

## Russia and the USA: An Explanation of Necessity of Sanctions as Participants of the World Trade Organization

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### Abstract

*The analysis of consequences of the introduction of the Russian Federation in the World Trade Organization (WTO), first of all in agricultural aspect is carried out. The question of provision of food safety of the Russian Federation in a context of an estimation of consequences of accession to WTO is researched. It is shown that the expected effect of joining to the WTO has as a whole negative connotation, especially with reference to agrarian sphere of economy that proves to be true the historical data characterising consequences of accession to WTO of the state nearest to Russia - Ukraine. After occurrence in a railroad train of the WTO production of some names of agricultural goods has decreased and in such areas as sugar production - is considerable. Considering similarity of considerable number of economic realities in Russia and in Ukraine, it is possible to assume that joining to the WTO will have for Russia more likely negative a consequence than positive at average and long-term prospect while in near-term prospect to estimate all consequences it is represented inconvenient. At the same time there is also an opposite point of view that joining to the WTO will give Russia a conclusive economic prize, including, in agrarian industry. The clause is devoted an actual problem for today of economic sanctions by pushed participants of the World Trade Organization - the USA and Russia. In the clause the problem urgency is proved. Necessity of sanctions is specified from the United States of America and response measures of the Russian Federation are designated.*

**Keywords:** sanctions, the World Trade Organization, the Ukrainian crisis.

### 1. Introduction

The research urgency is caused by that now the theme of the introduction of the Russian Federation in the World Trade Organization (WTO) becomes one of the most topical and discussed. Besides, the problem of sanctions pushed has concerned Russia almost each inhabitant of the Russian Federation not to mention leading industries of economy as a whole (Kreneva S.G, Halturina E.N., Nurmuhametov I.M., Bakhtina T.B., 2015).

Joining to the World Trade Organization has occurred in October, 2011 that became one of the most significant and powerful events in economic, political and social spheres of the country. Negotiations on occurrence of Russia in the WTO have come to the end, which lasted since 1993. Officially the Russian Federation became on August, 22nd, 2012 a full 156 member of the WTO.

Based in 1995 it is considered predominant purpose of the World Trade Organization liberalisations of commercial and trading activity between the countries and settlement of trading, political mutual relations of its participants.

The organisation is considered the main successor of the General agreement under tariffs and trade (GATT). GATT upon was engaged in accomplishment of many functions on an extent approximately 50 years of the international organisation. The key task of the WTO is reduced not to achievement of the individual purposes of the separate country, and to an establishment of general and principles equal in rights, tasks in international trade sphere.

The ministry of economic development of Russia assumes that Russian side occurrence in the WTO is «stability of working conditions in foreign markets, decrease in barriers in trade, and also possibility of participation of Russia in forming of rules of the international economic cooperation». It is necessary to notice that the serious condition of

decrease in the import customs duties, and also restriction of support from the state of some industries was one of the key agreements on joining. It in turn will lead to the big growth of a competition of foreign goods.

Concerning events in Crimea and the east of Ukraine it is considered to be the entered sanctions the restrictive economic and political measures entered concerning the Russian Federation and of some the Russian, Ukrainian persons and the organisations.

## **2. Methods**

Research methods lean on the analysis of indicators of activity of the WTO, and also the analysis of mechanisms of provision of activity of foreign trade of Russia in the conditions of political disagreements on world economic arena with the countries of the Western coalition.

With application of methods of an estimation of results of foreign trade's activity as a member-participant of the WTO, the Russian Federation has revealed positive and negative tendencies. The detailed analysis of each industry of trade allows to specify perspective and lagging behind directions in activity of external economic processes. The supervision method proves importance of trading aspect in market economy of the states of participants of the WTO.

## **3. Results and Discussion**

According to the world international organisations and separate other states the reason is a powerful partiple of the Russian Federation to destabilization of an internal situation in Ukraine. The management of the USA which purpose was the international isolation of Russia became the initiator of prohibitive measures. Thus, seriously risking to suffer damage in economy, the leading countries of the European union, the state of the Big seven have joined sanctions and some other (Lomakin, 2011)

In 2014 in the middle of March despite the sounded preventions the Russian side recognised all results of the Crimean referendum, has supported in unilateral declaration of independence of Republic of Crimea and has decided to accept its offer on the introduction into a railroad train of Russia. After that the United States and the European union, Australia, New Zealand, Canada have installed the first packet of sanctions. These events mentioned a question on freezing of assets, visa restrictions for people from special lists. The essential prohibition to the companies of the countries which have inflicted the sanctions is besides established to support and the help to business relations with persons and with all organisations which have got to such lists. Also besides the registered restrictions, it was accepted to finish current activity with partners, to curtail contacts and to finish business collaboration with Russia and the large Russian organisations in different spheres (Katsonov, 2014).

It is a lot of reasons of application of sanctions to Russia, however, the question on legitimacy and validity of the sanction remains for today pertinent.

WTO key rules are based on the key principles. Most fundamental of them includes a principle of limiting assistance and the help, thus prohibiting infringement and discrimination of the goods of the countries-participants of the organisation. Thus, any import of the goods and services of one country not in the right to limit or prohibit commerce of the same goods of absolutely other country. The following most important principle consists in refusal of application quantitative retention. It concerns so-called trading embargoes, and also customs quotas. Entered by the United States and the western countries of the sanction at first seem essentially contradicting to World Trade Organization principles as they imposes a prohibition on carrying out of some important financial operations with the large Russian companies, however not with firms from the foreign countries. Besides, prohibitive measures concern sales to Russia some goods, it is considered a powerful measure of quantitative restriction. However in system of such international organisation as the WTO exists sufficient set of various exceptions which allow to organise trading constraining measures which in absolutely other case could contradict requirements of such organisation (Malafeeva, 2014).

WTO major principles are not capable to extend of restrictions of independence or a freedom of movement of citizens and physical persons. In a context of the sanctions, concerning a question of a prohibition of entrance on territory of the USA and the European union of concrete persons prohibitive measures cannot limit representatives of the government and heads of the companies, and also some leading companies connected with the Kremlin.

However Russia will be obligatory to pursue a policy on granting of an optimum mode, the head of projects of the company «Metal the expert consulting» Nikolay Osadchy considers. In the conditions of discontent and with state sector growth the American and Russian business council, a number of some businesses - associations such as Telecommunication Industry Association of the USA (TIA), Consolidation of manufacturers and researchers in the field of pharmaceuticals (PhRMA) - have stated a number of claims. The discontent of the given organisations is caused by that

the Russian side has not joined the important agreement of the WTO of concerning state purchases. Within four years according to WTO conditions it is necessary to make it Russia subsequently accessions to WTO. The Russian state yet has not begun negotiations on signing of the corresponding agreement. The new version of the current agreement has come into force in April, 2014, and much more countries have signed the original version of the agreement, had time and to sign the new (Serebryakov, 2014).

"Signing of this agreement is a necessary condition for removal of restrictions for the American business on occurrence on this large market. In 2012 the volume of sector of state purchases constituted about \$430 bln", - is told in letter AISI and SMA. Representatives PhRMA are assured that until this agreement not signed, the pharmaceutical foreign companies can quite be exposed to "constant discrimination".

AISI and SMA are assured that in the course of negotiations on the introduction of the Russian Federation in the WTO Russia mentioned that is not going to enter any limiting events concerning import. In August, 2012 the Russian side has entered a time quota for import concerning certain kinds of pipes. This quota had action approximately till November, 2014. Representatives AISI and SMA assert that similar events render open infringement of the Russian obligations within the limits of the WTO (Kovalev, 2014).

The discontent was expressed also by the companies-manufacturers of agricultural machinery AGCO, namely concerning import duties and quotas. Accessing to WTO, the Russian side was obliged to lower to 5 % an import duty on combines for lack of any accessory restrictions. However the government nevertheless has entered the quota for import of combines. It means that the quota allows to import only small part of volume of deliveries planned earlier. For example, every year into the Russian Federation it is imported at the average about 1,2 thousand American combines, but the entered quota establishes a limit in 400 combines that much less mid-annual import. Moreover, Russia has gone on changes important for both parties of rules of import that is delivery became admissible only after harvesting (Rubchenko & Koksharov, 2010).

Nevertheless there are separate representatives of the American businessmen with whom the tariff policy entirely arranges. Russia carries out of the obligations as regards lowering of the entered duties of concerning strong spirits as marks council of the United States (Distilled Spirits Council of the United States).

The senior vice-president of council Kristin Lokasio considers that participation of Russia in the WTO has brought many positive changes in the American export of alcohol. He also is assured that Russia was necessary for lowering till 2015 all import duties on litre for bottled whisky (approximately on 30 %) with €2 to €1,4. For other kinds of alcoholic goods decrease is necessary with €2 to €1,5, that is on 25 % for litre. In spite of the fact that gradual lowering of duties had the beginning in September, 2013, for today the tendency to reduction is not observed.

Concerning dairy industry in 2010 The Federal Veterinary and Phytosanitary Monitoring Service has demanded to conduct certification of the American companies, importing dairy goods on the internal Russian market in spite of the fact that direct sale of dairy goods between the USA and Russia does not exist. Representatives of the American Federation of national manufacturers of milk consider that all system of certification of the foreign companies necessary for reception of possibility and the right of import to Russia not that other, as infringement of current rules of the WTO. Besides, the federation is dissatisfied by grocery August sanctions of Russia (Grachev, 2014).

Russia in August, 2014 has entered the sanctions for import of separate agricultural products from the USA. The dairy sector of the United States has not suffered because the last four years all Russian domestic market has been closed for the American goods. Sean Morris, the vice-president of Federation of national manufacturers of milk assured that sanctions from Russia entered on the American products and on goods of others large countries-importers have political underlying reason and also break completely WTO laws.

America also is disturbed by that the Russian side does not report to members of the WTO about the development data and also accepting of the new legislation. In council of the United States about strong spirits and PhRMA consider that the result forms excessive trading obstacles and the barriers promoting misunderstanding of current rules of adjustment of any industry. Entirely it would be possible to prevent in the case if all not indifferent countries could bring the measures and offers still being at a development cycle of laws .

However, Russia sometimes informed the World Trade Organization on new changes which occurred in industry, it has not brought to perfection while uniform system of the notification are indignant in associations, also confirming about closeness of all procedures on change of the Russian legislation.

The sanctions entered concerning Russia can fall under some kind of exceptions within the limits of the WTO. However these sanctions are capable to break interests of the third countries, that is the third parties in which relation they were never entered and were not planned, but in view of that the world economy as a whole is interconnected, interests of the third countries are broken. It also is bases for Russia to challenge the entered sanctions.

Duration of processes can be different, there are many stages and the state which has entered sanctions, should

cancel them. It is necessary for it to carry out any legislative procedures.

Abroad both in the European Union and in Japan, and in the USA it is registered that any private individual cannot challenge state action asserting that they do not correspond to WTO rules. Conditionally speaking, even if there will be the decision on breaking character of sanctions and our private individual something will go to the American court there to demand, challenge actions most likely it will be refused in satisfaction of the requirements. Within the limits of the WTO of such mechanism is not present, probably that one state has demanded from another compensation for entering of wrongful measures, but it not an allowance for damages and a possible provisional measure if the decision is not performed (Liventsev & Lisovolik, 2012).

The World Trade Organization rules (Russia became member after seventeen years process of the introduction into this structure) prohibit to take the answer-back measures on the sanction. An exceptions are cases of judicial evidence of illegality of sanctions. In one of these cases it has not been reached victorious result. Forming of groups on judicial hearings became the greatest achievement in many-stage process of antisansctions measures. There is one more reasoned argument for benefit of the Russian Federation: decisions of the separate countries on entering of sanctions without UNSF approval (that have made the USA) is international law violation. That is the sanctions of the western states imposed to Russia in connection with events in Ukraine without the permission of the United Nations are illegal (Liventsev & Lisovolik, 2011).

Not to aggravate an economic situation in home market Russia makes efforts on neutralisation of negative consequences of entered economic sanctions. Therefore discussion of this point in question which has taken place at session in the Federation Council on July, 8th, will have development and will be finished to logic result of development of necessary recommendations. According to the head of department of trading negotiations of Ministry of economic development and trade Maxim Medvedkova, «WTO member states cannot enter against Russia the sanction on the questions entering into sphere of adjustment of the organisation». The WTO regulates restriction of import of a steel from Russia but does not regulat, if it will be a question of arrest of accounts of physical persons. New sanctions by WTO rules are possible if they are applied in a wartime and under the United Nations decision, and also if there is an availability of essential threat to interests of national safety of this or that state. But it should be that state which applies sanctions, the representative of Ministry of economic development and trade has specified.

The countries access to WTO and open the market to all other members of that the most-favoured-nation clause and a national treatment registered in the organisation, gives guarantees that any other country cannot apply to it action which worsen position of its manufacturers including exporters in comparison with position of manufacturers in the most this country.

The task of Russia, accordingly, to be prepared for such protection of the American lawyers and to prove an inaccuracy of the point of view of the USA having rehabilitated financial flows of same bank "Russia".

The Russian Federation in court can refer to classical international law according to which unilateral politically motivated sanctions are not legitimate as ignore established in the Charter of the WTO the mechanism of application of forced measures about what Dmitry Medvedev reports.

Decisions of the separate countries on entering of sanctions without UNSF approval (that have made the USA) is international law ignoring, Medvedev marks. Vladimir Putin named earlier illegal sanctions of the western states which are imposed to Russia in connection with events in Ukraine without the permission of the United Nations.

Complexities will be that the head of the government recognised also. First, Russia is the first country which has decided to challenge through the WTO the entered USA sanctions, speaks Dmitry Lipatov.

So, from the moment of WTO creation (in 1995) the USA have initiated almost 100 trading disputes, or 24 % from total number of affairs. Against the USA 113 disputes (almost every fourth dispute) have been initiated, and even in 92 disputes of the USA have represented itself as the third party. Thus the statistics shows that the USA win in WTO disputes is more often than lose.

It is necessary to notice that Russia actively tries to use the WTO membership challenging restrictive and restrictive measures of other countries against the Russian companies. We will notice that before accession to WTO against Russia acted more than 100 discrimination measures, and by October, 2012 - already only 73. The main sense of accession to WTO and opening of the market also consists in it.

For example, this year Russia has begun one of the major proceedings in court of the WTO against EU on power adjustments. EU almost unfairly charges 20 years the Russian companies of a dumping and does not start up them on the markets. The greatest damage from entered EU of antidumping measures was incurred by the Russian manufacturers of fertilizers, ferroalloys, ropes, pipes and various other items from a steel, and also an aluminium foil (Nurmuhametov, 2014).

Thus the American mass-media assume that Russia actually has not enough reasons to be afraid of new sanctions

from the West, as to Americans and Europeans any more to a conflict Russian-Ukrainian. "Crisis in Iraq became the convenient distracting factor. President Obama and Europeans seldom mention Crimea, silently agreeing with illegal" annexation "Russia the Ukrainian peninsula".

Russia will act, «proceeding from reasons of national safety and in strict compliance with WTO rules», president Vladimir Putin spoke.

Russia will give reason for the entered restrictions by reasons of national food safety, the federal official explains. «Numerous sanctions of the countries against each other can tear down world trading system, but Russia should take the answer-back measures on actions of EU and the USA - they have passed to sectoral sanctions, and the worthy answer» is necessary, - the interlocutor of the newspaper "Kommersant" (Serebryakov, 2014).

The suppliers who have suffered from the Russian prohibition cannot indemnify the loss through the WTO: agreements of the WTO do not assume it. But if the lost country refuses to cancel restrictive measure, the country the claimant acquires the right to enter response measures for the same sum in what the damage of its suppliers is estimated.

Restrictive measures of the USA concerning Russia have been accepted that Moscow has broken a fundamental principle of indestructibility of borders in Europe, - vice-president of the United States Joe Bayden has declared on Wednesday. «Russia has not simply broken territorial integrity of Ukraine, and a fundamental principle of that borders in Europe cannot be changed force. Thereupon we have been forced to take measures», - he has told addressing to conferences in the Atlantic council in Washington. Bayden has underlined that the West «should act resolutely in a question of entering of measures against Russia» in connection with its position across Ukraine.

What can be consequences of entering of sanctions for economy of the Russian Federation? Experts notice that the greatest complexities can arise in import sphere. The matter is that the economy of Russia is dependent enough on import of high technologies, goods of mechanical engineering, medicines, substantially and the foodstuffs. The basic partners of Russia in import are just the European Union countries that sanctions have applied against the Russian Federation. If the economic component of adequate measures acquires system character deficit of import goods, experts consider, will not keep itself waiting long.

Russia as a member of the WTO intends to use all possibilities for the appeal of foreign sanctions which are provided within the limits of the organisation, the Press Secretary of the Russian president Dmitry Peskov has declared on Monday.

There is a kit of measures, certain toolkit within the limits of the WTO which, unconditionally, each of the WTO countries-participants has the right to involve. Other countries have the right to use the necessary argument, - has declared Peskov to journalists.

At the same time the representative of the European Union has declared to Interfax that the Russian restrictive measures in the field of agricultural and grocery import from the EU countries have under themselves no legal grounds.

Experts believe that though Russia has a possibility to appeal against the sanctions inflicted on it in the WTO, will make it uneasy.

In its opinion Russia will be ready to submit the claim only if comes to an unequivocal conclusion that sanctions are included into the contradiction with concrete rules of the WTO.

#### 4. Conclusion

In summary we will notice that despite the fact that the WTO is considered to be primarily an economic organization, its members often run by political motives. It is natural considering becoming more active processes of globalisation and the international integration. Russia explains the sanctions as the reciprocal protective measures directed first of all on provision of own interests, instead of on suppression of interests of partners. In spite of the fact that the main initiators of sanction events were the USA and their infringement of one of key principles of the WTO – non-discrimination, in our opinion, obviously, it will be hard to Russia to prove the case in OPC as the USA as a matter of fact are main "shareholders" of the WTO, and also have rather notable experience of participation in similar conflicts. Nevertheless, already now failure to decide of the West in entering of the further restrictions and prohibitions against Russia caused both coming, and already come economic consequences is more and more observed.

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