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The German vision of NATO's future
- The Alliance as a building block
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ANALYSES

Does Russia not want to join the WTO?

On 18 June in Geneva, nearly 70 representatives of the World Trade Organisation (WTO)'s member states informally met a delegation representing Russia, Belarus and Kazakhstan. Delegates from those three countries announced plans to create a customs union and to join the WTO together, although none of the countries had formally broken off their respective bilateral accession negotiations. The declaration by the three countries was in fact a Russian initiative. It may be understood as either withholding Russian plans to join the WTO for the next few years, or as a new negotiating strategy designed to force the WTO to accept Russia as a member on conditions dictated by Moscow.

The virtual customs union

Attempts to create a customs union (defined as duty-free trade in commodities between the union members and a common customs tariff with regard to third countries) between Russia, Belarus and Kazakhstan have been ongoing since 1995, but this concept has not yet been realised due to conflicts of interests (for example, over custom duty rates). Problems appeared as early as the stage of establishing a free-trade zone (a lower form of integration). Duty-free trade between the three countries has been accompanied by a long list of excluded sensitive goods. Moreover, on numerous occasions the three countries have unilaterally imposed limitations on the flow of goods, using trade as a tool in foreign policy (for example, the recent 'milk war' between Russia and Belarus). However, on 9 June the Russian Prime Minister Vladimir Putin stated that the three countries had adopted a common customs tariff project, which would come into force from 1 January 2010. According to Russian media reports, this project is based on the tariff applicable in Russia (which will mean the need to raise many custom duty rates for Kazakhstan, among other changes). However, Kazakhstan and Belarus have not taken an official position on this issue as yet. Moreover, the future union members have yet to agree on the rules for subsidising their economies or the mechanism for distributing incomes from customs duty. Since many compromises and much time will be required for the three countries to agree on various issues, it seems rather unlikely that the internal customs borders between them will cease to exist by 1 July 2010, as Moscow has declared.

The Russian concept of establishing a customs union and joining the WTO as part of the union may ruin the arrangements made so far with regard to its accession. The choice of the customs union rather than WTO membership is economically unreasonable. Trade with WTO members accounts for over 80% of Russian trade turnover, while its share of trade with Kazakhstan and Belarus taken together is less than 10%.

APPENDIX

Russia has been making efforts to join the structures which regulate international trade rules since 1993, when such rules were determined by GATT (the General Agreement on Trade and Tariffs), and has been trying to become a member of the World Trade Organisation (WTO) since the organisation's creation in 1995. The decision to start work on Russia's accession protocol, as a basis for its future membership, was taken during a meeting of a 'working group' (consisting of more than 60 WTO members) in January 2002.

As part of the process of harmonising its law to meet WTO standards, Russia has adopted a new customs code, an amendment to the banking and insurance law, an act on special protection, compensations and anti-dumping procedures regarding imports of goods, and a law on protecting intellectual property, among other regulations.

By November 2006, Russia had signed bilateral protocols regarding the conditions of its membership, as agreed following negotiations with all its key trade partners (in 2004 with the EU, and in 2006 with the USA). Approval from Georgia is still a problem. Tbilisi cancelled its signature of the bilateral protocol with Russia, and stated it would not agree to Russia's membership of the WTO unless Russia gave up its discriminatory trade policy towards Georgia.

Selected rules of Russian membership were guaranteed as a result of bilateral talks:

- no Russian customs rates will be reduced immediately upon accession to the WTO; Russia has been given transition periods lasting from one to seven years;
- Russia will maintain many measures of support for national production and combating unfair competition; however, the usage thereof is restricted by WTO rules;
- Russia will still be able to set the prices of some goods and services, including natural gas;
- Russia will be able to impose limitations if foreign investments in the banking and insurance sectors exceed the level of 50% of their total volume

The Russian path to the WTO

Russia has been making efforts to join the WTO since 1993. However, the accession negotiations only gained momentum as late as the presidency of Vladimir Putin, for whom joining the WTO meant raising Russia's prestige. The process of harmonising Russian law to meet WTO requirements was accelerated, and bilateral negotiations were also successfully concluded. Work on the final report on the rules for Russia's accession to the WTO has been conducted over the past few years; both parties have stated that the document is almost finished (see Appendix). They still have to agree on such issues as the export duties imposed by Russia (first of all on wood and scrap metal), railway tariffs, level of state support for the market, distribution of meat import quotas and phytosanitary control. Russia has adopted a tougher negotiating stance and restricted access to its market (increasing customs duty) over the past few years, contrary to its declarations (for example, the imposition of export duty on wood).

The unprecedented Russian declaration of its intention to join the WTO as part of the customs union, which was made just before the end of the negotiations, will mean the accession process is extended. Many doubts will have to be clarified. The WTO must decide for example how it should treat the arrangements it has already made as part of bilateral negotiations. It is also unclear when the negotiations will be resumed. Opinions have been heard inside the WTO that this should happen only after the customs union has been established. In turn, the members of the customs union must decide how they will negotiate with those WTO issues which are not covered by the union, such as trade in services.

While the accession process is in place, an internal debate is ongoing in Russia over what the point of its WTO membership would be. The outdated Russian industry, especially the machine-building, car and aircraft branches, as well as its agriculture, are afraid that they will be unable to successfully face foreign competition. Therefore, they are interested in further isolating the Russian market and receiving support from the state, including state subsidies and protectionist customs policies. State support means that they have no motivation to improve their efficiency. and thus the gap between themselves and their foreign competitors will widen. Representatives of those branches of industry have been lobbying hard against WTO accession. In turn, WTO membership is supported by exporters, for example from the metallurgical sector (which could successfully combat the anti-dumping custom duties which impede its expansion) and small businesses, which could benefit from cheaper imports and gain access to foreign markets. Russian society at large, which is now forced to finance the government's protectionist policy, would certainly benefit from the accession in the longer term.

(however, this limitation does not concern investments made before 1 January 2007, or firms which will be privatised after Russian accession to the WTO, among other exclusions);

- Moscow has agreed to open subsidiaries of insurance companies in Russia, although this will be possible only nine years after Russian accession to the WTO; the WTO membership will automatically lift a significant part of restrictions for foreign investors regarding operations on the Russian financial market, and guarantee equal rights to residents and non-residents on this market;

- Russia has agreed to open its car market (by reducing import duties from 25% to 15%, after recently having been increased to 30%) and to partly open up its civil aviation market within 7 years.

What does Russia want to gain by changing the negotiation strategy?

The most likely goal of the Russian concept to join the WTO as part of the customs union is in fact delaying Russian accession to that organisation. The Russian government stopped seeing the WTO accession in terms of prestige several years ago, and has instead placed increasing emphasis on using international trade as a foreign policy tool (for example, with regard to selected members of the European Union such as the Baltic states and Poland, as well as Georgia) and a means of economic protection for some sectors of industry (for example, the imposition of export duty on wood, which was intended to contribute to the development of wood processing in Russia). Owing to the lack of legally binding obligations resulting from WTO membership (including mechanisms for the enforcement thereof), the Russian government is free to use protectionist methods during the present economic crisis (for example, using customs duties to protect its car industry).

The Russian government is aware of the difficulty of establishing the customs union, and so it can be concluded that Moscow is treating this new concept as a way to postpone Russian accession to the WTO at least until the end of the economic crisis. Nor can it be ruled out that the Kremlin will resume bilateral negotiations with that organisation in a year or so (it has not withdrawn from them officially). WTO accession as part of the customs union would be a victory for those Russian lobbyists who oppose Russian membership of the WTO and any modernisation of the Russian economy.

Another interpretation of the Russian declaration regarding the customs union might be as an attempt to blackmail WTO member states by Russia, which is aware of their great interest in its membership. The prospect of postponing the accession for several years could force the WTO to accept Russian conditions, and let Russia join the organisation as soon as possible (before Prime Minister Putin's speech on 9 June, representatives of the Russian government had declared support for an ambitious plan for Russia to join the WTO by the end of this year).

Iwona Wiśniewska

EVENTS

The Russia-China summit demonstrates Beijing's improved position towards Moscow

The chairman of the People's Republic of China Hu Jintao visited Russia on 16 and 17 June. During the summit, a joint statement, memoranda on co-operation in the natural gas and hard coal sectors, and a framework agreement on a Chinese loan of US\$700 million to be granted to the Russian development bank WEB were adopted. The results of the meeting show that China is gradually pushing through its own conditions for energy co-operation with Russia.

According to President Medvedev's statements, the China-friendly model of co-operation in the crude oil sector (which consists of Russian consent to the construction of the oil pipeline running to China, and oil supplies for 20 years in exchange for loans) may also be applied to gas. Over the past few years, Beijing has made efforts to ensure the construction of gas pipelines running from Russia. However, the parties have been unable to agree on the price formula so far (Moscow wants China to pay a price close to the average European rate). In exchange for Russia's readiness to make concessions, Beijing supported Moscow at the political level; in their joint statement, the two parties criticised US plans to build regional and global missile defence systems. Additionally, China supported "Russian efforts to maintain peace and stability in Caucasus", and promised a greater presence of Russian firms on the Chinese nuclear energy market. <MaK>

The Russian approach to climate changes

On 18 June, President Medvedev referred to Russia's climate change policy. He announced his country's readiness to reduce emissions of greenhouse gases by 10-15% by 2020. In practice, this declaration means an increase in the present level of emissions (the reference point adopted in the calculation of reductions is 1990). Moscow does not see climate change as a priority issue, and is treating its participation in international co-operation against global warming as a means to achieve other goals in foreign politics.

This April, the Ministry of Natural Resources and Ecology presented a draft Climate Doctrine, which still has to be approved by the president. While supporting Russian participation in the reduction of greenhouse gas emissions, the document states that the level of reduction should depend on special conditions existing in individual countries.

In all likelihood, Moscow will demand preferential treatment during the pending negotiations on the new agreement which is due to replace the Kyoto protocol after 2012. It will probably also want to use the negotiations as an opportunity to receive concessions in other areas, first of all from the European Union, for which the struggle against climate warming is a matter of top priority. From the Russian point of view, global warming will also have positive effects (for example, it will facilitate access to natural resources in the north of Russia). <MaK>

The President of Ingushetia comes under terrorist attack

An assault launched on 22 June near Nazran in Ingushetia inflicted serious injuries on Yunus-Bek Yevkurov, the president of this republic located in the Russian Northern Caucasus. The attackers may have been Islamic militants, who want to destabilise the situation in the region. However, neither personal motives nor clan showdowns can be ruled out (Yevkurov has made attempts to combat corruption, and thus gained many enemies). Another possibility is an instigation by Russian law enforcement agencies, which want to play a more important role in the Caucasus. The recent incidents in Ingushetia, by contrast, have significantly contributed to the improvement of the image of Ramzan Kadyrov, the president of neighbouring Chechnya, who has managed to ensure order and controls the situation in his republic.

The assault against Yevkurov was carried out by a suicide bomber, who drove his car into the middle of the presidential convoy and detonated bombs in his car. Yevkurov underwent surgery in Nazran and was transported to Moscow. His condition is critical.

The most likely initiators of the assault are Islamic militants; this May, Presidents Yevkurov and Kadyrov agreed to join their efforts in combating the militants, since when dozens of alleged Islamists have been detained in both republics. However, the assault could have also been plotted by families of those senior Ingush officials who have been arrested on corruption charges, or by representatives of Russian law enforcement agencies, who refuse to accept the end of the anti-terrorist operation in Chechnya.

This assault has reinforced the position of Chechnya's President Ramzan Kadyrov, who has been working hard (with the assistance of some Russian media) on his image as the key guarantor of stability, not only in his republic but also in the entire North-Eastern Caucasus. Several hours after the assault, the Chechen leader was received by Russian President Medvedev, who asked Kadyrov to continue his previous "struggle against terrorists." <GÓR>

Minsk is searching for an alternative to the Russian outlet

President Alyaksandr Lukashenka paid an official visit to Turkmenistan between 17 and 19 June, when a number of economic agreements and contracts were signed. The visit was initiated by Belarus side, which may be a sign of Minsk's search for new outlets for Belarusian products and directions of economic co-operation, as alternatives to Russia.

At the time of Lukashenka's visit, a framework investment agreement covering the construction of a production and processing complex on Turkmen potassium deposits by Belarusian contractors was signed, among other documents. The estimated value of the project is approximately US\$1 billion. A contract to supply 1,500 tractors from Belarus, worth over US\$33 million in total, was also signed. In addition, a number of agreements on co-operation in the scientific and technical, customs, communication and transport fields were concluded.

The Belarusian delegation's visit to Turkmenistan proves that Minsk is increasingly interested in enhancing economic co-operation with other CIS countries in addition to Russia. The Belarusian government is thus hoping to compensate, at least partly, for the recently mounting problems with selling their products on the Russian market. <kam>

The Kremlin supports Voronin

On 22 June in Moscow, the Moldovan President Vladimir Voronin received the Kremlin's support ahead of the upcoming elections, including a promise of a loan worth US\$500 million and a further opening of the Russian market to Moldovan goods. The political and financial assistance from Russia will make it easier for President Voronin to ignore pressure from the European Union and the Council of Europe, which are demanding fair elections and an investigation into the riots which took place on 7 April as well as the police terror in the subsequent days.

Voronin received support in public from President Medvedev and Prime Minister Putin. The meeting has confirmed that the Russian and Moldovan authorities see the political crisis in Moldova as a Bucharest-inspired attempt to unite Moldova and Romania, and are accusing Brussels of tacitly tolerating such behaviour by Romania. Voronin openly thanked President Medvedev for protecting the interests of Moldova against the EU at the summit in Khabarovsk.

The Russian loan, the first tranche of which is to be made available in 4560 days (i.e. shortly after the 29 July parliamentary elections, but probably before the election of the new president by the parliament) is intended to serve at least two purposes. Firstly, it is aimed at increasing the chance of Voronin's election and prevent the takeover of power in Chisinau by the liberals, who do not conceal that one of their main goals is to reduce Russian influence in Moldova. Secondly, it is intended to demonstrate the benefits which post-Soviet political elites who remain loyal to Russia may expect, and thus present Moscow as a more attractive political and economic partner for CIS countries than Brussels. <wrod>

Tension around the conflict zones in Georgia is rising

On 21 June, a bomb attack was launched against a European Union Monitoring Mission (EUMM) patrol in Georgia, killing one person. The incident is a sign of the general rise in tension around the conflict zones in Georgia, which has been observed since mid-June.

An ambulance which accompanied the car carrying observers from the European Union Monitoring Mission drove into a landmine during a patrol near the administrative border with the separatist Republic of Abkhazia; the ambulance driver was killed. The circumstances of the incident rule out the possibility of an accident. Hansjörg Haber, the head of the mission, said that the incident was a deliberate assault against the EUMM patrol, and promised a thorough investigation. This has been the most serious incident involving EU observers so far. Several incidents in the immediate neighbourhood of the conflict zones have happened over the past two weeks in Georgia (including bombings at the railway station in Zugdidi, close to Abkhazia, and shooting on the frontier between Georgia and the separatist republic of South Ossetia). It must be emphasised that the growing tension in the conflict regions – which could result in a possible re-escalation of the conflicts, and even another war with Russia – are absolutely contrary to Georgian interests. Therefore, it seems that the force behind the rise in tension on the Georgian-Abkhazian and Georgian-Ossetian frontiers is either Moscow directly, or certain circles in Russia who are interested in aggravating the situation and probably even in causing

a new war with Georgia. The EU monitoring mission is the last instrument of Western control and presence in the area, following the liquidation of the OSCE mission in South Ossetia and the UN mission in Abkhazia, as well as a key element in improving the security of Georgia. <bart>

The Americans will stay in Manas

On 22 June, the Kyrgyz authorities stated that a Kyrgyz-US agreement concerning US troops' further usage of the base at Manas airport near Bishkek for transporting goods to Afghanistan had been made. This continuation of the military presence in Kyrgyzstan is a success for the Americans. Even if Washington has been forced to make certain concessions to Moscow to keep the base, the Kyrgyz-US agreement means a defeat for Russia in terms of prestige in Central Asia.

Under the agreement, the military base which has operated since 2001 will be transformed into a Transit Air Freight Hub, which will take over the entire infrastructure of the base. Pursuant to the agreement, the Hub will be used for the shipment of non-military goods. However, the Kyrgyz authorities will have no right to monitor the aircraft which will land in Manas. Therefore, it is quite probable that the Americans could also use it for transporting arms and soldiers. US workers at the Hub will have the status of diplomatic staff, albeit only within the territory of the premises. As part of the agreement, Washington has undertaken to raise the annual fee for the airport usage (from US\$17 million to US\$60 million) and to grant US\$118 million in financial aid to Kyrgyzstan. The termination of the Manas agreement by the Kyrgyz government this February, under pressure from Moscow, was a serious blow to US policy in the region; the need to liquidate the base would seriously impede the operation in Afghanistan. The provisions of the 22 June agreement as revealed so far indicate that it is a US success. However, it is still unclear whether Washington has had to make any concessions to Moscow. Considering Kyrgyzstan's strong dependence on Russia, it seems unlikely that Bishkek has made the arrangement with the USA without Moscow's approval. The nervous reactions from the Russian press and many Russian politicians, and the content of the enigmatic statement given by the Russian foreign ministry (which does not give any hint as to whether the conclusion of the agreement has been consulted with Moscow), may however suggest that Kyrgyzstan has chosen to sign the agreement without Russian consent. If this is true, this would mean a serious blow to the Russian policy in Central Asia, and be a sign of its severe ineffectiveness. <mf>

CES

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