps&t=10>

At the same time, another crucial issue which blocked the Russian accession to WTO was the conflict with the Republic of Georgia since the two countries were involved in war in 2008<sup>23</sup>. The two provinces Abkhazia and South Ossetia, which broken away from Georgia and recognized by Russia as independent states, were once again the “apple of discord”, this time, regarding the monitor of trade. Hence, Georgia suggests controlling the borders with Russia, something that was rejected by Russia straightaway. Thereupon, next alternative proposal was the international monitoring of trade by a neutral private company, something that, definitely, stresses that this area is still under dispute. Finally, the agreement “On the Basic Principles of the Mechanism of Custom Administration and Monitoring of Trade in Goods” signed in Geneva on November 9, 2011, with the mediation of Switzerland and considered as a success by Georgian government.

To clarify, after the war Russia imposes bans at Georgian wines and mineral water something that was a big blow for Georgian exports. Yet, the accession of Russia in WTO, surely, would put an end to such policies, as it has the obligation to accept and implement specific rules and commitment<sup>24</sup>, in order to provide a trade without discrimination and with respect to Most Favored Nations (MFN) principle. Consequently, Georgia, benefits greatly from this situation as she could take advantage of the size of Russian market and its strategic location, which attracts Foreign Direct Investments, as well.

In the context of the agreement<sup>25</sup>, there has been established a system of monitoring the corridors of trade and responsible, to do the job, is a neutral private

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<sup>23</sup> BBC NEWS BUSSINES, “Georgia signs trade deal opening Russia’s way to WTO”, <http://www.bbc.co.uk/news/business-15585652>

<sup>24</sup> FINANCIAL TIMES, “Russia/WTO: what’s in it for Georgia?”, <http://blogs.ft.com/beyond-brics/2011/11/02/russiawto-whats-in-it-for-georgia/#axzz27sV2d6K6>

<sup>25</sup> Civil.ge, Georgia – Russia WTO Deal in details, <http://www.civil.ge/eng/article.php?id=24158>

company, accountable to Switzerland. Also, there are three corridors, demarcated with the Universal Transverse Mercator (UTM)<sup>26</sup>, where the first is on the Abkhazia direction, the second on South Ossetia and the third on Zemo Larsi – Kazbegi border. The mechanism functions with the help of an Electronic Data Exchange System and the International Monitoring System. The former, includes an electronic data exchange platform, which allows the control of all customs and trade transactions, and the latter arranges the presence of international experts, tasked with the monitoring of the procedure. Finally, in order to ensure the bilateral agreement, there has been established a Joint Committee, responsible to address potential dispute between the two parties.

In any case, this agreement is a crucial achievement for Georgia as it gives the opportunity to monitor trade between Russia and the whole territory of Georgia, including Abkhazia and the Tskinali region of South Ossetia<sup>27</sup>. However, the Russian representative, of Ministry of Foreign Affairs, Alexander Lukashevich, argues that the agreement was not as successful for Georgia as it was described by its President Mikheil Saakashvili. First of all, the measures included the Agreement was equal for both parts, despite the facts that Tbilisi continues to pretend that concerns only Russia<sup>28</sup>. Until recently products from Georgia to Abkhazia, South Ossetia and vice versa, were free from customs controls. In either case, such practices have to stop as they are not compatible with the Agreement and the principles of WTO, as well.

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<sup>26</sup> Mikhail, Alexseev, (2012), "Crossing Borders, Validating Sovereignty, RUSSIA, GEORGIA AND THE WTO" in PONARS Eurasia Policy Memo, Vol.No241, San Diego, USA

<sup>27</sup> EMBASSY OF GEORGIA TO THE REPUBLIC OF TURKEY, "Statement of the Ministry of Foreign Affairs of Georgia on the Signature of an Agreement between the Government of Georgia and the Government of the Russian Federation on the basic principles for a Mechanism of customs administration and monitoring of trade in goods",

[http://embassy.mfa.gov.ge/index.php?lang\\_id=ENG&sec\\_id=293&info\\_id=13070](http://embassy.mfa.gov.ge/index.php?lang_id=ENG&sec_id=293&info_id=13070)

<sup>28</sup> Постоянное представительство Российской Федерации при Европейском союзе, Replies by MFA Spokesman Alexander Lukashevich to Questions from Interfax News Agency on Russian-Georgian Agreement in Context of Russia's WTO Accession, <http://russianmission.eu/ru/node/599>

Also, another crucial point of the Agreement is that it covers only “regional trade” which does not include military supplies, something very important for Russia. In this context, Russia is ready to invalidate the Agreement if Georgia requires from Russia to encapsulate at the monitoring procedure the military shipments, as well. So, it is clear that time will tell the outcome of this agreement.

After all, as shown above, Russia, surpassing at least theoretically the last obstacle, became, after almost 19 years of on – again off – again negotiations, member of WTO. Hence, the next section outlines the basic commitments, amendments and law regulation that Russia tries to implement in its attempt to keep up with the principles of WTO.

### 3.1 THE COMMITMENTS OF RUSSIA AND THEIR IMPACT ON LOCAL COMMUNITY

It is generally accepted that the accession to the WTO implies the implementation of specific rules and compliance with certain conditions. As mentioned in the first chapter essential goal of the WTO is the creation of a sound and competitive global trading system. To do so, the organization provides and imposes to its members principles<sup>29</sup> as:

- Trade without discrimination<sup>30</sup>, which firstly, refers to the principle of “Most Favored Nation” Treatment<sup>31</sup> meaning that all goods have to be treated equally in the markets of WTO members. Also, this principle is combined with the “national treatment” which implies that all the imported products should have equal treatment with the domestic products, as well.
- Predictability and stability are, definitely, key principles for a sound business environment. In order to achieve this, the multilateral system tries to limit the use of quotas or other measures on imports and instant of this provides a transparent and clear trade system.
- The Promotion of fair competition, which means that the rules ought to promote and ensure for an open and clear trade system.

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<sup>29</sup> WORLD TRADE ORGANIZATION, Principles of the trading system,  
[http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact2\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm)

<sup>30</sup> Ioannis, Tzionas, (1992), “STRUCTURE AND OPERATION OF THE GATT”, in INTERNATIONAL ECONOMIC LAW AND DEVELOPMENT, THE BRITISH INSTITUTE OF INTERNATIONAL AND COMPARATIVE LAW, LONDON, UK

<sup>31</sup> Andreas, Lowenfeld, (2008), “INTERNATIONAL ECONOMIC LAW”, OXFORD UNIVERSITY PRESS, NEW YORK. US

- Finally, progressive trade liberalization is key element for the multilateral trade system, as trade barriers, custom duties and all the measures that restrict the imports are opposed with the spirit of WTO.

Therefore, the accession to the WTO dictates a plethora of commitments. Russia after the disintegration of Soviet system, confronts the totally deconstruction of its economic and political structure, and certainly did not function in accordance with the general rules, described above. Consequently, both companies and state services confront many difficulties to adapt the new reality. So, with regard to the political situation and the Soviet background of the country, commitments and amendments should implement gradually and with respect to domestic enterprises.

In this context and as a result of the accession, Russian has made significant commitments that will be summarized below<sup>32</sup>, in order to become aware of the magnitude of the change.

On the one hand, regarding the **market access for goods — tariff** has been made remarkable changes that will influence the agriculture and food sector as well. To be more specific, on average, tariff ceiling for Russian will be 7.8% whereas in 2011 was 10% for all products. Also, the average tariff ceiling for agriculture products will be 10.8%, whereas the current average is 13.2%. In addition, the ceiling average for manufactured goods will be 7.3%, of course lower from the today 9.5% on manufactured imports. Towards the same direction, Russia decides to impose lower tariffs in a variety of products as it showed bellow:

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<sup>32</sup> For an analytical view see: WORLD TRADE ORGANIZATION, "Working Party seals the deal on Russia's membership negotiations", [http://www.wto.org/english/news\\_e/news11\\_e/acc\\_rus\\_10nov11\\_e.htm](http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm)

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- 14.9% for dairy products as the current applied tariff is 19.8%
- 10 % for cereals where the current applied tariff is 15.1%
- 7.1% for oilseeds, fats and oils where the current applied tariff is 9%
- 5.2% for chemicals where the current applied tariff is 6.5%
- 12% for automobiles where the current applied tariff is 15.5%
- 6.2% for electrical machinery where the current applied tariff is 8.4%
- 8% for wood and paper where the current applied tariff is 13.4%

Also, there will be changes at the quotas both imports and exports:

- For beef the import quotas will be 15% as the export will be 55%
- Additionally, the import quotas for pork will be zero, something that indicates the complete liberation of this product, and the export quotas percentage will be 65.
- Moreover, the import quotas for poultry products will be 25% and for export quotas 80%
- Finally, for some whey products the import quotas will be 10% and the export 15%

The majority of these changes will be implemented immediately upon accession of Russia. However, in the context of gradual transition to the new environment some of them have a long implementation period, such as 8 years for the pork, and 7 years for motor cars, helicopters and civil aircraft. Under those circumstances, it will be noted a rise in imports something that also enhances competitiveness. Subsequently, this will result, simultaneously, in the increasing of production, reduction in prices and better quality in services which means benefits for consumers. However, as far as direct profit is concerned the results are likely to be

quite modest in the short term. Food producers will be faced a lot of problems, as all agricultural subsidies will be bound to zero.

On the other hand, regarding the **market – access for services**, Russia made specific commitments on 11 services sectors and on 116 subs – sectors as well<sup>33</sup>. However, interest presents the banking sector which is still protected from Russia Duma. To clarify, foreign banks are prohibited from opening branches and allowed to open only subsidiaries as the branches are not subject to Russian jurisdiction<sup>34</sup>. Russia, in that way, supports the national banks and tries to protect them from the additional pressures and competition created by branches which function with the legal status of home country<sup>35</sup>. Also, sectors as transport services and construction should benefit from these changes, as the former could see increase at the demand due to the accession to the WTO and the later should gain from lower prices both at imported materials and equipment as well. On the telecommunications the limitation of 49 percent for foreign investors will be eliminated within four years after the accession, and regarding the foreign insurance companies they will have the right to establish branches just nine years after the accession.

Likewise, Russia will implement also **Sanitary and Phytosanitary (SPS)** measures in compliance both with international standards and with the WTO Agreement. In like manner, also, promised, to ensure that the related legislation regarding the technical regulations will be amended and harmonized with the WTO Agreement on **Technical Barriers to Trade (TBT)**.

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<sup>33</sup> WORLD TRADE ORGANIZATION, "Working Party seals the deal on Russia's membership negotiations", [http://www.wto.org/english/news\\_e/news11\\_e/acc\\_rus\\_10nov11\\_e.htm](http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm)

<sup>34</sup> RT QUESTION MORE, (2012), "Russia to ban foreign banks to open branches", <http://rt.com/business/news/russia-foreign-opening-bill-412/>

<sup>35</sup> Voices of Read Russia, (2012), "Russia's Bank to get new protection ahead of WTO", [http://rbth.ru/articles/2012/08/06/russias\\_banks\\_to\\_get\\_new\\_protection\\_ahead\\_of\\_wto\\_17091.html](http://rbth.ru/articles/2012/08/06/russias_banks_to_get_new_protection_ahead_of_wto_17091.html)

Moreover, its accession to the WTO entails the full alignment with the agreement on **trade related aspects of intellectual property rights (TRIPS)**. The fact is that Russia recently has amended its legislation with respect to Intellectual Property Rights, by the revision of Civil Code in 2008. Yet, piracy and counterfeiting is still on a high level and the lack of sanctions raises concerns to investors<sup>36</sup> and deteriorates the business climate in Russia.

As can be seen, Russia has a long way to become a truly open economy, but WTO membership offers a significant help towards this direction. Putin will face soon the reality of implementing these commitments trying at the same time to confront political elite with little incline to liberalism. However, there is no doubt, that long-term benefits of membership should outweigh the initial costs.

According to World Bank Report<sup>37</sup> the estimated gains of GDP per year valued at 3 percent as the wages could be boosted 4 and 5 percent. Respectively these numbers could be raised to 11 and 13 – 17 percent in the long term. Also, the Russian household should increase its income about 7.2 percent on average. Due to the Foreign Direct Investments (FDI) demand will increase in the labor force something that will have positive result at the reduction of poverty, as well.

To conclude, the accession of Russia to the WTO certainly is a key political movement for the global trading system and Foreign Direct investments, as well. Trading partners, as European Union and U.S.A. find it as a golden opportunity to improve their relationships with Russia where definitely, there is plenty room for

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<sup>36</sup> INTELLECTUAL PROPERTY WATCH, 2012, " Special Report: Russia Amends IP Law in advance of WTO Accession", <http://www.ip-watch.org>

<sup>37</sup> THE WORLD BANK IN RUSSIA, RUSSIAN ECONOMIC REPORT, APRIL 2012, <http://www.worldbank.org/content/dam/Worldbank/document/rer-27-march2012-eng.pdf>

improvement. So, the next chapter outlines the trade ties between U.S.A. and Russia and how the recent accession to the WTO may affect them.

## CHAPTER 4: THE IMPACT OF RUSSIA'S ACCESSION TO THE WTO FOR THE US

### 4.1 US RUSSIAN TRADE TIES

All these years, US in an effort to “reset” relations with Russia supports strongly the Russian attempt to enter the WTO. As the trade Ambassador Kirk pointed: “Russia’s accession is good for the United States, good for Russia, and good for the WTO, as well. This marks an important turning point in making the WTO truly a ‘world’ trade organization. Russia's market access commitments and the steps that it is taking with regard to intellectual property rights, information technology, SPS, transparency, and the full range of WTO rules and disciplines will create a new and stronger basis for conducting trade relations between our countries<sup>38</sup>.” It is true, that US policy tries to overcome the Cold War era and to pass through a new phase that will be characterized by cooperation and coordinated actions.

To be more specific, in 2011 Russia was the 31<sup>st</sup> biggest export power to USA as Russia was the 14<sup>st</sup> export market to the US<sup>39</sup>. According to the US census<sup>40</sup>, the exports to Russia was 8.3 billion dollars and the Russian exports to USA 35 billion dollars, where at the first case were observed a growing trend, always in 2011, about 39% and at the second case there was an increase of approximately 21%<sup>41</sup>. Moreover, if we want to analyze even more these numbers by translate them to products, Russian exports to the U.S. are fuel oil, inorganic chemicals, aluminum, and precious

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<sup>38</sup> OFFICE OF THE UNITED STATE TRADE REPRESENTANTIVE, “US Trade Representative Kirk welcomes invitation to Russia to join the World Trade Organization”, <http://www.ustr.gov/about-us/press-office/press-releases/2011/december/us-trade-representative-kirk-welcomes-invitation>

<sup>39</sup> EXPORT.GOV, HELPING US COMPANIES EXPORT, DOING BUSSINES IN RUSSIA, <http://export.gov/russia/doingbusinessinrussia/index.asp>

<sup>40</sup> US DEPARTMENT OF COMMERCE, UNITED STATES CENSUS BUREAU, <http://www.census.gov/foreign-trade/balance/c4621.html>

<sup>41</sup> *ibid*

stones, as U.S. exports to Russia are mainly machinery, vehicles, meat – mostly poultry, aircraft, electrical equipment, and high-tech products<sup>42</sup>. It is true, that the US gains, increases due to the economic growth of Russia. Also, among BRIC (Brazil, Russia, India China) countries Russia has, by far, the highest Gross Domestic Product (GDP) per capita which actually is three times more than that of China as Brazil and India follow behind<sup>43</sup>. And an estimation of Goldman Sachs support, that in 2050 Russia will be the only BRICS country with GDP per capita comparable with that of developed European countries<sup>44</sup>. Thus, it is clear US showing a considerable interest for trade ties with Russia.

In this context, it is useful to be said that on June 17, 1992 came into force a Bilateral Trade Agreement (BTA)<sup>45</sup> between Russia and US, which provides Most Favored Nation treatment to the products of each country and has been enriched in the end of 2006 with the Bilateral Market Access Agreement which included, also, Intellectual Property Right standards<sup>46</sup>. This was an act of goodwill in the context of tightening trade relations between the two countries. However, BTA covers only the tariff and customs treatment in goods as well as the rules regarding the distribution of products within Russian market. In addition, BTA there was no dispute settlement mechanism, had a weak IPR provisions, did not cover Sanitary and Phytosanitary Standard, services and did not guarantee national treatment as well. Moreover, the US support for the strengthening of trade ties with Russia has, also, the form of financial

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<sup>42</sup> INTERNATIONAL TRADE, <http://suite101.com/article/top-russian-exports-imports-a25106>

<sup>43</sup> Goldman Sachs, Global Economics Paper No 192, "The Long – Term Outlook for the BRICS and N – 11 Post Crisis, <http://www.goldmansachs.com/our-thinking/topics/brics/brics-reports-pdfs/long-term-outlook.pdf>

<sup>44</sup> *ibid*

<sup>45</sup> TRADE COMPLIANCE CENTER, US – RUSSIA AGREEMENT ON TRADE RELATIONS, [http://tcc.export.gov/Trade\\_Agreements/Exporters\\_Guides/List\\_All\\_Guides/exp\\_005537.asp](http://tcc.export.gov/Trade_Agreements/Exporters_Guides/List_All_Guides/exp_005537.asp)

<sup>46</sup> Intellectual Property Watch, (2006), "US Russia Bilateral / WTO Deal Pushes New Standards for IP Protection, <http://www.ip-watch.org/2006/11/24/us-russia-bilateralwto-deal-pushes-new-standards-for-ip-protection/>

assistance both for exporters and investors in Russia through the US Export – Import Bank and the Overseas Private Investment Corporation (OPIC), as well<sup>47</sup>. In the same way, US implemented to Russia, the Generalized System of Preferences<sup>48</sup> a programme that was designed to promote economic growth in developing countries by facilitating trade of goods providing duty free entrance to a variety of products.

Nevertheless, the accession of Russia to the WTO brought to the surface issues that temporally had been resolved with the bilateral agreement between the two countries. Such problem is the Jackson – Vanik Amendment that US provides to all communist countries, except Poland and Yugoslavia, included Russia, in 1974 due to the denial of the right of emigration to their resident.

So, the next section attempts to outline the problem created by this amendment regarding trade relations between the two countries, especially, after Russia's accession to the WTO.

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<sup>47</sup> William, Cooper, (2012), "Russia's accession to the WTO and its Implication for the United States", Congressional Research Service

<sup>48</sup> OFFICE of the UNITED STATES TRADE REPRESENTATIVES, GENERALIZED SYSTEM OF PREFERENCES (GSP), <http://www.ustr.gov/trade-topics/trade-development/preference-programs/generalized-system-preference-gsp>

## **4.2 THE JACKSON – VANIK AMENDMENT AND PERMANENT NORMAL TRADE RELATIONS BETWEEN RUSSIA AND US**

As it was mentioned above, a fundamental principle of WTO is the “most favored nation” (MFN), a status that all WTO members ought to provide to each other. However, MFN is used in international trade agreements, as the term has been replaced in US law in 1998 by the term “normal trade relations” (NTR)<sup>49</sup>.

Also, it has to be said that in 1974 US decided to inhibit the MFN status at countries of communist bloc that restrict emigration to their citizens, which is considered a human right. In a way, it is believed that this measure was a kind of response towards Soviet Union due to the imposition of the so – called “diploma taxes” to Jews citizens who acquired higher education in the West<sup>50</sup>. As a result, the Jackson-Vanik Amendment signed into law by U.S. President Gerald Ford, to the Trade Act of 1974.

In practice, the amendment restricts trade relations and creates negative political climate at the level of diplomacy. Indeed, this was not so pleasant for Russia, as considered it as interference in the internal politics of the country. So, Russia decided to send a delegation to the U.S. in order to change the situation, by viewing for argument that the change is likely to have the opposite effect cultivating anti-Semitic sentiments both in the U.S. and Russia. On their side U.S., by applying the tactic of "quiet diplomacy", finally, managed to achieve the non-implementation of the measure.

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<sup>49</sup>William, Cooper, (2012), “Permanent Normal Trade Relations Status for Russia and US – Russian Economic Ties”, Congressional Research Service

<sup>50</sup> THE YIVO ENCYCLOPEDIA OF JEWS in Eastern Europe, Jacson – Vanik Amendment, [http://www.yivoencyclopedia.org/article.aspx/Jackson-Vanik\\_Amendment](http://www.yivoencyclopedia.org/article.aspx/Jackson-Vanik_Amendment)

However, the point is, that when a country enters the WTO US has the obligation to implement the MFN status and thus the provisions of Jackson – Vanic contradict with the spirit of the organization. However, US have three alternative options: First, to repeal the restriction before the accession, at the negotiations level. Second option is, to eliminate the amendment, right after the entrance of the country to the WTO. Finally, the last one is not to repeal the restriction at all, and instead of this to invoke the “non application principle” of the WTO. The case of China, which entered the WTO on December 2001, is a characteristic example of the second option as the Congress passed legislation, on January 2002, through which removed the Jackson – Vanic amendment. Also, another example, of the first option this time, is the case of Ukraine, which entered the WTO in 2008 but was graduated by Congress in March 2006. Finally, Moldova is the only country member of the WTO still subject to the Jackson – Vanic amendment and, in this case, US granted NTR status to Moldova year by year.

But, surely, Russia is not Moldova and thus will not allow such treatment, specially now after its accession to the WTO. It is true that the bilateral agreement between the two countries which was signed in 1990 and came into force in 1992 and later in 2006 provides MFN status, but not on every area of trade and investment. Also, Russia sees the Jackson – Vanic amendment as a relic of the Cold War era and even more the fact that at the case of Ukraine was withdrawn before its accession to the WTO, creates negative climate. Besides, after the collapse of communism and the disintegration of Soviet Union, there is no problem with the right of emigration for Russian citizens. Consequently, Russia has one more reason to consider this amendment totally unrealistic and groundless.

Taking the above into consideration, if US does not grant Russia with Permanent Normal Trade Relations (PNTR) will be in violation of WTO. Consequently trade relations between the two countries will be governed not by the WTO rules and commitments but rather by the limited Bilateral Agreement, as it mentioned above. The twists and turns along the road to WTO for Russia were numerous, so if US decides to invoke the “non application principle”, reciprocally will suffers the consequences. US companies which have trade relations with Russia as well as investors in the country, comparing with the other countries member of WTO, will lose the competitive advantage as they are not going to enjoy the benefits of the Russian accession to the WTO.

It is interesting to notice, that according to a Peterson Institute study<sup>51</sup>, Anders Aslund and Gary Hufbauer estimated that US exports to Russia are going to be doubled by 2017, to 22 billion dollars, but only if WTO rules apply between US and Russia. So it is clear, from economic point of view, that PNTR to Russia is imperative. President, Barack Obama in a statement said that he is anxious to work with the Congress in order “...to end the application of Jackson – Vanic amendment to Russia, to ensure that American firms and American exporters will enjoy the same benefits of Russian WTO membership as their international competitors<sup>52</sup>”.

Yet, in terms of concrete politics, until today, little has change. The US congress confronts intense pressures from many sides. Daniel O’Flaherty, the vice president of the National Foreign Trade Council (NFTC) said that “...any delays of the abolition of Jackson – Vanic amendment will primarily hit American exporters<sup>53</sup>”.

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<sup>51</sup> Anders, Aslund, (2012), “The Costs of Not Granting Russia PNTR”, Peterson Institutes for International Economics, <http://www.piie.com/publications/opeds/oped.cfm?ResearchID=2209>

<sup>52</sup> President Barack Obama, Statement on Progress in Russia’s WTO Accession Talks, White House, November 10, 2011, <http://www.whitehouse.gov>

<sup>53</sup> Gennady, Sysoyev, Kirill, Belyaninov, Sergey, Strokan, (2012), “Jackson – Vanic amendment repeal delayed” in Voices of Read Russia

If US fails to grant Russia with PNTR status gives her, in a way, the legal right to punish American companies. However, when policy encounters trade, things seem to be confused. The deputy head of the Institute of International Affairs of the Russian Diplomatic Academy, Ivan Safranchuk said, aptly, that "...the history of the Jackson-Vanik shows how politics can spoil trade, scientific and humanitarian relations between the countries. One should abstain from creating obstacles to normal cooperation in various spheres, especially in economy. It is unwise trying to politicize this kind of relations<sup>54</sup>".

Thus, contrary to the apparent US interest, and despite the attempt to invoke Jackson – Vanic, it seems that PNTR goes together with the so – called Magnitsky<sup>55</sup> Law. Some senators believe that this is an act of support over accountability, transparency, good governance and human right, issues that concern the Russian community. Proponents of this political position confuse, mistakenly, internal and external policy with trade and they argue that US could not continue to have trade ties with a country that was against the condemnation of Assad regime at the UN Security Council. From a political point of view the interesting is that China, also, followed the same tactics with Russia by exerting veto at UN sanctions against the Syrian regime. What is the response of Congress at this case?

However, the Obama administration, without being able to resolve the issue, due to the upcoming election, argued that this adoption would damage trade relations between US and Russia, to the detriment, of course, of the US. Definitely, the last

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<sup>54</sup> Andrey, Febyashin, (2012), "US businessmen urge Congress to abolish Jackson – Vanic", in THE VOICE OF RUSSIA

<sup>55</sup> Sergei Magnitsky, was a lawyer for the investment firm Hermitage Capital, who charged with corporate tax evasion and died while in pre-trial detention in Moscow on November 16, 2009. In response to the public outcry over his death, US Senator Ben Cardin (Democrat-Maryland) with the Magnitsky list, tries to ban all Russian officials allegedly implicated in the case from the United States

thing Russia wants is to replace the anti – Soviet Jackson – Vanik amendment with an anti – Russian legislation<sup>56</sup>.

The results will appear rapidly. Competitors lie in wait all over the world and the Russian market is very challenging. US companies see their competitors overtake them menacingly. A characteristic example is the well – known US company of mining trucks Caterpillar which confronts a continuously growing competition from the Chinese Shantui, the German Liebherr and the Japanese Komatsu as well<sup>57</sup>. Similar problems face companies of aircraft, automobiles as well as agricultural and livestock products.

The European Union is one of the biggest trading block of WTO, and, consequently, the European market is ready to reinstate the trade ties with Russia, this time, under the umbrella of the organization. So, the next chapter attempts to give a brief overview of trade relations between Russia and European Union and, also, to throw a glance at the legislative proposals of European Commission regarding the Russian accession to the WTO.

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<sup>56</sup> Richard, Solash, (2012), "US Senate Panel Votes To Lift Cold War Trade Restrictions On Russia", in Radio Free Europe Radio Liberty, <http://www.rferl.org/content/russia-jackson-vanik-magnitsky-senate-finance-baucus-pntr-moldova/24649497.html>

<sup>57</sup> Andrew, Kramer, (2012), "US Companies Worry About Effect of Russia Joining WTO", in New York Times, [http://www.nytimes.com/2012/08/22/business/with-russia-joining-wto-us-companies-worry-about-losing-business.html?pagewanted=all&\\_r=2&](http://www.nytimes.com/2012/08/22/business/with-russia-joining-wto-us-companies-worry-about-losing-business.html?pagewanted=all&_r=2&)

## CHAPTER 5: TRADE RELATIONS BETWEEN EUROPEAN UNION AND RUSSIA

Since, Russia and European Union are the largest geopolitical entities on the European continent, they are interdependent in many spheres and trade is one of the most significant. With a long and rich history in their trade relations, the European Commission welcomed the Russian accession to the WTO and the European Commissioner for Trade, Karel De Gucht, announced that this is “a major step for Russia’s further integration into the world economy”<sup>58</sup>. Besides, it will be the first time that the two entities will function, officially and beyond their bilateral agreements, under the multilateral system of WTO creating, in that way, a long – lasting and sustainable trade relationship.

According to the WTO, Russia's accession means that 97% of all world trade will now take place between its members. However, for European Union the benefits are going to be more directly and substantially, as Russia represent its third trading partner whereas EU is the first trading partner of Russia. To be more specific, EU exports in goods to Russia reached the 108.4 billion dollars in 2011 as EU imports in goods from Russia totaled to 199.5 billion dollars<sup>59</sup>. Also, according to euro stat news release<sup>60</sup> the trade in goods between Russia and EU reach record level in 2010 and 2011. This happens due to the EU imports of energy from Russia which totaled from 120 billion dollars in 2010 to 158 billion dollars in 2011. Increase is also observed in

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<sup>58</sup> Andrew,, Gardner, (2012), “EU welcome Russia’s accession to WTO”, in EuropeanVoice.com, <http://www.europeanvoice.com/article/2012/august/eu-welcomes-russia-s-accession-to-wto/75022.aspx>

<sup>59</sup> European Commission, Trade, Russia, <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/russia/>

<sup>60</sup> Eurostat newsrelease, (2012), “Strong recovery of trade in goods between EU27 and Russia in 2011”, [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/6-01062012-BP/EN/6-01062012-BP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/6-01062012-BP/EN/6-01062012-BP-EN.PDF)

the EU exports to Russia in services whereas the imports remain almost stable. In 2010 the EU exported 23.309 billion dollars in services to Russia and in 2011 25.433, as in 2010 imports amounted 13.693 billion dollars and in 2011 just 13636 billion dollars. So, it is clear that trade ties between the two countries is key element for their economic development. And as custom duties will fall, this means, according to European Commissioner for Trade Karel De Gucht, almost 2.5 billion euro savings per year.

However, the Russian accession is not the end of the story, but the beginning of a new one. And in order to have positive results at the global trade system is required political strength and political momentum as well. There is a need for a shift from government to governance, to accountability, to responsibility and to integrity as well. Putin's policy, at a first glance, seems to be harmonized toward this direction. As he said in Asia Pacific Economic Cooperation Summit in Vladivostok, the accession to the WTO gives Russia the opportunity to shape the global rules and to resolve the problems of crisis in world trade system as well. Also, he argues that a customs union and a common economic space among former Soviet republics of Russia, meaning Belarus and Kazakhstan would play a decisive and crucial role at the global trade system as a whole<sup>61</sup>.

Yet, power struggles among elite is a long standing characteristic in soviet culture and the accession to the WTO bring to the surface the continuous conflict among liberal, in the one hand, as the Prime Minister Dmitry Medvedev and

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<sup>61</sup> Asia – Pacific Economic Cooperation, (2012), "Putin Says WTO a Factor in APEC Talks" in The Moscow Times, <http://www.themoscowtimes.com/special/apec/2012/putin-says-wto-a-factor-in-apec-talks.html>

“siloviki”<sup>62</sup> faction<sup>63</sup> on the other hand, as Igor Sechin, the President of Rosneft, the leader company of Russia's petroleum industry.

For its part, EU supports every Russian attempt toward modernization. And the Russian effort to join OECD, also, provides access to a variety of expertise in institutional and economic reform. Regarding the Customs Union, EU was suspicious and cautious as worried that such acts might harm the international trade. Besides the political situation in Belarus is still in concern and EU condemns the continuous persecution of human rights and the policies contrary to the path of democratic transition. In this context, Putin reassured EU leaders that Russia should “take into account” the decision of Belarus and Kazakhstan to commit to the Customs Union's conditions, compatible with WTO rules<sup>64</sup>.

In any case, EU ought to safeguard its trade interest. In this context, and due to the Russian accession to the WTO, and its harmonize with specific rules, commitments and principles, EU should also take into consideration the current Partnership and Co – operation Agreement (PCA) as well as violations of WTO rules as the “recycling tax” on imported vehicles and the ban on European live animals imports. Also, the restrictions on imports of steel products from Russian consist subject to review and renegotiation, as well.

In this point, it should be stressed that Russia many times used embargo not as a tool of trade policy but as a means of exerting pressure in order to send a political message to those countries pursuing policies contrary to Russian interest.

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<sup>62</sup> The term in an accurate translation means “people of force”. The term is used in Russia referring to those politicians that they support the reemergence of a strong Russian state and they are skeptical with the democratic system. Senior siloviki under Putin’s presidency are Sergei Ivanov, Viktor Ivanov and Igor Sechin, as well.

<sup>63</sup> Daragh, McDowell, (2012), “Russia’s Accession May Open Political Pandora’s Box in Moscow” in World Politics Review, <https://read.amazon.com/?asin=B008NB49F0>

<sup>64</sup> For a more detailed view, see the Treaty on the Functioning of the Customs Union in the framework of the Multilateral Trading System, [http://ec.europa.eu/food/international/trade/docs/decision\\_87\\_eurasec\\_en.pdf](http://ec.europa.eu/food/international/trade/docs/decision_87_eurasec_en.pdf)

Irregularities of minor importance by countries supplying Russia, sometimes was an excuse of using embargo as a negotiating tool to strengthen Russian position toward its partners. Characteristic example is the ban on imports of meat and plant – derived products from Poland in 2005 as a message of disapproval regarding its position of energy policy and its opposition to the construction of Nord Stream gas pipeline. Also, similar policy Russia follows in 2002 and 2010 against US and poultry products, in order to achieve more favorable negotiations in the steel market<sup>65</sup>.

So, the next section analyzes the concerns and worries of EU regarding violations of WTO rules and feasibility policies of Russia mentioned above. In addition, outlines the renegotiation of EU with Russia regarding their bilateral agreement, as well as the potential outcome of this negotiation.

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<sup>65</sup> Iwona, Wisniewska, (2011), "An Embargo in Russia's trade policy – a tactic without strategy", CENTRE FOR EASTERN STUDIES, <http://www.osw.waw.pl/en/publikacje/eastweek/2011-07-13/embargo-russia-s-trade-policy-a-tactic-without-a-strategy>

## **5.1 EUROPEAN UNION AND RUSSIA TOWARDS A NEW AGREEMENT UNDER THE UMBRELLA OF WTO CONCERNS AND SOLUTIONS**

As we saw at the previous chapter, trade ties between Russia and EU are in major interest for both entities. For this reason, the two parts, in order to regulate and shape trade and investment relations between each other concluded, as mentioned above, at the Partnership and Co – operation Agreement<sup>66</sup>, which was signed in 1994 and came into force on 1 December 1997. The partnership established with a view to promote a harmonious environment both for trade and investment as well as to strengthen economic and political freedoms.

Also, in the context of the agreement, considering the importance of democratic principles, the promotion of international security, and taking into account that Russia was a country in transition, crucial was, also, the establishment of a multi – party system with respect to the rule of law and human rights, and the economic liberalization as a prerequisite for the establishment of a market economy system.

However, with the passage of years the revision of the PCA seemed to be necessary. The 21st EU-Russia Summit in Hanty Mansiisk in 2008 was the confirmation that the spirit of a new beginning was a fact. Both sides agreed that the redesign of their strategies in order to deal with the new challenges of the 21<sup>st</sup> century was of paramount importance. Moreover, the accession of Russia to the WTO was a further strengthening of this viewpoint.

To clarify, Russia with its accession to the WTO called upon to implement rules and commitment for a sound trade under the principle of non – discrimination

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<sup>66</sup> EUR – Lex, Access to European Union Law, [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:21997A1128\(01\):EN:NOT](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:21997A1128(01):EN:NOT)

towards all the member of WTO. Nevertheless, regarding the bilateral agreement between Russia and EU, there are some specific commitments that are not included at the multilateral agreement among the members of WTO. In particular, a point where this is observed is at the international maritime transport services and at the temporary movement of natural persons for business purpose. In this case, Russia agrees to make an exemption with regard the Most Favored Nation (MFN) principle, and preserve these extra commitments with EU<sup>67</sup>.

EU in order to secure its trade interest adopts a decision by which commitments of PCA on trade in services remain in force. So, after constructive negotiations, the two parts decided to extend the hitherto commitments regarding the intra – corporate employees who transferred at commercial premises<sup>68</sup>. To be more specific, Russian officials who have been transferred at corresponding services of EU should enjoy equal treatment with employees derived from other countries. And conversely, Russia is required to provide favorable treatment at the intercompany officials who have been transferred in corresponding office in Russia.

Similarly, regarding the tariff – rate quotas that Russia applies to export of wood at the EU, the two parts decide, with a bilateral agreement, to regulate these tariffs – rate quotas with specific provisions. In this way, EU will have the ability to control the quantities of its share on tariff – rate quotas as Russia will issue export licenses basis on the documents of the EU<sup>69</sup>. This agreement is once again a result of the EU effort to, somehow, be exempted from the Russian commitment, to reduce export duties rates on raw wood products, after entering the WTO. Yet for specific

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<sup>67</sup> European Commission, COM 721, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0721:FIN:EN:PDF>

<sup>68</sup> European Commission, COM 724, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0724:FIN:EN:PDF>

<sup>69</sup> European Commission, COM 722, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0722:FIN:EN:PDF>

timber species, made of coniferous, Russia decides to open tariff – rate quotas for exports to the EU. Technical details of tariff – rate quotas as well as cooperation of the two countries will be determined by an additional Protocol.

On the one hand, the question arises is whether or not these preferential, bilateral agreements contradict the non discrimination principle which is one of the cornerstones of the WTO. Yet, on the other hand there is a gray zone between protectionism and protection. A characteristic example is the Russian ban on imports live animals derived from EU, presenting as justification the contagious virus Schmallenberg<sup>70</sup>. Both, Trade Commissioner Karel De Gucht and EU Health and Consumer Policy Commissioner John Dalli described the ban as disproportionate and unjustified and definitely not in line with WTO principles.

To take another example, we can see the Russian policy to protect domestic automobile industry by imposing a “recycling tax” on imported recycling cars, a kind of fee that, essentially replaced the import duties<sup>71</sup>. Toward this direction is, also, the exemption of Russia from WTO provisions, until 1 July 2018, regarding the investment program in automotive under which is granted reduced import tariffs for auto parts investors with facilities in Russia.

Consequently, the EU in order to avoid the removal of European companies or the reduction in its exports during this transition period negotiated, again, a bilateral agreement with Russia “on trade in parts and components of motor vehicles”<sup>72</sup>. Part of this Agreement is the creation of a compensatory mechanism to ensure, somehow,

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<sup>70</sup> Dave, Keating, (2012), “Russia bans live animals imports from the EU. European Commission says that the ban violates WTO rules”, in Europeanvoice.com, <http://www.europeanvoice.com/article/2012/march/russia-bans-live-animal-imports-from-the-eu/73911.aspx>

<sup>71</sup> Finished Vehicle Logistics, “RUSSIA JOINS WTO BUT PROTECTS ITS OEMS: ANALYSIS”, <http://www.fvlmagazine.com/Article.aspx?aid=869>

<sup>72</sup> European Commission, COM 723, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0723:FIN:EN:PDF>

that exports of European companies to Russia will not be reduced. However, if they did not manage to avoid it, and the exports fall, Russia agreed, as compensation, to allow the imports of European automotive components with reduced import duties in equal quantity with the reductions of EU exports. Yet, the mechanism is activated only if the reduction of European exports reached a 3% in a year period in comparison with the exports of 2010. So, in the context of smooth cooperation between the EU and Russia, the two entities are trying, once again, to resolve any dispute arising resulting in mutually acceptable solutions.

Continuing in the spirit of good will and cooperation, the EU and Russia in order to avoid the application of new export duties on raw materials that are not included in Russia's Schedule of Concessions and Commitments on Good, concluded again, in a new bilateral agreement<sup>73</sup>. Russia, for its part, promises to consult EU when there is an intention to impose new export duties. Moreover, the agreement will be accompanied by a list of materials that are not included in the existing table. These materials are of EU significant interest and from the Russian side the share represents more than 10 per cent of global production. The European Commissioner for Trade Karel De Gucht referring to EU concerns regarding Russian policies stressed that "...the high road leads to greater prosperity and to strengthened links with the EU, by contrast, the low road would reduce Russia's accession to an agreement on paper, doing little to drive growth or move our relationship forward"<sup>74</sup>.

Yet, as always, the coin has two sides. Similar concerns existed from the side of Russia as well. The head of Russia's delegation in the WTO negotiations Maxim

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<sup>73</sup> European Commission, COM 727, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0727:FIN:EN:PDF>

<sup>74</sup> EU Neighborhood Info Center, (2012), Trade Commissioner: as WTO new member Russia should take the high, not the low road, <http://www.enpi-info.eu/eastportal/news/latest/30125/Trade-Commissioner:-as-WTO-new-member-Russia-should-take-the-high,-not-the-low-road>

Medvedkov, argued, before the Russian accession to the WTO, that EU implement antidumping regulations against Russian metallurgic products<sup>75</sup>. After the accession of Russia to the WTO, the so far bilateral agreement regarding the existing restrictions on imports of steel products from Russia<sup>76</sup> have to be abolished. So, there is an urgent need for renegotiation with a view to cease to be valid the existing quotas and the full liberalization of trade on steel products between Russia and EU.

From its side, EU is a on the way of the audit process whether or not the company Gazprom violates the rules and principles of trade in Eastern and Central European countries as Poland, Latvia, Lithuania, Estonia, the Czech Republic, Slovakia, Bulgaria and Hungary. There are serious suspicious that Gazprom abuse its dominant position, impends the diversification of energy supplies in EU and pushes high prices. The potential fine, according to European rules is up to 10 percent of the company annual revenues, meaning almost 10 billion euro for Gazprom<sup>77</sup>.

Therefore, it is clear that the accession of Russia to the WTO constitute a complicated issue. For sure, it is a crucial fact for Russia's integration in world economy and the modernization of the country, as well. Definitely, regarding EU and Russian relationship, it can be concluded that there is a strong basis for future partnership. However, within this relationship there is a crucial asymmetry: while Russia put their relationship in an economic basis, EU is interested also at security issues, democracy principles and human rights as well. Thus, when politics meets

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<sup>75</sup> RAPSİ, RUSSIAN LEGAL INFORMATION AGENCY, (2012), "Russia may challenge EU anti – dumping rules in court after joining WTO", [http://rapsinews.com/judicial\\_news/20120124/259745181.html](http://rapsinews.com/judicial_news/20120124/259745181.html)

<sup>76</sup> For more details see Europeans Commission Proposal for a "repealing Council Regulation (EC) No 1342/2007 on administering certain restrictions on imports of certain steel products from the Russian Federation, COM 715, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0715:FIN:EN:PDF>

<sup>77</sup> Voices of Read Russia, (2012), "Gazprom may face 10bn euro fine in European Commission anti – dumping inquiry", [http://indrus.in/articles/2012/09/05/gazprom\\_may\\_face\\_10\\_bn\\_euro\\_fine\\_in\\_european\\_commission\\_anti-dumping\\_17419.html](http://indrus.in/articles/2012/09/05/gazprom_may_face_10_bn_euro_fine_in_european_commission_anti-dumping_17419.html)

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trade things get complicated. Another, crucial point with regard the EU – Russian relationship is the Russian strategy to increase its influence in Europe to the detriment of US. Maybe, it could be seen as a part of a wider inspired policy to create Russia as a great power both internal and abroad.

## CONCLUSIONS

It is generally accepted that trade has crucial role at the development of a country and, consequently global trade contributes to a large extent to the growth of the world economy as well. Policies that make an economy open to trade and investment with the rest of the world are needed for sustained economic growth. So, the more the participation of the countries under common rules, commitments and principles the better outcome for the international trade could be. The accession of Russia to the WTO after, almost 19 years of negotiations seems to mark both the history of the organization and the global trade system as well.

So, the current dissertation, initially tried to outline the significant role of WTO at the global trading system as a whole giving a picture of the current challenges as they shaped both from developed and developing countries and as reflected at the Doha Round. However, many member countries of WTO have not captured the impacts of these changes over international trade, something that has as a result the implementation of inadequate trade policies, which are, also, translated in their positions in the multilateral trading system leading many times to a deadlock at the negotiations. There is an urgent need for awareness of contemporary reality in order to deal with the new challenges and, so, the WTO to gain relevance.

The accession of Russia, in the WTO almost after 19 years of negotiations, definitely is a major step both for the history of the organization and the global trade system as a whole. As we saw, at the second chapter, Russia is an extremely attractive country for investment and trade as well. One of the most dynamic economies of the world, with unique geographic position, with a world renowned human capital and the fourth largest consumer market, keep challenging both the world economy and global trading system.

However, the road to success was never strewn with rose petals. At the third chapter we saw the difficulties that Russia faced in order to enter the WTO and how it surpasses and the last obstacle with Georgia. Yet, Russia has a lot of work to do in order this accession not to remain a blank letter. It is true that, the last years, the country is in the process of a continuing and complex transformation. Yet, what makes the difference is that this process of transformation without substantial changes at the country's governance and at the structure of the society should be meaningful. Russia, with respect to the WTO principles, ought to leave aside feasibility policies like the use of embargo as a means of pressure in negotiations with other countries and protectionism measures that strengthen the position of domestic companies against foreign firms. The appropriate remedy should be the complete redevelopment of Russian political system and economy, as well. But, this is in the responsibility of Russia. Putin is now proponent of the modernization of the economy and seems to realize that progress is not possible without a real and substantial WTO membership.

Nevertheless, the ability to deal effectively with contemporary problems and to confront successfully future challenges is a necessary tool not only for Russia but also for all its future potential partners, who aspire to a sound and constructive trading system. Thus, and as we saw at the fourth chapter, if US continues to aim at trade ties with Russia ought to abolish the application of Jackson – Vanic amendment and grant Permanent Normal Trade Relations in order to secure US trade interest and enjoy the benefits of WTO as their international competitors. Thus, as US have the opportunity to benefit from its participation within an organization dedicated to an open and transparent trade system a negative evolution in the passage of PNTR legislation will signal, surely, a failure in US – Russian trade relationships.

EU for its side, definitely, welcomed the Russian accession to the WTO having at the same time some issues to resolve. At the final chapter followed an attempt to describe the significance of trade relationship between the two entities and the importance of continuing this trade tie in the future. In this context, a new bilateral agreement is necessary and may clarify some crucial details for both entities in the interest of their trade relations, and as a part of good cooperation between them. However, issues as the ban at European imports in live animals that remains pending, questioning the positive outcome of Russian accession to the WTO something that creates concerns at the European community.

Finally, we can conclude that trade and policy overlap and complement one another. There are arguments that should function separately, without entangle between them, but this is oxymoron and paradoxical, as well. The complex relationship between policy and trade is characterized by harmony and conflict, at the same time. Many questions arise, as how should policy makers operate, having as a goal the strengthening of domestic competition policies or enhancing the international cooperation. And in times of economic crisis, protectionism is a violation or imperative? In any case, political strength and political momentum is of major importance and crucial tool for these politicians who have far – reaching aspirations for their country both within the realm of trade and without. Therefore, the future is expected to be extremely important, with Russia at the center of the global interest.

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