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## ABSTRACT

### Russia's European Economic Integration: Escapism and Realities\*

Both Russia and the EU are undertaking significant changes in foreign trade relations. Russia seeks WTO accession and the EU has concluded negotiations enlarging the union with ten new members. Against this background, what economic relationship can the EU and Russia develop? The Paper analyses the asymmetric trade structure, the unstable and confused trade relation, as well as both form and content of the EU's and Russia's options for the future. Conclusions are, for example, that (i) present EU trade policy *vis-à-vis* Russia is a disturbing flight to the future away from today's concrete policy problems. The aim of a 'European Economic Space' (EES) is unrealistic for reasons of sovereignty and legality. To pursue an EES could be counter-productive for Russia from an economic perspective, since it focuses on the wrong problem; (ii) EU trade policy re-enforces Russia's Dutch disease; and (iii) with the candidate countries as EU members, Russia will meet lower tariffs but new anti-dumping measures. The asymmetry in EU-Russia trade will become more, not less, pronounced. Since Russia is hurt by the EU's agricultural policy (CAP), Russia is likely to confront the CAP once Russia has become a member of WTO.

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## 1. Introduction.

Both Russia and the European Union are presently experiencing significant changes in their foreign trade relations. Russia seeks WTO accession, and wishes to have a closer economic relationship than today. The EU has just concluded membership negotiations with eight new member countries which also are neighbours to Russia and formerly under Soviet dominance. In the deliberations on EU's future the Union's instruments of foreign policy are likely to be changed. One the new instruments are in place 2005 the EU will formulate on a new form of "Common Strategy" vis-à-vis Russia. At that time the new member countries will have been EU-member for a year or so. Against this background, what economic and trade relations may the EU and Russia develop? In this paper both form and content are analysed critically.

In 1994 the answer was given to be a free trade area. It has not been implemented so far. The answer more recently has become more ambitious to be "European Economic Area" (EEA) or "Space", but its content is still unclear.<sup>2</sup>

Conclusions of this paper are:

(i) An EEA with Russia and other never-member-countries of the type already concluded with the EFTA countries is a near impossibility for both legal and domestic Russian political reasons.<sup>3</sup> In the light of the recent history of European economic integration at first difficult to understand why an agreement labelled EEA (or EES) has been chosen as the objective for the EU's and Russia's economic relation. Instead the priority should be to define a time path and an end date, for a process leading to free trade between the EU and Russia, as was envisaged already in the 1994 agreement between the two parties. This would have been a less unrealistic, concrete joint objective that would have meant the abolition of some *current* restrictive trade barriers, for example on Russian exports of steel, basic chemicals, grains and – potentially – textile products.

Instead the EU and Russia seem bogged down in *a flight to the future*, away from today's trade barriers, to studies related to removal of *potential* barriers to trade in products and services of which there seems to be none or little export supply currently. There is an excessive emphasis in e.g. summit declarations on Russia to harmonise to, and adopt the rules and standards of the EU's internal market. A recent EU statement is typical: "At the heart of the idea of a [Common European Economic Space] lays the notion that Russia would use the present economic reform programme to make its own laws and regulations compatible with our own."<sup>4</sup> However, such adjustments are *not a necessary condition* for a country to become a successful exporter to EU, or to the world market. Successful exporting firms in open economies like Taiwan, Korea, Hong Kong and – historically the UK, Japan, Sweden, Finland

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<sup>2</sup> Throughout this text the term EU will be used. However, the term "European Community" (EC) is the correct legal expression when dealing with policies like trade, transport, agriculture and competition. The term "European Union" (EU) covers both the European Community and intergovernmental cooperation in the fields of Common Foreign and Security Policy, and Justice and Home Affairs.

<sup>3</sup> European Free Trade Area (EFTA) in 1993 concluded the EEA agreement (see below) and EFTA was at the time Austria, Finland, Iceland, Lichtenstein, Norway, Sweden and Switzerland.

<sup>4</sup> EU's External Relations Commissioner Chris Patten, May, 2002.

and Switzerland – did not before starting exportation at a large scale ask their governments to introduce at home foreign rules and standards. Nor did their governments conclude agreements on common rules and standards with importing countries. Such agreements are not a condition for foreign direct investment. Instead these exporting firms, acting as normal profit maximising firms and on their own initiative, adjusted their products to fit consumer preferences and the existing rules and standards of the various export markets.

It can be politically expedient for the EU to focus on the distant future. The EU-Russia summits – when it comes to trade – focus on long term issues which from a Russian perspective one would expect to be of secondary importance compared with EU's current protection. E.g. as late as in May 2002, the summit statement said that “the overall objective of the Common European Economic Space” should be “focussing on the regulatory and legislative convergence and trade and investment facilities” and key issues “such as standards, technical regulations and conformity assessment”.<sup>5</sup>

(ii) However, the concept of an EEA is still an interesting one, since it defines the ultimate closeness of economic integration: the conditions and problems for an outside country to be an ‘economic member’ of another country (or EU), without being a ‘political member’ thereof. The discussion and conclusions regarding the broader concept of an “Economic Area/Space” thus has a wider application to all attempts at very closely nit free trade areas, e.g. to Turkey's agreements with EU but also to the re-current discussions of a transatlantic (US/NAFTA-EU) free trade area.

(iii) Two key words characterising Russia's trade with Western Europe are *energy* and *asymmetry*. More than half of Russia's export is energy; the enlarged EU-23 will take some 50 per cent of Russia's total export (average). For EU, Russia is a small and discriminated trading partner.

(iv) EU's present external trade policy vis-à-vis Russia reinforces the Dutch-disease character of the Russian economy and clashes with official Russian wishes of a more balanced structure of its economy. However, Russia itself subsidises domestic energy consumption and production significantly, and re-enforces the country's Dutch disease.

(v) Calculations in the paper indicate that when exporting to the new member countries, Russian exporters will meet almost unchanged or lower tariffs on average.

(vi) However, in the enlarged EU there will be new non-tariff barriers facing Russian exporters in the form of, first, anti-dumping (AD) measures and, second, steel quotas. Calculations in the paper indicate that the new AD-measures' tariff equivalents can be estimated to 16-21 per cent in Hungary, 5-7 per cent in Poland, 9-17 per cent in The Czech Republic, 23 per cent in Slovenia and 2-9 per cent in Estonia. The present Russian export values are modest, however.

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<sup>5</sup> “Report to the EU-Russia Summit of 29 May 2002 of the High-Level Group on the common European economic space”, [www.europa.eu.int/comm/external\\_relations/russia/summit\\_05\\_02/rep](http://www.europa.eu.int/comm/external_relations/russia/summit_05_02/rep).

(vii) Once today's new member countries have become full EU members, they will influence EU's policies vis-à-vis Russia. However, the preferences of the new member countries on the content and form of EU-Russia co-operation is still a moot point. On the one hand the new member countries may seek protection against Russian exports to EU, but in a long term perspective they may want to enhance Russia's economic growth and political stability through economic integration and trade.

(viii) There is a potential for a future conflict between Russia and the EU over free trade. After accession to WTO, Russia can be expected to be active for freer trade both in manufactures and agricultural products, with a focus on the enlarged EU's level of protectionism. Especially so if the new member countries – as full EU members – will act in Brussels to keep the lucrative West European market for themselves, and protect it against extra-EU imports.

(ix) Russia's geopolitical position is different from its economic situation. A failure to differentiate between the two leads to confusion. It seems likely that it is in Russia's long term interest to minimise the influence of geopolitics on trade relations. This generally accepted rule for small economies is likely to apply also to Russia, and the accession to WTO is crucial in this respect.

(x) There is an experience of EEA agreements in practice. Norway and Iceland's EEA agreements have been eroded in, perhaps, unforeseen ways. This is an effect of both EU's frequent Treaty changes, and the shift in power in recent years away from the Commission to the Council of Ministers and the European Parliament with which the EEA agreements have no formal connections. Also for more mundane and practical reasons the two EEA countries have slipped into a one-sided dependence on EU.

This paper starts with an overview of Russia, EU and EU's new member countries' basic economic characteristics, bilateral trade flows and bilateral trade policy. The next sections report on the commitments as of today made by both Russia and EU, separately and jointly. Next follows an analysis of Russia's situation, including a discussion of future protectionism. This is followed by a section on the fundamental problem of integration between the EU and a non-member country, and the limit of economic integration. The dilemma is illustrated first by goods trade, and, second, the eight years' of experience with EEA in Norway and Iceland. The paper ends with a section with some reflections and conclusions.

## 2. Background information.

From the perspective of EU-exporters, Russia is a fairly small economy of the GNP-size of the Netherlands, or slightly bigger than the combined size of the new member countries of EU. However, measured in PPP GNP-terms – the 'inside Russia' perspective of someone in Russia – the economy is about the size of Italy. In terms of PPP GNP/capita Russia has about ? of EU's ditto, ? of the new member countries', and is found 1/5 below Poland's (*Table 1*).

Production of energy is the single most important sector in Russia's GNP. Energy rents as share of GNP has been estimated to be 26 per cent 1999-2000.<sup>6</sup> Revenues from the energy sector make up some 30 per cent of the Russian government's total revenues.<sup>7</sup> Oil and gas products accounts for 50 per cent of total exports in year 2000, according to the same authors. The energy sector is subsidised significantly and in a rather complex manner. De-regulation of the sector has been called for, and this not just for competition and trade related reasons; OECD (2002).

For Russia, the EU as export market is crucial with a share of 35 per cent today, and – it seems – the enlarged EU will easily take more than 50 per cent of Russia's total exports (*Table 2*). Between 1996 and 2000 the share of “mineral fuels” (SITC 3) in Russia's exports to EU and the new member countries combined, increased to more than 2/3, and from 64 to 69 per cent (*Table 3*).

Russia imports far less from the EU than it exports – some 23 per cent of Russia's total imports in 2000 came from the EU. Notably little was exported from EU's new member countries; today only 4 per cent of Russia's imports are taken from these countries (*Table 2*).

Considering EU and new member countries combined – as in *Table 3* – one can note that over the period 1996-2000 Russia's import volume from the enlarged EU-23 *declined* by 36 per cent. Imports from EU-23 fell in all commodity groups except for the relatively small group of “Vegetable oil, fats, etc.” (SITC 4).

For the EU, Russia is an economically small trading partner. It accounts for only 2-3 per cent of exports, and 3-4 per cent of imports (*Table 4*). Also for the non-Baltic new member states, the shares of total trade accounted for by Russia are remarkably small (*Table 5*). Of the exports of the Czech Republic, Poland, Slovakia and Slovenia only 1-3 per cent went to Russia in 2000. For the Baltic states the share is not much higher, 7-10 per cent. Russia's share of the new member countries' imports is higher, though: For the Baltic states 23 per cent (average), and for the other new members just below 7 per cent (average).

What is the composition of EU and the new member countries' trade with Russia? Energy dominates import from Russia and takes 50 per cent of EU's import from Russia (*Table 6*). Energy is even more dominating in most of the new member countries' import from Russia: Poland 87 per cent, Slovakia 86, The Czech Republic 80, Hungary 76, Lithuania 71, and Latvia 57 per cent. Exports to Russia are quite different and are dominated by engineering products and other manufactures (SITC groups 6+7+8), e.g. Slovakia 83 per cent, The Czech Republic 75, Estonia 70, EU 68, Lithuania 61, Poland 58, Slovenia and Latvia both 54 per cent. Hungary, Poland, Latvia and Lithuania are the ones for which agricultural products form an important share of exports to Russia.

How much of the new member countries' total imports of energy originate in Russia? The answer is found in *Table 7*. Of the countries shown, and apart from Slovenia, the shares are 70-100 per cent for natural gas and oil. Also nuclear fuel is imported from

<sup>6</sup> In short, total rents are calculated as total production times export price minus production and transportation costs; Esanov, Raiser and Buitter (2001), Table 2.

<sup>7</sup> Esanov, Raiser and Buitter (2001), Table 1.



Russia and covers 100 per cent of imports (and demand) in Hungary, and a large part also of the Czech Republic's demand. The high dependence on oil and natural gas from Russia is an issue in e.g. Slovakia. "In order to ensure long-term supplies of crude oil, Slovakia is attempting to diversify its source of crude oil imports." and "90-day emergency oil reserves [will for this purpose] be maintained until end-2008."<sup>8</sup> Also in EU the high dependence on energy imports from Russia is an issue.

### 3. Russia, WTO and geopolitics.

The stated objective of the Russian government is to transform the country into a normal market economy. One ingredient of that is the high priority of WTO membership.<sup>9</sup> At present Russia's WTO negotiations seem possible to complete by 2003-04. It is a speeding-up of earlier timetables. The reason is geopolitical, and a more forthcoming US and EU attitudes in response to the terror attack of September 11, 2001. "Sometimes tragedy also presents opportunities for those who are alert", as US Trade Representative Robert Zoellick put it.<sup>10</sup> The two EU Commissioners Pascal Lamy and Chris Patten mentioned the terror attacks as their first "strong reason" to both a "strong [EU] support" of Russian WTO-membership, and for "an initiative to develop closer economic ties" between Russia and EU.<sup>11</sup> The 'price' for speedier WTO negotiations is, of course, that now some of Russia's positions in the negotiations would be accepted. However, if these are positions that allow Russia to be less of a liberal, rules based market economy, and then the credibility gain that Russia can count on as a result of its WTO membership would be smaller.

The reaction to the September 11<sup>th</sup> event was the third time in ten years that geopolitical events involving Russia affected EU's and USA's attitude in trade negotiations. First, on August 19, 1991, there was a coup in Moscow:

"Just as the EC's negotiating position was beginning to appear increasingly immobile, the unexpected coup in Moscow represented a major shock for the Community, forcing it to revise its attitude and approach to the association [enlargement] negotiations. ... The contrast was striking. Only a few days before, the foreign ministers were talking in terms of beef, coal and textile quotas. Now, they demonstrated an overwhelming foreign policy vision of events."<sup>12</sup>

Second, the development of EU-Russia economic relations came to a stand still with the Chechnya war. The implementation of the PCA was delayed from 1994 to 1997.

Third, the attitude changed again with September 11<sup>th</sup>, 2002, as mentioned.

All this reflects a simple but important point, viz. that Russia politically is more important than e.g. the Netherlands or Italy, and there is a political instability in EU's attitude towards Russia with swings between visionary 'Sunday speeches' and daily trade restricting actions in Brussels.

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<sup>8</sup> WTO (2001), *Trade Policy Review Slovak Republic*, October 24, Geneva, p.91.

<sup>9</sup> For an overview of Russia's WTO accession issues and the benefit and costs to a country like Russia, see Stamps (2001), Stern (2002) and Langhammer and Lücke (1999).

<sup>10</sup> *Inside US Trade*, Oct. 5, 2001, p. 3.

<sup>11</sup> *Financial Times*, Dec. 5, 2001, p.15.

<sup>12</sup> Torreblanca (2001), p. 208.

Geopolitics, however, is very different from everyday trade among market economies. Geopolitics is practised at the level of nation states, while trade is practised at the grass root level of firms and households. The result for the grass roots is uncertainty about the framework for EU-Russia trade and investment. There is also a ratchet effect: With a new crisis there is either – as after September 11<sup>th</sup> – new commitments to EU-Russia economic integration. Or, as was the case with the war in Chechnya, a retreat from commitments already made.

After the completion of Russia's WTO-accession negotiations, the participant countries need approximately another year for ratification, etc. Thus Russia can be a full WTO member at the earliest in 2004.<sup>13</sup>

#### 4. EU.

The EU has completed membership negotiations with eight countries in Central and Eastern Europe and the Baltic States, in addition to Cyprus and Malta. The memberships are planned to come into force in May or June 2004 for Poland, the Czech Republic, Hungary, Slovenia, Slovakia, Estonia, Latvia and Lithuania, in addition to Cyprus and Malta. In country-specific policy areas there will be transitional periods for the new EU members, e.g. regarding free movement of persons to some member states. In due course the countries will become EU members in all respects – including decisions on the common external trade policy – and they could all develop significant trade with an open Russian economy.

#### 5. Russia and EU.

Already in November 1996 “it was agreed [between Russia and EU] that WTO accession had priority over a bilateral FTA” between EU and Russia. Negotiations of a FTA should start “after Russia's accession to the WTO”.<sup>14</sup> An EU-Russian agreement should thus be constructed with an enlarged EU in mind. The timetable for Russian WTO membership means that negotiations of an EU-Russian arrangement would start in 2002/03 and shortly after the enlargement negotiations have been concluded. Therefore, the EU's ten new member countries will participate fully on the EU-side of the table in the negotiations with Russia. It is natural to ask about their preferences on both form and content of a future agreement. Since that has not been revealed – as far as I know – this means extra uncertainty about EU's negotiating objectives and positions tomorrow, when EU-Russian negotiations start.

In 1994 the still valid “Partnership and Cooperation Agreement” (PCA) between Russia and the EU was concluded, and it entered into force in December 1997.<sup>15</sup> Already in 1994, it was stated that one objective was “*to create the necessary conditions for the future establishment of a free trade area between the Community and Russia, covering substantially all trade in goods between them, as well as*

<sup>13</sup> As usual, there will be transitional periods in some policy areas. Russia and other pending countries are likely being observers in a WTO round when it starts in 2002.

<sup>14</sup> Russia's Common Strategy Towards the EU, point 3.9.

<sup>15</sup> The delay was caused mainly by the EU-Russian conflict over the Russian government's policy in Chechnya. See: [http://europa.eu.int/comm/external\\_relations/ceeca/pca/index.htm](http://europa.eu.int/comm/external_relations/ceeca/pca/index.htm). The PCA is formally concluded for ten years (Article 106) with automatic annual renewal unless one party gives written notice of denunciation.

*conditions for bringing about freedom of establishment of companies, of cross-border trade in services and of capital movements”* (Article 1; my italics).

In 1999, EU published a “Common Strategy on Russia”. In the paper a vision was spelled out of “ever closer co-operation between” EU and Russia. EU repeated the 1994 commitment to a FTA, and then stated as an objective a “Common Economic Area” (EEA). It was described in rather anaemic terms as “the progressive approximation of legislation and standards between Russia and the Union, in accordance with the PCA, [which] will facilitate the creation of a common economic area.”<sup>16</sup>

In mid 2000 Russia published a reply, viz. its “Mid-term Strategy towards the EU”. On the form of its relation with the EU, Russia noted that it is “without an officially stated objective of accession or ‘association’ with the EU. As a world power situated on two continents, Russia should retain its freedom to determine and implement its domestic and foreign policies” (point 1.1). However, Russia’s attitude seems ambivalent since – at the same time – it describes a free trade area with EU only as a first step: “[Through the FTA, the aim is] to seek Russia’s access to the entire European Economic Space; to insist that the respective obligations be set off by the advantages gained” (point 3.9). Russia seems prepared to go a fairly long way unilaterally to adjust to the EU’s *acquis communautaire* “in the areas of the most active EU-Russia cooperation” (points 9.3 and 9.4).<sup>17</sup>

To achieve better access for Russian goods and services to the EU market, Russia has sought recognition as a market economy (as defined in US and EU trade legislation) to reduce the risk of anti-dumping investigations and charges. This has been achieved both with regard to the EU and USA.<sup>18</sup> Russia also wants to keep the existing trade preferences like the EU’s General System of Preferences (GSP), and wants the EU to abolish its quotas on Russian steel exports (point 3.5).

Russia’s long term objective, as stated in 2000, seems to be an economic relationship modelled on the EU’s agreement on a European Economic Area (EEA), concluded in 1992 with the EFTA-countries, i.e. Norway, Iceland, Liechtenstein, Finland, Sweden and Austria.<sup>19</sup>

Less than a year later, in 2001, the EU and Russia *jointly* declared themselves to be more ambitious: “We [the EU-Russia Summit signatories] reaffirm [our statement of May 2001 on] the importance we attach to the creation of a Common European Economic Area [EEA]; we are pleased to have reached an agreement on the terms of

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<sup>16</sup> Italics added. See [www.eur.ru/eng/neweur](http://www.eur.ru/eng/neweur). The strategy is valid for “an initial period of four years”, i.e. till mid 2003; see the PCA’s “Part IV”.

<sup>17</sup> Points 9.3 and 9.4 of Russia’s Strategy towards the EU: “While preserving the independence of the Russian legislation and legal system, to pursue a line to its approximation and harmonization with the EU legislation in the areas of the most active EU-Russia cooperation, in particular, through the Parliamentary Cooperation Committee. ... While preserving Russia’s systems of standards and certification, to harmonize them with the respective systems in the areas of the most active trade and technical cooperation between Russia and the EU. To promote broader application of the ISO standards. To pursue a line to the mutual recognition of certificates, in particular, through establishing the joint certification centers.”

<sup>18</sup> The “Ninth EU-Russia Summit”, Moscow, May 29.

<sup>19</sup> The latter three left the EEA for full EU membership already in 1995, however, and Switzerland never acceded to the EEA.

reference of the High-Level Group” ... “to elaborate a concept for a closer economic relationship between Russia and the EU, based on the wider goal of bringing the EU and Russia closer together. The [group] will consider the opportunities offered by greater economic integration and legislative approximation, [... and] identify means and mechanisms to achieve common objectives and consider the time-scale for implementation.”<sup>20</sup>

EU has also mentioned “regulatory convergence ... and removal of barriers to trade and investment” as objectives.<sup>21</sup> However, “we [on the EU side] are not ... seeking to have Russia take on the whole body of EU legislation”.<sup>22</sup> Apparently the EU Commission hopes that Russia’s self interest will do the job to convince Russia of a unilateral adjustment to EU’s legislation: “[Because of EU’s eastern enlargement] Russia has every interest in aligning itself with the rules and standards of the EU single market. In so doing it will significantly increase its export potential and reap the benefits of the increased investor confidence in sectors such as financial services, telecoms and energy.”<sup>23</sup>

However, there seems to be an overemphasis in the political declarations when they repeatedly press for harmonising and adopting rules and standards of the internal market. Such adjustments are *not* a necessary condition for a country, like Russia, to become a successful exporter of manufactures and services to the world market and EU. Did the successful exporting firms in small export oriented economies like Sweden, Finland, Switzerland, Taiwan, Korea, etc. before starting exportation at a large scale ask their governments to introduce domestically foreign rules and standards, or to conclude agreements on rules and standards with importing country governments? The answer is: No. Instead the firms, acting as profit maximizers, and on their own, adjusted their products so that they fitted consumer preferences, rules and standards of the various export markets. Yes, there is a cost of doing this, but local preferences, rules and standards must not be regarded insurmountable barriers to mutually beneficial trade.

What about EU membership? “Of course, we [in the Commission] are not talking about preparing Russia for EU membership”.<sup>24</sup> However, in a long-term perspective there is the threat, or ambition – depending on one’s perspective – that Russia exploits the right, according to Article 49 of the Maastricht Treaty, of any democratic European country to apply for EU membership. This is what Turkey did some decades ago.<sup>25</sup>

Summing up: On both sides commitments have been made to an ever-closer economic integration between the EU and Russia. An EU-Russia economic agreement has been part of the West’s courting of Russia after the September-11-2001-terror-attacks. However, the more the EU dwells on the concept of an EEA, the more it will probably realise that it has opened a Pandora’s Box of tricky questions.

<sup>20</sup> Italics added. Press release from EU-Russia Summit, Brussels 3<sup>rd</sup> October 2001, p. 3 and Annex 1.

<sup>21</sup> Memo: Visit of Chris Pattern and Pascal Lamy, Brussels 3<sup>rd</sup> Dec. 2001; see [www.eur.ru](http://www.eur.ru).

<sup>22</sup> Pascal Lamy and Chris Pattern, *Financial Times*, Dec. 5, 2001. The group’s work would not replace or duplicate the EU-Russia PCA-agreement.

<sup>23</sup> Pascal Lamy and Chris Pattern, Letter to the editor, *Financial Times*, Dec. 17, 2001.

<sup>24</sup> Pascal Lamy and Chris Pattern, *Financial Times*, Dec. 5, 2001.

<sup>25</sup> Of course, Article 49 may be abolished to avoid e.g. the prospect of a Russian application.

First, on *content*: In the long run the EU has committed itself to deliver something that can be described as [a FTA in goods + removal of barriers to investment + approximation and convergence of some legislation and standards + as yet unspecified additional economic integration].

Second, on *form*: Since EU membership is excluded, the task is to construct a close, *permanent* economic arrangement with a large, non-EU country not aiming for membership. This raises a classical problem in the history of European economic integration. With the 1992 EEA agreement with the EFTA-countries it was easier since it involved relatively small countries that were expected to become EU members, eventually, or had both characteristics. Russia – on the other hand – sees itself as a large and globally important country, and the membership option is today excluded by both parties. The task of formulating an EU-Russia agreement means to develop a dynamic agreement, which combines respect for Russia's sovereignty as it *evolves over time* and, at the same time guarantees the delicate internal balance of rights, obligations and influence among the EU's member countries.

Third, *the interests of the new eastern EU-member countries* have not yet been formulated (or revealed or developed). Upon accession all new member countries will have accepted the Community's *acquis communautaire*. This means that they are willing and assumed to implement the PCA and EU's "Common Strategy" on relations with Russia as it will have evolved till that date. Yet, although firms and households in the new member countries are the ones, which after accession are assumed to deliver the economic interaction stimulated by a new EU-Russia agreement, the governments of these countries have not yet been involved in the preparations of the future policy.

#### 6. Russia and the EU's new member countries.

Russia has been given the status of MFN-treatment of the EU although not yet a member of the WTO. EU's trade barriers vis-à-vis MFN-countries are shown in *Table 8* (from Messerlin 2001).

How will the new member countries' trade barriers on imports from Russia change as a result of their EU membership? Russia enjoys MFN-treatment in Hungary but not in the other new member countries. The important changes in tariff and non-tariff barriers are concentrated to non-energy products. The trade barriers on imports of energy and raw materials are zero, or extremely low.

In Russia (2001) the Russian government listed "major" Russian export products (in value terms) where the EU and the new member countries' tariffs differ from EU's ditto.<sup>26</sup> From information in Russia (2001) it was possible to calculate an upper limit of the change in tariff barriers for Russian exports to Hungary, Poland and the Czech Republic due to enlargement.

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<sup>26</sup> The base for the calculations is a Russian government paper submitted to the EU Commission in 2001, Russia (2001). The Commission, in its response, did not question any of the trade barriers listed in the Russian paper, apart from information on the zero-tariff on natural gas. That correction is taken into account in Table 9.

Poland has relatively high tariffs on imports from non-WTO members, like Russia. The simple average tariff rate in 1999 was almost 35 per cent, and more than double that of WTO-members.<sup>27</sup> Russia would thus benefit from reduced tariffs between 1,4 and 11,4 per cent (value weighted average; *Table 9*). The simple average of Hungary's MFN tariffs was 14,3 per cent, and 8,2 for manufactures (1997).<sup>28</sup> In Hungary, Russia would meet a tariff increase of some two percent (value weighted average; *Table 9*). The tariff increases to Russian exporters to the Czech Republic are of the same modest magnitude. (The disaggregated results are found in *Appendix Tables 1a-1c*).

The new member countries have so far used AD-measures to only a limited extent, probably because these measures are complicated to apply and require qualified staff. However, as EU members, the new member countries' firms can exploit the experience and staff of the Commission to secure protection through AD-measures like tariffs, price- and volume undertakings.<sup>29</sup> Based on statistics in Russia (2000), it is possible to estimate the tariff equivalent of the AD-measures that could be new to Russia and would come into effect with enlargement, viz. AD-measures by Hungary, Poland, The Czech Republic, Slovenia and Estonia. The impact is larger than that of tariffs. For relatively modest export values – presently some 13-14 million US dollars – the AD-measures in Hungary are equivalent to 16-21 per cent tariffs, 5-7 per cent in Poland, and 2-9 per cent in Estonia. In the Czech Republic and Slovenia the tariff equivalents are 9-17 and 23 per cent, respectively, but present export values are modest. The disaggregated results refer to year 2000 in *Appendix Tables 2a-2d*. The results are summarised in *Table 9*.

What about other “sensitive” imports of the EU? With EU membership Russian exports of steel to the new member countries will become quantity restricted (see below). An expected outcome of a future negotiation is that the EU's steel quota would be enlarged with the new member countries' (then) current import volumes from Russia.

What about the new member countries' current non-tariff barriers (NTBs) that could disappear with membership? Poland has quantitative restrictions (QR) on imports of hard coal from Russia, and has had anti-dumping investigations on ammonia sulphate and steel.<sup>30</sup> Slovakia has investigated contingency measures against Russian exports of steel.<sup>31</sup> Neither Hungary nor The Czech Republic seems to have had NTBs directed specifically against imports from Russia.<sup>32</sup>

A problem for Russian firms used to export to the new member countries, is that after enlargement they will have to adjust to many of the EU's standards and technical

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<sup>27</sup> WTO (2000), *Trade Policy Review Poland*, 5 June 2000, Geneva, p.37.

<sup>28</sup> WTO (1998), *Trade Policy Review Hungary*, 15 June 1998, Geneva, pp. 27, 37, 40.

<sup>29</sup> It is telling that today the large increase in the use of AD-measures is by developing countries; see Finger, Ng, and Wangchuck (2001). As late as in 1998 both Russia and India had only some ten officials working on anti-dumping while the EU had some 200 according to Kempton, Holmes and Stevenson (1999).

<sup>30</sup> WTO (2000), *Trade Policy Review Poland*, 5 June 2000, Geneva, Table III.8.

<sup>31</sup> WTO (2001), *Trade Policy Review Slovak Republic*, October 24, Geneva.

<sup>32</sup> WTO (1998), *Trade Policy Review Hungary*, 15 June 1998, Geneva.

regulations. It is not enough for their goods to pass the new EU-border; the goods must also be sold legally.<sup>33</sup>

Russia fears that it will be surpassed in the new member countries by imports from Lomé-agreement countries, enjoying a larger preferential treatment when exporting to the EU than to the new member countries.<sup>34</sup> This is unlikely to be an important trade diversion, however, given the minute importance of GSP; see e.g. Messerlin (2001).

## 7. Three types arrangements.

In principle there are three types of closer future economic arrangements between Russia and the EU.

### 7.1 FTA.

A *first type of arrangement* would be a standard free trade agreement (FTA) between the EU and Russia. A West European predecessor would be the EU's agreement with the EFTA countries 1960-1992. A free trade agreement between the EU and Russia was also envisioned in the 1994 PCA.

### 7.2 PCA.

A *second type of arrangement* would be an expanded version of the present Russia-EU Partnership and Cooperation Agreement (PCA). The best example is the latest "Europe Agreement" which the EU has concluded, i.e. the association agreement with Slovenia in 1999.<sup>35</sup>

The Europe Agreements have as a very important political objective to prepare the partner country for EU membership.<sup>36</sup> In the case of Slovenia it means to "provide an appropriate framework for Slovenia's gradual integration into the European Union. To this end, Slovenia shall work towards fulfilling the necessary conditions."<sup>37</sup> (Note that the commitment to membership is by Slovenia only.)

Unlike the new member countries' Europe Agreements, the EU-Russia PCA is not an association agreement.<sup>38</sup> Today, neither any important Russian interest group, nor the EU, sees Russia as being on the track to EU membership *ever*.

<sup>33</sup> The importance of technical barriers to trade seems to vary considerably across the new member countries, and the approaches to remove these barriers also vary among sectors; see Brenton, Sheeny and Vancauteren (2000).

<sup>34</sup> A Russian government PM dated 21.03.2001, "Trade and Economic Consequences of the forthcoming enlargement of the EU", unpublished.

<sup>35</sup> The Europe Agreements have the Rome Treaty's Article 310 as their legal basis (formerly Article 239): "The Community may conclude with one or more States or international organisations agreements establishing an association [with the Community] involving reciprocal rights and obligations, common action, and special procedure." In fact association with the liberated East European countries was suggested as a formal solution already on November 16, 1989; see Torreblanca, (2001), p. 3

<sup>36</sup> To write this objective into the agreements was together with liberalization of trade – not least EU's steel imports – the most difficult issues in the negotiations of the EU-agreements; see Torreblanca (2001). Typically of the EU's way of working, it was the drama and the coup in Moscow 1991 that widened the perspectives and had the effect of definitely opening the membership issue.

<sup>37</sup> Article 1, 5<sup>th</sup> bullet point. See Messerlin (2001), Box 6.5, on the enlargement negotiating process in the area of trade policy.

<sup>38</sup> The legal basis for the EU-Russia PCA is The Rome Treaty's articles 133, 308 and 300, para. 2 and 3. The EU has concluded PCA agreements with several states of the Former Soviet Union (FSU). In 1998 a PCA

Several authors have pointed out the importance of the “EU factor”, or “EU as an anchor for reform” for the shaping of economic policies and institutions in the new member countries. Kaminski (2000) has analysed the EU-factor’s liberalising impact on trade policies and rules of origin for the Central European countries’ free trade in manufactures.<sup>39</sup>

Russia is different, however. Since it is not on the path to membership, the *realpolitik* of the EU factor in Russia’s policies and institutions is weaker. The fact that Russia does not seek membership should be seen as a sign that Russia’s overall policy objectives as of today differ from the EU’s – as stated e.g. in the EU’s Treaties, and as reflected in the huge body of legislation and political decisions. The incentives of Russia to align with the EU differ from those of the new member countries, also for this reason.<sup>40</sup>

Even so, the Russia-EU PCA has the same structure as the “Europe Agreements” with the new member countries. There are articles on “political dialogue”, trade in goods, commercial activities and investment, payments and capital, competition and intellectual property rights, MFN treatment of trade in services, etc.

Regarding trade in goods, the EU-Russia PCA states that the two parties apply MFN treatment to each other. However under the PCA the EU can apply *anti-dumping (AD) measures*, like specific tariffs and price and quantitative undertakings.<sup>41</sup> In January 2002, counting all forms of anti-dumping measures against all countries and all products, the EU had a total of 383 such measures in force. Of these 20 were directed against exports from Russia. Apart from hardboard, roughly half of these AD-measures concerned steel and metal products and half were chemical products.<sup>42</sup>

Already today, the EU can apply import quotas on Russian *textiles and clothing*. To help the community on this point there is a “system of double checking”: Russia has agreed “to issue automatic export authorisation” to exports of sensitive textile products. The Russian export certificate is a necessary condition to get an import surveillance licence from the EU’s authorities. There is no time limit specified to the EU’s possibility to apply quantitative restrictions, but the system shall be reviewed when Russia becomes a WTO-member. The Russian supply side is weak and so far there have been no quantitative restrictions applied since at least 1998.<sup>43</sup>

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with Ukraine came into force, and in 1999 PCAs with the following countries came into force: Armenia, Azerbaijan, Kyrgyzstan, Moldova, and Uzbekistan. The EU has signed PCAs which are not yet in force with Belarus (1995) and Turkmenistan (1998).

See: [http://europa.eu.int/comm/external\\_relations/ceeca/pca/index.htm](http://europa.eu.int/comm/external_relations/ceeca/pca/index.htm)

<sup>39</sup> Kaminsky (2000).

<sup>40</sup> This difference is also discussed by e.g. Baranovsky (2000) and Vahl (2001).

<sup>41</sup> See Messerlin (2001), e.g. pp.101-103.

<sup>42</sup> From EU statistics on <http://www.europa.eu.int/comm/trade/policy/dumping/stats.htm>; see also Messerlin (2001).

<sup>43</sup> [The agreement on textiles] shall be in force for the duration of the Partnership and Cooperation Agreement”, but it shall “be reviewed if Russia becomes a Member of the WTO during the validity [the PCA].” (Article 6). A motive for the double checking is the fear that goods not originating in Russia, according to EU’s rules of origin, could be exported from Russia to the EU labelled as Russian goods. (It is the EU’s rules of origin that shall be applied to imports to the EU, and Russia’s rules of origin that shall be applied to textile imports from EU to Russia.



*Steel products* are quantitatively restricted. The present steel agreement between Russia and the EU expired as of December 31, 2001. The EU has unilaterally extended it. There are quantitative restrictions (QRs) on imports from Russia, and the EU can also hit at exports from Russia with anti-dumping measures. A system of double-checking of exports from Russia applies. In addition to an export license (checked by Russia against the yearly quota), the exporter must have a separate certificate of origin issued by a “competent” Russian authority. To get such an “accompanying certificate” the exporter has to apply in writing to the Russian authorities.

Since the attitude of the EU is that the present steel agreement in substance should continue it is worth noting an interesting part of the agreement, viz. the conditions given for a liberalisation. In the absence of WTO membership, this would occur when Russia applies “equivalent disciplines in respect of competition, State aid, and environmental protection which are compatible to those in the [Community’s steel sector]”.<sup>44</sup> This means (i) that Russia would accept to apply the EU’s competition policy and its policy on state aid applied to the steel sector, without Russia having participated neither in the decision shaping, nor the decision making of that policy.<sup>45</sup> (ii) More significant, from a sovereignty point of view, is that Russia would also have to follow all *future* EU-rules in this sector, since the Russian rules should be “compatible to those in the Community” as these rules evolve over time. Further, Russia has accepted that it is the EU – and not Russia – which evaluates the degree of competition in Russia’s steel sector. Thus, the EU has the final word on the eventual progress to more competitive conditions in the Russian steel market, and thus the EU both determines and evaluates the criteria for freer Russian export of steel.

In the present steel agreement, Russia has also accepted to join international environmental agreements “applying to activities in the steel sector”, and to join as yet unspecified *future* environmental agreements.<sup>46</sup> These commitments raise the cost of production more in Russia than in the EU, of course. There are no specific sanctions mentioned if Russia does not implement existing, and future, environmental agreements. However, Article 1 says – in effect – that there will be no free trade in steel between the EU and Russia unless Russia applies “equivalent disciplines in respect of ... environmental protection which [is] compatible with those in the Community.”<sup>47</sup> Conditions like these will be impossible when Russia has become a WTO member.

It has been common in many countries – including those of EU and EFTA – to apply export restrictions and export taxes on *metal scrap* as a measure of support to domestic steel producers as it lowers their input prices. In the immediate aftermath of the August 1998 rouble crises, Russia asked the EU to increase its steel import quotas for Russian products by ten percent during 1999. The EU replied that a precondition for an increase was that Russia implemented the rules on competition policy and environment mentioned above. For Russia this was impossible, of course, with such a

<sup>44</sup> Protocol B, Article 1, of the 1998 Agreement Between the European Coal and Steel Community and the Russian Federation on Trade in Certain Steel Products.

<sup>45</sup> There is stated a five year transitional period for Russia to adjust to EU’s policy on state aid.

<sup>46</sup> “The parties endeavour to join and to implement other such [international environmental] agreements”, Protocol B, Article 6 (3).

<sup>47</sup> Protocol B, Article 1. The two parties also agreed to set up a system to measure the competition in the sector. Protocol B is to be scrapped but it is still unclear if something equivalent will come instead.

short notice. In 1999 Russia introduced an export tax of 15 per cent on metal scrap, to which the EU reacted by reducing Russia's steel quotas for 2000 by twelve per cent. This kind of mutual harassment would be impossible in WTO.

Until recently Russia has been uncompetitive as supplier of *agricultural products* to the world market. However, the good harvests of Russia and Ukraine in 2002 and thanks to World Bank support to develop production for exports, have resulted in the two countries starting to export grains at competitive prices to the EU. In response to this the EU introduced protection, ignoring the content of its own Sunday Speeches on the importance of economic integration, etc... The motive referred to was the fact that Russia and Ukraine offered prices lower than those of EU's traditional suppliers in Canada and the USA, and their export prices has determined the level of EU's variable import levies on grains. The EU decided, with QMV, in the fall of 2002 to increase its variable levies on grains from the two East European, non-WTO, countries. In retaliation Russia has decided to limit imports of meat from the EU through quotas, and to increase tariffs on out-of quota volumes.

Since the early 1990s, Russia qualifies for the EU's GSP. It applies to exports of some chemical products, metals and many steel products. However, the combination of an improved Russian competitiveness and the *absolute* size of even a *relatively* small Russian export increase easily deprive Russia of its GSP-status ("graduation"). Thus, almost precisely at the same time (October 2001) as Russia and the EU at a Summit meeting agreed "on the wider goal of bringing the EU and Russia closer together", the EU withdrew some of Russia's GSP preferences. The reason was that Russia had begun to be competitive in exporting steel and metals to the EU. The "wider goal" apparently sometimes has a narrow interpretation.<sup>48</sup>

What about Russia's application of the PCA? According to a consultants' report, commissioned by the EU Commission in 2000: "Russia complies, in general terms, with the letter of the PCA; that is, Russian legislation complies with the PCA although there are some exceptions. However, Russian application of its own internal regulations greatly discourage [the PCA's objectives]."<sup>49</sup> Having studied the report, this quote seems to be a fair conclusion. However, since Russia is now in the process of WTO accession, and any FTA-negotiations would not start before Russia's WTO-negotiations have been concluded, there is little point to go into the details of Russia's

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<sup>48</sup> An improved competitiveness in EU's GSP system is measured in a comparison of GSP-countries, e.g. how Russia's import share in the EU develops compared with the shares of the other GSP-countries. "Graduation introduces a discriminatory treatment between GSP beneficiaries; it excludes the most developed and the largest exporters among the potential beneficiaries, ... de facto limiting the GSP to small developing economies", as noted in Messerlin (2001), p. 204. However, Messerlin notes that the small poor countries are at the same time those least able to handle the complicated structure of the GSP system. Both large and small countries loose, it seems.

<sup>49</sup> The PCA's objectives as stated, to 'promote trade and investments' and 'to create the conditions ... for bringing about freedom of establishment of companies, of cross-border trade in services and of capital movements'. The consultants' report is embarrassingly weak and reveals deep wells of ignorance of methods of economic investigation generally, and of trade issues in particular. The legal analysis of the PCA seems competent though (the Annex). The report is also clearly pro-EC in its shallow and flippant analysis of the Community's trade policy vis-à-vis Russia; *Study on the necessary conditions for the creation of a free trade area between the European Union and the Russian Federation*, a report by a team of consultants led by ACE, Asesores de Comercio Exterior S.L. with the help and advice of the law firm Clifford, Chance & Punder and of the All-Russia Market Research Institute (VNIKI), dated April 4, 2000.

record of policy implementation. It is sufficient to note that in 2000 Russia had not implemented all commitments of the PCA.

### 7.3 EEA.

A *third type of arrangement* would be a Russia-EU “European Economic Area” or “Space”. This is the label of the future EU-Russia arrangement that both parties use, and do so increasingly. Since there already exists an EEA, viz. that between EFTA and the EU (at the time also called EES and “Space”), clearly the impression the parties’ want to communicate is that of an agreement modelled on the agreement between the EU and the three EFTA countries Norway, Liechtenstein and Iceland.

The outline of this section is as follows. First the content and principal problems of any EEA are described. Then the solutions regarding the EFTA-countries are discussed. The section ends with a discussion of Norway and Iceland’s experience of EEA.<sup>50</sup>

An EEA would be a major change of ambition in Russian-EU economic relations. An EEA means: (a) free movement of goods; (b) free movement of persons; (c) free movement of services; (d) free movement of capital; (e) setting up of a system ensuring that competition is not distorted and that the rules thereon are equally respected; and (f) closer co-operation in other fields, such as research and development, the environment, education and social policy.<sup>51</sup> Of these fields only free movement of persons has so far been excluded from being mentioned in the EU-Russia texts.<sup>52</sup>

The basic dilemma of an EEA is the conflict between insiders and outsiders, and seeking economic membership and avoiding a political ditto. It was identified by the EU already in the mid 1980s, and it was discussed in a declaration on the problems of EU-EFTA co-operation by the then President of the Commission, Jaques Delors.<sup>53</sup> Delors’ at that time suggested three conditions for an EEA:

1. The EU would have to give priority to its own, internal integration. “It is extremely difficult within such encompassing Union as the EU to supply the option of choosing a *lâ carte*.”<sup>54</sup>
2. “Full respect would have to be given to the preservation of the future decision making autonomy of the Community, as well as that of the ‘outside state?’.
3. “There would have to be a balance between the rights and obligations in the future co-operation.”<sup>55</sup>

<sup>50</sup> In form the EFTA countries’ EEA is more complex than if it had been concluded with a single nation only since it is concluded with a group of countries, EFTA, without among themselves having a supranational structure.

<sup>51</sup> Agreement on the European Economic Area, Part I, Article 1.2. The full text is available on EFTA’s home page, [www.efta.int](http://www.efta.int). An interesting but still preliminary attempt to define the content of an EU-Russia EEA can be found in Samson (2002).

<sup>52</sup> The reason the Central and East European countries never sought an EEA type agreement was that they wanted to participate in the EU’s political integration.

<sup>53</sup> EU Commission (1985), “The Community and the EFTA countries – Implementation of the Joint Declaration issued in Luxembourg on 9 April 1984”, Com (85) 206 final, repeated at a EU-EFTA meeting in Interlaken May 1987, and further developed into an EU- proposal in a statement to the European Parliament by Jaques Delors, January 1989.

<sup>54</sup> Jaques Delors, January 1989.

<sup>55</sup> See Norberg et al (1993), p. 52-59, or Hamilton (1989), pp. 36-39, 268-272.

The first point is a classic one. EEA countries, like Russia in a future EEA, could not be allowed to pursue “a raisin picking policy”, i.e. to include in the EEA some particularly beneficial parts for Russia without – in the name of the traditional reciprocity argument – taking on some costs. Today we would say that Delors was against flexible integration, and no flexibility would be extended to Russia under an EEA. However, with an increasing number of member countries and an increased diversity in national preferences, the EU-countries today seem more flexible on the issue of flexibility than Delors was. But still, one should warn against such a general conclusion. The new EU members can be expected to be stubborn on one point. With fresh memories of tough membership negotiations with EU-15, the new members are likely to argue that they have paid a price in their negotiations for achieving free access to the internal market, and other types of economic co-operation with EU-15. Similar benefits should not be given away for free to an outside country, like Russia, which is not even a new member country.

The second point, about “decision-making autonomy”, meant that in a first step the Union’s member states would agree on the solution of a particular issue. Only then could an agreement with an outside country be concluded formally. Since there will be some 25 governments as well as the European Parliament (EP), that will have to agree first, there will be little room for real negotiations with any outside country at such a late stage in a decision shaping process.

The third point says that an EEA must not create a risk for the EU members “creating a legal imbalance if only the EC and its member states are subject to legal control when implementing and applying an agreement”. The reason for this fear is the following: Under the EU law the Community and its member states are in their application of international agreements, like an EEA, subject to the same legal control as when applying internal EU rules. N.B. the legal remedies on the Community side would also be available to e.g. Russian firms.

The EU has thus concluded that it can only co-operate by ‘domesticating’ EEA-countries. When the EC’s *acquis communautaire* changes, as it does all the time, one can ask if Russia and other EEA-countries should be allowed to exert *formal* ex-ante influence over such changes. “No”, says the EU. That would imply that an outside country – when the EU’s member countries have already agreed on a change in the *acquis communautaire* among themselves (and possibly also the EP) — would exert influence over a compromise. E.g. Russia could *ex post* tip the balance of the compromise among member states and in effect have more influence over the final outcome than some member states. Member states (and possibly EP) could not be sure that that a compromise among them would be upheld.

The EFTA-EEA agreement’s solution to these questions, and the EU’s ‘domestication’ requirement, was a clever and complicated legal compromise and new institutions.<sup>56</sup> The agreement has now existed for almost ten years and experiences have been gained (see below). In the following I write as if one is considering an EEA for Russia only. In reality, matters would not be that simple, however, since there is not only Russia to consider, but all the present EEA-countries, as well as countries

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<sup>56</sup> The general reference is Norberg et al (1993).

like Turkey, the Ukraine and others in the EU's pyramid of preference treatment. On the other hand, the conclusions have a wider application than just to Russia.

In several places in the texts of the EFTA-EEA it is underscored that the parties have a general obligation to secure "the good functioning of the Agreement". This is an important commitment given the agreement's complex and, in effect, strongly EU-biased nature. *The starting point is that the EEA is based on EU law.* The objective is to achieve one common legal system characterised as "a dynamic and homogenous EEA". The *dynamic* aspect is the feature that the content of the agreement should change with the changes in the EU's rules and regulations. It is not sufficient that the rules are the same when the EEA comes into force. The EU and e.g. Russian rules must evolve in parallel and one must ensure that they also remain the same.

*Harmonious* means that essentially the same economic rules should prevail in Russia as in the EU. This means not only that the rules should be same, but also that the rules should be implemented in similar ways and the implementation should evolve over time in the same way in Russia and the EU.<sup>57</sup> The institutional set-up of the agreement must contain institutions and processes that secure these two objectives.

To comply with the EU's conditions, as discussed by Delors, a process to reach a *formally joint decision* was created. It is split in three phases. The first one is *decision preparation*. When changes are to be made in the EU directives and regulations, experts from Russia would have to be consulted by the EU Commission *in the same way* as experts from the EU other EEA-countries. E.g. if the Commission seeks advice from all EU- and other EEA-countries it would have to seek advice also from Russia. In the second phase, *decision shaping*, there would be intensive information, consultation and, in some instances, formal co-operation, between the Commission and the EP, but also a flow of information and consultation between the Commission and Russia.

In the third phase, *decision taking*, a joint decision would be taken in the EEA Council. This decision would be a confirmation of two separate ones, viz. one decision taken by the EU, and another, identical but separate one, taken by the Russian parliament. In this way one would preserve, formally, the national legal competence and the right of each side to accept or reject a proposal.<sup>58</sup> In a case when the two parties cannot agree, the affected part of the new legislation could be temporarily suspended.<sup>59</sup> In the end there is a presumption of good faith and that the EEA-parties will do everything in their power to avoid a suspension.<sup>60</sup> Here the above

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<sup>57</sup> Changes in the rules on the EU side are not only decided by the Commission but also by the European Court of Justice (ECJ) through the development of case law. A system for exchange of information on case law changes must be established to secure the homogeneity objective.

<sup>58</sup> To secure the objective of homogeneity, the EU and Russia would start implementing new regulations and directives at the same time. However, there is the possibility of six months' transition periods in cases where they have difficulty in agreeing, and they would have to fall back on the general obligation of securing "the good functioning of the Agreement".

<sup>59</sup> An important issue would then be how wide ranging a suspension would be, but it is clear that a suspension would not affect already acquired rights of e.g. investors, procurement agreements that have been concluded, etc.

<sup>60</sup> See Norberg et al (1993), ch. VII:7. An alternative, and a more EU-biased one, was the EU-Swiss 1988 insurance agreement. That agreement gave (i) the two parties' free access to each others' markets, but only (ii) when Switzerland had unilaterally adjusted its laws to those of the EU. If any changes would occur in any of the two parties' laws, the other party immediately had to be informed so that consultations could be undertaken right away. Then, (iii) if the parties could not agree, then the *entire agreement* would

mentioned commitment to “good functioning of the Agreement” becomes important. However, it is telling that neither Norway, nor Iceland at any time has allowed a conflict to develop to this stage.

Two institutional bodies were set up. The political one is convened twice a year, viz. the EEA Council. The other one deals with the regular implementation and operation of the agreement, viz. the EEA Joint Committee. The latter consists of officials and in principle can meet several times per month. Generally, a dispute between, say, Russia and the EU could be solved through a political settlement in the EEA Council. This is true also when a dispute is about a regulation or a directive of identical substance (and not e.g. interpretation). But in such a case there is also the possibility that the EU and Russia would agree to refer the dispute to the EU Court of Justice (ECJ) for a binding ruling. However, *it would not be possible to refer a dispute to a Russian court. This asymmetry in the status of courts was one condition for the ECJ to accept the EEA.*<sup>61</sup>

Note that in an EEA no tariffs, customs duties or “charges having an equivalent effect” are allowed. Likewise no taxes or fees would be accepted which in effect discriminate against foreign goods. A more important issue is the prohibition of all sorts of quantitative restrictions. In the EFTA-EEA neither QRs on imports or exports are neither allowed, nor any anti-dumping measures or countervailing duties. The definition of forbidden non-tariff barriers to trade is very wide, and it is the definition that has been developed in EU case law: “All trading rules enacted by Member States which are capable of hindering, directly or indirectly, actually or potentially, intra-EEA trade.”<sup>62</sup> Measures, which are not allowed in EEA, include import licenses, national rules that require a statement of origin on the product, or requirements of a local representative, or re-packaging, etc. The famous *Cassis de Dijon principle* prohibiting all types of NTBs and stating the principle of “mutual recognition” would apply also to goods of Russian origin, viz. if a good is accepted for sale in Russia it would also be accepted for sale in the entire EEA.<sup>63</sup> If there are state monopolies “of a commercial character” they are not allowed to discriminate in any way between domestic goods and goods of EEA origin.

In the EEA there are no permanent derogations allowed from the *acquis communautaire*. This negotiating result on the part of the EU had its price for the EU in the form of very restrictive possibilities to use safeguard measures, viz. only “if serious economic, societal or environmental difficulties of a sectorial or regional nature liable to persist are arising”.<sup>64</sup> There is a procedure laid down for introducing, ending and retaliating against such measures. An important provision is that all such measures would have to be re-evaluated in the EEA’s Joint Committee at least every three months, and “with a view to their abolition before the day of expiry envisaged, or to the limitation of their scope of application.” ... “If a safeguard measure ...

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automatically cease to be in force after six months. In effect, this put Switzerland under considerable pressure, of course.

<sup>61</sup> Opinion of the Court of Justice of the European Communities 14 December 1991.

<sup>62</sup> See Norberg et al (1993), p.337.

<sup>63</sup> “Any product imported from another Member State must in principle be admitted to the territory of the importing Member State if it has been lawfully produced, that is, conforms to rules and processes of manufacture that are customarily accepted in the exporting country, and is marked in the territory of the latter.”, statement by the EU Commission in 1979 on the consequences of the EU Court of Law’s ruling on this case; see e.g. Messerlin (2001), Box 4.6, p 105, and Norberg et al (1993), p.342.

<sup>64</sup> Article 112.

creates an imbalance between the rights and obligations under this Agreement, "a Contracting Party may ... take such rebalancing measures as are strictly necessary to remedy the imbalance."<sup>65</sup> Thus, in principle, there would be the possibility of complaints by Russia against the EU safeguards resulting in Russian retaliations against 'unbalancing' EU measures.

An important argument for countervailing duties has been the possibility of state aid to industry (in principle also agriculture, of course!) improving foreign exporters profitability. Since, in the EU, state aid that in effect subsidises exports to other member countries is not allowed, there should be no motive in the EEA for countervailing duties as an instrument. If, in fact, trade distorting state aid exists, there are other legal procedures and remedies to be used. "The correct application of "the EU" rules is enforced by ... organs such as the "EU" Commission, the ECJ, the "EEA institutions" ... there is on the whole no longer any ground for allowing the application of such measures "as e.g. countervailing duties" in relations between the Contracting Parties "of the EEA".<sup>66</sup>

#### 8. An EEA in goods trade.

An EEA, presumably, would cover industrial products and some processed agricultural products, but not the bulk of agricultural commodities under the CAP. To the extent that Russia will develop – or rather return to – its historic comparative advantage in agriculture, to exclude agriculture implies a severe limitation of the value to Russia of the EEA. (This would be even truer for e.g. Ukraine.) The fact that the CAP soon will be extended with some ten new EU-countries' farmers with an interest to reserve the EU-market for themselves, is not an encouraging perspective for Russia's (and Ukraine) potential agricultural exporters and for free trade generally. For this reason Russia can be expected to become an activist in WTO for freer world trade in agriculture, and to be negative to the CAP.

An EEA could be characterised as an improved free trade area, but it would *not* necessarily be a customs union. The latter would imply a common external trade policy and a common customs law. In an EEA the free movement of goods would apply to goods originating in either Russia or the EU "if it has been either wholly obtained or sufficiently worked or processed in the EEA". The EEA would also have a system of "full cumulation", by which is meant "originating status can be conferred on a product by adding together production processes carried out in the various countries" of the EEA. (The alternative is often that only the production processes in one country could be used as the basis for definition of origin.)

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<sup>65</sup> Articles 113 and 114.

<sup>66</sup> Norberg et. al (1993), p. 392.

One might have thought that the mere existence of an EU competition policy – the aim of which is lower prices through intense competition – in itself would have undermined the motive for a mechanism securing higher prices than those which e.g. EFTA countries' exporters would charge. However, the argument on the part of the EU was that there is always the risk of "dumping" as long as the EFTA countries did not have the same competition law, and also applied it the same way, as the EU. So the argument for anti-dumping measures and other NTBs would disappear only when all the members of the EEA apply the same, i.e. the EU's competition policy in a "harmonious and dynamic" way.

Note that when all trade barriers are abolished, a commodity which is sold at a higher price domestically than abroad can always be re-exported back to the country of origin since market segmentation is no longer possible. So the margin for charging a lower price abroad than at home has the trading cost as its upper limit.

This means that Russia, to avoid trade deflection from third countries, would have import and export controls of trade with the CIS countries with which today Russia has free trade agreements. In principle these agreements would not exclude an EEA, but in practice the CIS countries' FTAs with Russia would create problems if rules of origin are not compatibly defined and implemented. If the CIS countries would apply the EU's rules of origin and full cumulation, the Russia-CIS customs procedures would be greatly simplified. To use the EU's rules of origin could be attractive for those CIS countries which seek closer trade agreements with the EU.<sup>67</sup>

## 9. EEA in practice.

Norway and Iceland have both lived with EEA since January 1<sup>st</sup>, 1994. How has the EEA worked for them? The issue has been analysed in several Norwegian pieces, but not specifically from an economic perspective, it seems.<sup>68</sup> In Iceland the government is concerned and has raised the issue of the deficiencies of the EEA and has asked the EU Commission for a re-negotiation of Iceland's EEA-agreement.

On the practical level – like the daily actions in Brussels – a Norwegian study of officials' experiences concluded that, “the basic result is that it is possible [for Norway] to have a real influence on decisions by [officials and experts] participating in the different types of committees [in the EU]. ... The clearest explanatory factor for having an influence is solid competence in the subject at hand, pursuing a strategic priority, and [having a] will to understand and to handle the committees as arenas for action.”<sup>69</sup> Claes and Tranöy (1999) describe the same phenomenon with a slightly different touch as “consensus oriented” and less activist behaviour on the part of Norway. “The main impression ... is that the adjustment has proceeded in an easy and painless way. There are few issues that are problematic to start with, and there are few issues that become problematic in the process.” (p. 287; the authors also note that, in their view, Norway through the EEA has become passive in environmental policies.)

A more principal legal analysis of the EEA-agreement is Graver (2000).<sup>70</sup> Graver notes that Norway and the other EEA-countries have not ceded any *formal* sovereignty to supranational bodies, and that the national parliaments have maintained their exclusive right to legislate. “The EEA-agreement sought to establish common rules without a common supranational power. This has been characterised as mixing oil and vinegar, and as trying to reach for the ‘nearly impossible’.”<sup>71</sup> Was it possible? To answer the question Graver analyses several aspects, but here only the one relevant for the present discussion is taken up.

The objectives of the EEA-agreement, and for signatories like Norway and Iceland, are almost exclusively economic, just as it is for Russia. However, this is not true for the EU-side. For the European Union the objectives are grander, and both economic

<sup>67</sup> These agreements are described in Annex 1 to the EU-Russia 1994 PCA; See [www.europe.eu.int/comm/external\\_relations/russia/pca\\_legal](http://www.europe.eu.int/comm/external_relations/russia/pca_legal).

<sup>68</sup> A somewhat dated economic review of Norway's international integration is Haaland (1996). A recent comprehensive and descriptive survey of Norway and EEA is a Norwegian government's submission to parliament (in Norwegian); Stortinget (2002).

<sup>69</sup> Statskonsult (2001), p.3.

<sup>70</sup> For a review of the EEA-agreement's legal aspects (in Norwegian), see Arnesen and Graver (2000).

<sup>71</sup> Graver (2000).



*and political*, as is clearly stated in the Treaties. This difference in objectives has implications for the legal interpretation of the four freedoms (free movement of goods, services, persons, and capital). “It is well established in case law that differences in objectives may lead [courts of law] to differences in the interpretation of provisions that are identical or similar in their wording.”<sup>72</sup>

Messerlin (2001) has identified the successive changes in the EU’s Treaties, as listed in Article 3 of the Treaty establishing the European Community (p. 11-12). These changes are motivated by the dynamics of new challengers for the EU and its policy makers, changed ambitions for the integration process, etc. For example, the Amsterdam treaty will “possibly affect the content and interpretation of the four freedoms and the competition rules entailed in the EEA-agreement.”<sup>73</sup> An important point is that unlike changes in e.g. the *acquis communautaire*, an EEA-country cannot influence Treaty changes in the preparatory and decision-making phases. Thus, “changes in the objectives and policies of the EU as reflected in Treaty changes may affect the homogeneity [objective] of the EEA. ... To the extent that such changes in the treaties of the EU challenge the homogeneity of the EEA, the question arises as to by which mechanisms homogeneity may be re-established, if at all.”<sup>74</sup> The simple and brutal answer to that question is that the EEA-agreement has no mechanism for handling Treaty changes. Thus with every treaty change, an EEA-agreement would have to be changed too, in order to secure the objective of “a dynamic and homogenous EEA”. The situation of non-EU members is thus that they have *always to accept ex post all implications of changes* in the EU Treaties. As Graves notes, Norway’s EEA-agreement is eroded every time there is an EU Treaty change which affects trade, competition, state aid, environment policy, trade in services, right of establishment, etc. Indeed, the Amsterdam Treaty contains changes to this effect, and in 2004 there will be another treaty change which is likely to have implications for the EEA.<sup>75</sup>

Graver (2000) concludes: “In the time that has passed since 1993 when the EEA-agreement came into force, the picture has changed. The inherent difficulties in reconciling homogeneity with autonomy have become more acute. On the one hand, the development is towards less autonomy for the national legal systems. ... On the other hand, the question of whether the EEA still is based on the same rules as apply within the EU may be raised. EU law develops in a way that is not legally reflected in the EEA-agreement.”<sup>76</sup>

The conclusion for Norway is that the EEA seems in practice – the *content* of policy – to have worked fairly well, but that principles, legal and constitutional aspects – the *form* of the policy – has become increasingly problematic. This is also the conclusion by Claes and Tranøy (1999). With the possible exception of energy (oil and natural gas) and fish, “Norway has a negligible influence over matters covered by the EEA” (p. 297), and “[w]hen considering procedures, the asymmetry between the agreement’s importance for Norway and Norway’s possibility to influence decisions

<sup>72</sup> Graver (2000), p. 9 and references given there.

<sup>73</sup> Graver (2000), p. 8.

<sup>74</sup> Graver (2000), p. 9.

<sup>75</sup> The Nice Treaty, however, does not seem to have any significant indirect influence on EEA. There is a new treaty change coming up in 2004.

<sup>76</sup> Graver (2000), p. 11-12.

is strikingly weak. This asymmetry is problematic in light of values like sovereignty and democracy. However, if one focuses on the consequences for the content of politics, more than how it is being shaped, the EEA seems less problematic” (p. 288).<sup>77</sup>

How long can this asymmetry last? Claes and Tranøy’s (1999) conclusion is that in Norway the conflict is resolved – for the time being – by a policy built on symbols rather than an acceptance of the realities.<sup>78</sup>

In Iceland the form and content of the EEA seems to have become a worry not so much for legal academics, as for the decision-makers, like Iceland’s foreign minister. “Since the conclusion of the EEA Agreement, the course of events within the European Union has been rapid while the EEA Agreement has remained static. I have therefore argued ... for updating of the EEA Agreement. ... The issues I have emphasized include substantive adaptation of the Agreement, more secure participation in committees and increased influence on the work of EU institutions.”<sup>79</sup> The Icelandic foreign minister later expanded on the principal problem with the EEA agreement:

“It is a feature of the European co-operation involving membership of the EU that all the nations participate fully in the decision-making process. This is not true of the Agreement on the European Economic Area, to which [Iceland is] a party. We enjoy more equality in the first stages of the decision-making procedure than in the later stages, which is where the decisions are actually made. The trends within the EU in recent years have made this even more disadvantageous, as powers and influence have shifted increasingly from the Commission to other organs of the EU, i.e. the Council of Ministers and the European Parliament, where Iceland has no representation. This severely distorts the equality of the parties who in the end will be bound by Community legislation. ... In this respect the co-operation within the EEA is deficient. ... It is not least for this reason that I have maintained that the EEA Agreement is now testing the limits of our [Icelandic] constitution.” ... “In any assessment of our [Icelandic] sovereignty and its status in light of international co-operation, we must ask ourselves whether Iceland is actually involved in shaping its own destiny. We are now faced with the fact that our destiny is more or less decided for us [by others] in some areas, as we do not have access to the decision making process. This is primarily a result of the EEA Agreement. It is certainly a cause for some concern if we are at the limits of the scope allowed by the Constitution.”<sup>80</sup>

In conclusion: An EEA (i) contains profound principal problems raised already by Delors in 1989 and which are reflected in the EEA agreement’s complex construction and asymmetry. (ii) These dilemma have proved to be increasingly severe for the

<sup>77</sup> Comparing the content of membership and EEA, there has been one significant problem and that is the EU’s tariffs on fish, and the anti-dumping measures that the EU has taken against Norwegian export of fish. As an EU member there would have been no trade barriers, and fish is not covered by the EEA.

<sup>78</sup> An important example of the dilemma is the Schengen agreement on the free movement of persons. Norway accepted to participate fully, although not being a member of the EU, or having had any influence.

<sup>79</sup> Statement by the Foreign Minister to the Icelandic parliament, Nov. 29, 2001, [www.mfa.is](http://www.mfa.is).

<sup>80</sup> “The impact of international co-operation on sovereignty”, speech by Foreign Minister Halldor Asgrimsson, Jan. 15, 2002, [www.mfa.is](http://www.mfa.is).

small countries which have had an EEA, and which, somehow and sometime, are likely to be EU members, viz. Iceland and Norway.

#### 10. Reflections and conclusions.

##### *Energy and economic asymmetry.*

Russia's economy (GNP) is small in comparison with that of the EU. Russia's trade with the EU is large for Russia, but small for the EU. For relatively many firms in Russia, the EU as export market is important, but the Russian market is currently important for relatively few firms in the EU. For decision makers in Russia there are presumably strong domestic pressures for improved access on foreseeable conditions to the EU-market. In the EU the economically motivated domestic pressure group for freer and more predictable trade relations with Russia is much weaker, except for natural gas (for the EU there is alternative oil suppliers). Apart from natural gas, EU's interest in closer economic ties instead flows from geopolitical considerations. Russia's motivation, on the other hand, for closer integration with the EU is driven mainly by economic considerations.

Russia's trade pattern – with production for exports of energy and imports dominated by manufactures and consumer goods, is the pattern of Dutch disease.<sup>81</sup> The profitability of extracting oil and natural gas, and selling it at world market prices, means that other sectors have difficulty in competing for inputs and exporting at the present exchange rate. It is likely that the present weakness in physical infrastructure (e.g. transport), the legal system (rules and implementation) and the financial sector (banks and insurance services) add force to the lopsidedness of the Russian economy. Firstly, influential energy producers could probably more easily handle the deficiencies mentioned than e.g. small and medium sized manufacturing firms or service providers. Secondly, an increase of the country's production possibilities through importation of modern technology is likely to be concentrated to the natural resource intensive sector rather than production of manufactures or agriculture.

The pro-Dutch-disease effect of the EU's trade policy is noted in Russia, of course. The effect has been described in highly political terms as a sign of a Russian "colonial dependence" on the EU, and that it locks in Russia as a "rent economy", vulnerable to price fluctuations of oil and natural resources.<sup>82</sup> However, Russia itself is highly ambivalent on this point. The government promotes foreign investment in the energy sector, and also subsidies domestic consumption of energy.<sup>83</sup>

##### *The impossibility of an EEA with Russia and the false parallel with the new member countries.*

The idea of an EU-Russia EEA raises the profound question of Russia's long term relationship with the EU: Should the long-term objective be that Russia becomes a member of the EU? If so, a temporary position of a Russia-with-modest-influence as a contracting party of an EEA would be easier for Russia to swallow. An EEA would then be a temporary state, even if it were to last for one or two decades. However, if

<sup>81</sup> See Ofer and Drebenstov (1999).

<sup>82</sup> See Gower (2000), pp. 70-72, 75, Vahl (2001), and Sampson (2002).

<sup>83</sup> Total energy rents in Russia 1999-2000 were 26 per cent of GDP, of which 17.2 per cent of GDP were "domestic consumer subsidies"; Esanov, Raiser and Buiters (2001), Table 2. See also OECD (2002), ch. 3.

the starting point is that Russia never ought to become a member of the EU, then it seems impossible to construct institutions that can secure the dynamic and homogenous objectives of such a close arrangement as an EEA.

Vahl (2001), from the angle of political science, stresses Russia's and the EU's differences in long term geopolitical objectives. Baranovsky (2000), however, choose to stress Russia's ambivalence whether or not to integrate closely with the rest of Europe.

Vahl draws the conclusion that Russia has different foreign policy objectives from Western Europe and that this in a fundamental way restricts Russia's possibility of very close co-operation with others. In the present context a similar conclusion to Vahl's can be drawn. Russia would have great difficulties in handling firstly, the EU's present Treaty objectives – in particular the ambition of a common foreign and security policy. Second, the effect of EU Treaty changes for an EEA. Third, the continuous requirements put on an outside country like Russia of “dynamic and homogenous” adjustments of an EEA.

As illustrated with today's EEA-members, if Russia were to accept all parts of an EEA, there is the credibility problem for Russia, as for any other any never-member of EU, being intimately related to the EU. Consider trade policy! With an EEA there would be no, or only very light, border controls for trade in goods and services. A condition for this is that the outside country — e.g. Russia — domestically pursues a policy that coincides with that of the EU. Only then can the EU disregard the origin of goods coming from the outside country, and remove border controls for such goods. That is, an EEA with light border controls implies that both the EU and the outside country pursue identical policies in areas like competition policy, state aid, etc. For the EU to enter such an agreement with an outside country it is hardly enough that the outside country signs on the dotted line, and states that it intends to implement all the requirements to achieve “a homogenous and dynamic” EEA-agreement. In addition, the EU independently must assess the never-member country's ability and institutions to cope with the domestic political strains of such a one-sided agreement.

Remember that EU's decisions on e.g. internal market issues will become domestic politics in the outside country. It means to include all new EU law in the outside country's “internal legal order”, and to implement such law in the way it is done in the EU.<sup>84</sup> The EU's decisions will provide a flow of new demands for domestic adjustments. An EEA country government is asked to explain and to defend to its voters and domestic pressure groups all changes in EU's legislation. This could be difficult to handle for an outside country government, of course. Only if Russia would

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<sup>84</sup> The EFTA countries' EEA Agreement's Articles 6 and 7 state that: “Without prejudice to future developments of case law, the provisions of this Agreement, in so far as they are identical in substance to corresponding rules of the Treaty establishing the European Economic Community and the Treaty establishing the European Coal and Steel Community and to acts adopted in application of these two Treaties, shall, in their implementation and application, be interpreted in conformity with the relevant rulings of the Court of Justice of the European Communities given prior to the date of signature of this Agreement,” and, “Acts referred to or contained in the Annexes to this Agreement or in decisions of the EEA Joint Committee shall be binding upon the Contracting Parties and be, or be made, part of their internal legal order as follows : (a) an act corresponding to an EEC regulation shall as such be made part of the internal legal order of the Contracting Parties; (b) an act corresponding to an EEC directive shall leave to the authorities of the Contracting Parties the choice of form and method of implementation.”

participate in both the decision shaping phase, as well as the decision taking phase, would it be credible that a democratic Russia could implement all requested EU-policies.

The crucial distinction is not between the EU members and non-members, but between would-be-members and never-be-members. Even if the EU and Russia had had similar geopolitical objectives – which today is definitely not the case – and if the two had been more equal economically, still the EU’s demand for “domestication” of Russia through a homogenous and dynamic EEA-type agreement would be too demanding for a Russia which is not on the road to EU membership. The cost of internal strife and political energy expended in Russia to explain and defend domestically a continuous application of the EU’s legislation is likely to be too large.

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**Table 1**      **Size of Economy: Russia, EU and 8 new member countries**

	Population	GDP	PPP GNP	PPP GNP/capita
	1998	1998	1998	1998
	millions	bn USD	bn USD	USD
<b>Russia</b>	<b>147</b>	<b>331,8</b>	<b>907</b>	<b>6180</b>
<b>EU</b>	<b>375,43</b>	<b>8331,6</b>	<b>7617</b>	<b>20619</b>
of which				
Austria	8	216,7	187	23145
Belgium	10	259	241	23662
Denmark	5	175,2	126	23855
Finland	5	125,1	106	20641
France	59	1465,4	1248	21214
Germany	82	2179,8	1807	22026
Greece	11	123,4	147	13994
Ireland	4	69,3	67	17991
Italy	58	1157	1173	20365
Luxemburg	0,43	19,2	16	36703
Netherlands	16	389,1	350	22325
Portugal	10	106,4	145	14569
Spain	39	555,2	628	15960
Sweden	9	226,5	176	19848
UK	59	1264,3	1200	20314
<b>New members</b>	<b>73</b>	<b>309,5</b>	<b>646</b>	<b>8548</b>
of which				
Czeck Rep	10	53	126	12197
Estonia	1	4,9	11	7563
Hungary	10	45,7	99	9832
Latvia	2	5,9	14	5777
Lithuania	4	9,4	23	6283
Poland	39	151,3	292	7543
Slovak Rep	5	19,9	52	9624
Slovenia	2	19,4	29	14400

Source: World Development Indicators, World Bank.



**Table 2**      **Russia: Exports and imports, 2000, world, EU-15 and new member countries**

	Total exp Mill.USD	Total imp Mill.USD	Share of exports, %	Share of imports, %
<b>World</b>	<b>102998</b>	<b>49125</b>	<b>100</b>	<b>100</b>
<b>EU-15</b>	<b>36879</b>	<b>11137</b>	<b>35,8</b>	<b>22,7</b>
of which				
Austria	758	419	0,7	0,9
Belgium	757	481	0,7	1,0
Denmark	419	345	0,4	0,7
Finland	3105	958	3,0	2,0
France	1913	1188	1,9	2,4
Germany	9231	3896	9,0	7,9
Greece	1273	125	1,2	0,3
Ireland	288	106	0,3	0,2
Italy	7258	1211	7,0	2,5
Luxemburg	41	14	0,0	0,0
Netherlands	4340	738	4,2	1,5
Portugal	37	18	0,0	0,0
Spain	1067	313	1,0	0,6
Sweden	1729	465	1,7	0,9
UK	4663	860	4,5	1,8
<b>New members</b>	<b>15772</b>	<b>2034</b>	<b>15,3</b>	<b>4,1</b>
of which				
Czeck Rep	1745	366	1,7	0,7
Estonia	1235	97	1,2	0,2
Hungary	2405	403	2,3	0,8
Latvia	1626	91	1,6	0,2
Lithuania	2065	149	2,0	0,3
Poland	4452	715	4,3	1,5
Slovak Rep	2121	105	2,1	0,2
Slovenia	123	108	0,1	0,2
<b>EU-23</b>	<b>52651</b>	<b>13171</b>	<b>51,1</b>	<b>26,8</b>

Source: IMF.



Table 3. Russia' import from and export to EU and new member countries combined, 1996 and 2000.

SITC group	Import value in '000 US\$ 1996 in 1996 prices	Import value in '000 US\$ 1996 in 2000-prices	Import value in '000 US\$ 2000 in 2000-prices	Change, volume. '000 US\$	Change, volume. Percent	Share of total imports 1996	Share of total imports 2000	Change in share of imports	Export value in '000 US\$ 1996 in 1996 prices	Export value in '000 US\$ 1996 in 2000-prices	Export value in '000 US\$ 2000 in 2000-prices	Change, volume. '000 US\$	Change, volume. Percent	Share of total exports 1996	Share of total exports 2000	Change in share of exports
0, food	3033710	3246069,7	1622285	1623785	-50	16	12	-4	221401	236899,1	192555	-44344	-19	1	0	0
1, beverages, tobacco	444051	475134,5	358119	117015,6	-25	2	3	0	90390	96717,3	28167	-68550,3	-71	0	0	0
2, crude materials, inedible	369880	395771,6	343599	-52173	-13	2	3	1	2437324	2607937	2111404	-496533	-19	7	4	-3
3, mineral fuels	279811	299397,7	82242	-217156	-73	1	1	-1	2236811	2393388	3496051	11026627	46	64	69	5
4, vegetable oils, fats, etc.	153339	164072,7	203363	39290,27	24	1	2	1	2872	3073	2940	-133	-4	0	0	0
5, chemicals	2796761	2992534,3	2530331	462203,3	-15	15	19	5	2116365	2264511	2123812	-140698,6	-6	6	4	-2
6, manufactures	2600525	2782561,8	2008059	774502,8	-28	14	15	2	5551106	5939683	8406516	2466832,6	42	16	17	1
7, machinery, transp.	6721398	7191895,9	4594665	2597231	-36	35	35	0	1577147	1687547	1938704	251157	15	5	4	-1
8, misc. manufactures	2620389	2803816,2	1351595	1452221	-52	14	10	-3	485905	519918,4	780590	260671,6	50	1	2	0
Total	19019864	20351254	13094258	7256996	-36	100	100		34850627	37290171	50545200	13255029	36	100	100	

**Table 4**

**EU external-exports and imports to/from the World and Russia, 1995-2000, bill. euro current prices, per cent.**

	1995	1996	1997	1998	1999	2000	Average
EU x-exp to world	573,3	627	721,1	731,4	759,9	939,1	
of which Russia, p.c.	2,8	3,1	3,5	2,9	1,9	2,1	2,7
EU x-imp from world	554,3	581,1	672,6	712,4	779,8	1028	
of which Russia, p.c.	3,9	4,0	4,0	3,2	3,3	4,4	3,8

*Source:* WTO, Trade Policy Review of EU, June 14, 2000

**Table 5** Russia's share of new member countries' foreign trade, year 2000.

		Per cent
Czech Rep	x-share	1
	m-share	6
Estonia	x-share	7
	m-share	14
Hungary	x-share	9
	m-share	1
Latvia	x-share	10
	m-share	27
Lithuania	x-share	7
	m-share	27
Poland	x-share	3
	m-share	9
Slovakia	x-share	1
	m-share	15
Slovenina	x-share	2
	m-share	2

**Table 6** Commodity composition of EU-15 and new member countries' trade with Russia, per cent shares.

Country	SITC no	Total 0-9	Food, beverages, tobacco		Raw materials	Energy	Chemical products	Machinery, transport equipm.	Misc. manuf	Year
			0+1	2+4	3	5	7	6+8		
EU	exports	100	11	3	0	14	38	30	2000	
	imports	100	1	6	50	4	1	19		
Czech Rep	exports	100	6	1	0	16	44	31	2000	
	imports	100	0	5	80	2	5	8		
Hungary	exports	100	33	5	0	30	19	13	2000	
	imports	100	0	4	76	3	5	12		
Poland	exports	100	26	2	0	15	18	40	2000	
	imports	100	1	4	87	3	1	4		
Slovakia	exports	100	6	0	0	11	21	62	2001	
	imports	100	0	4	86	2	5	4		
Slovenia	exports	100	2	0	0	44	38	16	2001	
	imports	100	0	3	43	2	1	50		

Source: National statistics.

**Table 7** Russia's share in new member countries' imports of three different forms of energy (excl electricity).

	Natural gas		Oil		Nuclear fuel	
	Value	Share	Value	Share	Value	Share
	USD 000 2000	per cent 1998-00	USD 000 2000	per cent 1998-00	USD 000 2000	per cent 1998-00
Czech Rep.	854970	78	590132	71	53303	n.a.
Estonia	100918	100	289309	100	0	0
Hungary	837722	75	987162	94	59320	100
Poland	964672	80	2935337	89	0	0
Slovenia	155306	50	0	0	0	0

Source: Russian paper submitted to the EU Commission, 7 March 2001  
on Trade and Economic Consequences of the Forthcoming Enlargement of the EU

**Table 8. Messerlin's overview of the EU protection, by industry, 1999**

ISIC4	Sectors	Nber of tariff lines	MFN tariffs		Non-tariff barriers	Antidumping measures		Rate of overall protection [d] (%)
			average rates [a] (%)	maximum rates (%)		nber tariff lines	rates [c] (%)	
100a	Cereals (rice excluded)	21	14,0	15,2	5,0			19,0
100b	Meat (bovine & ovine)	26	11,2	12,1	64,8			76,0
100c	Dairy products	61	9,7	10,3	100,3			110,0
100d	Sugar	7			125,0			125,0
100e	Other Agriculture	538	8,9	179,7	11,2	4	5,3	20,0
200	Mining	137	0,2	8,0	71,3	10	7,1	2,3
311.2	Food Products	1586	19,5	236,4	5,0			24,5
313	Beverages	180	8,6	64,0				8,6
314	Tobacco	9	47,3	81,9				47,3
321	Textiles	1059	8,5	13,0	8,0	141	18,9	22,1
322	Wearing Apparel	225	11,6	13,0	19,0			30,6
323	Leather & Products	102	3,2	9,7		9	27,9	5,7
324	Footwear	58	7,4	17,0		5	17,5	8,9
331	Wood Products	181	2,6	10,0		3	6,8	2,7
332	Furniture & fixtures	38	1,8	5,6				1,8
341	Paper & Products	200	3,8	7,5				3,8
342	Printing & Publishing	41	3,0	8,0		1	18,6	3,5
351	Industrial Chemicals	1153	5,3	41,7		32	24,5	6,0
352	Other Chemicals	423	3,4	22,0		3	19,0	3,5
353	Petroleum Refineries	62	2,1	6,5				2,1
354	Petroleum & Coal Products	17	0,4	6,0		1	30,0	2,2
355	Rubber Products	105	5,5	17,0				5,5





Simple average	4,3	7,7
Labor weighted average	4,3	7,1
Value-added weighted average	4,7	6,8
<hr/>		
Block C: Agriculture		
100 Whole agriculture [d]	653	31,7
<hr/>		

Source: Messerlin (2001).

Messerlin's computations, GATT Secretariat, WTO Trade Policy Reports, EC Official Journal, Appendix A. .

- Notes:
- [a] The many specific tariffs in agriculture (ISIC 100a to 100e) are not taken into account.
  - [c] Ad valorem estimates of antidumping measures terminating cases.
  - \*\*\*: Ad valorem tariff equivalents of these NTBs are not available.
  - [b] For agriculture, defined as global rate of protection minus MFN tariff and antidumping barriers.
  - [d] For agriculture, based on three-year averages of OECD "CSE-based tariffs" (see text).

**Table 9**

**Enlargement: estimated change in tariffs and tariff equivalents of new AD-measures meeting major Russian exports (excl. steel) to the new member countries.**

Rates and AD-measures as of 2000.

	Tariff change			Tariff equivalent of EU's AD-measures		
	Russia export 2000 USD '000	Maximum increase value weight. average per cent	Minimum increase value weight. average per cent	Russia export 2000 USD '000	Maximum value weight. average per cent	Minimum value weight. average per cent
1	2	3	4	5	6	7
Hungary	292935	1,9	1,9	13541	21,4	15,7
Poland	360994	-1,4	-11,4	13553	6,7	5,2
Czech Rep.	96289	2,5	2,2	3921	17,1	8,6
Slovenia				123	23,5	23,5
Estonia				13385	9	2,3

Source: Appendix tables 1 and 2.

**Appendix table 1a**      **Estimate of change in tariffs facing Russian exports due to the enlargement**  
**Hungary**

TARIC code	Description	Russian export 2000 USD 000	Hungary tariff rate 2000 per cent	EU tariff rate 2000 per cent	Difference 5 minus 4	Value weights	Value weighted difference
1	2	3	4	5	6	7	8
2523290000	Other cements	3104,9	0	1,7	1,7	0,01	0,02
2701121000	Coking coal	4677,7	4,5	0	-4,5	0,02	-0,07
270112900	Coal, other	1465,6	4,5	0	-4,5	0,01	-0,02
2702100000	Lignite	963,4	6,2	0	-6,2	0,00	-0,02
2711129400	Propane, of a purity exceeding 90% but less than 99%	2625,9	0	0,7	0,7	0,01	0,01
2,71113910/30/80	Gas for other purposes	933,1	0	0,7	0,7	0,00	0,00
280300900	Carbon (carbon blacks)	10866,2	4,5	0	-4,5	0,04	-0,17
2901109000	Carbon, for other purposes	865,9	4,5	0	-4,5	0,00	-0,01
2905110000	Methanol	2771,5	0	7,8	7,8	0,01	0,07
292141000	Aniline and its salts	3110	0	8,2	8,2	0,01	0,09
3102309000	Ammonium nitrate, Ammonium	3089,6	10	6,2	-3,8	0,01	-0,04
310540900	dihydrogenorthophosphate	6542,7	5	6,5	1,5	0,02	0,03
3901109000	Polyethylene	3786,1	0	8,3	8,3	0,01	0,11
3901200000	Polyethylene having a specific gravity of 0,94	10976,9	0	8,3	8,3	0,04	0,31
400591000	Rubber (plates, sheets or strip)	1188,8	6	0	-6	0,00	-0,02

401120900	Pneumatic tyres, of a kind used on buses or lorries	1631,6	3,8	4	0,2	0,01	0,00
41 gygj u							
moki0390000	Raw hides and skins	773,1	2,5	0	-2,5	0,00	-0,01
4412140000	Plywood	865,6	3	7	4	0,00	0,01
4801009000	Newsprint, in rolls or sheets, other	857,2	0	0,5	0,5	0,00	0,00
4804111900	Kraft paper weighing 175g/m2 or more	923	5	2,1	-2,9	0,00	-0,01
6811100000	Corrugated sheets, panels, tiles of asbestos-cement, of cellulose fibre-cement or the like	1255,1	0	1,7	1,7	0,00	0,01
7601100000	Aluminium, not alloyed	115491,2	0	6	6	0,39	2,37
7616999000	Other articles of aluminium	41,6	12,1	6	-6,1	0,00	0,00
8401300000	Nuclear fuel elements (cartridges), non-irradiated (for nuclear reactors)	59320,4	0	3,7	3,7	0,20	0,75
841112110/30	Turbo-jets	1645,6	8	2,7	-5,3	0,01	-0,03
848180000	Appliances for pipes & tanks and pipes	21343,6	8	2,2	-5,8	0,07	-0,42
8482	Ball or roller bearings	1235,4	5	8	3	0,00	0,01
870322190	Motor cars, cc 1001-15000, principally designed for the transport of persons, new, with spark-ignition internal combustion reciprocating piston engine and a catalyst, of a cylinder capacity exceeding 1001cc but not exceeding 1500cc	2368,2	13	10	-3	0,01	-0,02

	870323190	Motor cars, cc 1501-2000 principally designed for the transport of persons , new , with spark-ignition internal combustion reciprocating piston engine and a catalyst, of a cylinder capacity exceeding 1601cc but not exceeding2000cc	19620,4	23	10	-13	0,07	-0,87
	870431910b	Motor vehicles for goods, the transport of goods, of carrying capacity of 1.5 tons	1573,3	18	0	-18	0,01	-0,10
	8708	Parts for motor vehicles, and accessories of the motor vehicles	7021,9	8,5	4,5	-4	0,02	-0,10
<b>TOTAL:</b>		<b>Total above</b>	<b>292935,5</b>				<b>1</b>	<b>1,9</b>

Own calculations based on  
*Source:* Russia (2001), Annexes

<b>Appendix table 1b</b>		<b>Estimate of change in tariffs facing Russian exports due to the enlargement Poland</b>						<b>Maximum tariff increase</b>		<b>Min. tariff increase</b>	
TARIC code	Description	Russian export 2000	Polish tariff rate 2000	Polish tariff rate 2000	EU tariff rate 2000	EU tariff rate 2000					
							Difference	Value	Difference	Value	

1	2	3	4	5	6	7	8	9	10	11	12
	USD 000	per cent	per cent	per cent	per cent	7 minus 4		Value	weighted	5 minus 6	weighted
		min.	max.	min.	max.			weights	tariff	tariff	tariff
									changes	changes	changes
2711	Petroleum gases and other gaseous hydrocarbons	82179	0,0	12,0	0,0	8,0	8,0	0,2	1,8	-12,0	-2,7
2701	Coal and similar solid fuels manufactured from coal	24003	3,0	6,0	0,0	0,0	-3,0	0,1	-0,2	-6,0	-0,4
4703	Wood pulp used for ammunitions	46101	3,0	3,0	0,0	0,0	-3,0	0,1	-0,4	-3,0	-0,4
2710	Petroleum oils and oils obtained from bituminous minerals	31516	15,0	35,0	0,0	4,7	-10,3	0,1	-0,9	-35,0	-3,1
3102	Fertilisers, nitrogenous	10915	6,0	9,0	0,0	7,5	1,5	0,0	0,0	-9,0	-0,3
8411	Turbo-jets	528	0,0	9,0	0,0	4,1	4,1	0,0	0,0	-9,0	0,0
303	Fish, frozen, excluding fish fillets	2213	5,0	25,0	0,0	23,0	18,0	0,0	0,1	-25,0	-0,2
3901	Polymers of ethylene, in primary forms	15170	9,0	9,0	0,0	3,3	-5,7	0,0	-0,2	-9,0	-0,4
4002	Synthetic rubber	20785	9,0	9,0	0,0	2,3	-6,7	0,1	-0,4	-9,0	-0,5
304	Fish fillets and other fish meat	73	5,0	20,0	2,0	18,0	13,0	0,0	0,0	-18,0	0,0
7208	Flat-rolled products of iron or non-alloy steel, hot-rolled	8166	13,1	13,1	1,1	1,5	-11,6	0,0	-0,3	-12,0	-0,3
3501	Casein, caseinates and other casein derivatives	21312	15,0	20,0	6,4	9,1	-5,9	0,1	-0,3	-13,6	-0,8
4412	Plywood	4037	9,0	9,0	6,0	10,0	1,0	0,0	0,0	-3,0	0,0
4407	Wood sawn or chipped lengthwise	5779	9,0	9,0	0,0	4,9	-4,1	0,0	-0,1	-9,0	-0,1
8704	Motor vehicles for the transport of goods	4064	35,0	35,0	0,0	22,0	-13,0	0,0	-0,1	-35,0	-0,4
8803	Parts for use in civil aircraft	3211	0,0	9,0	0,0	2,7	2,7	0,0	0,0	-9,0	-0,1

2712	Petroleum jelly; paraffin, wax	4322	9,0	9,0	0,0	2,2	-6,8	0,0	-0,1	-9,0	-0,1
2803	Carbon (carbon blacks)	6866	3,0	3,0	0,0	0,0	-3,0	0,0	-0,1	-3,0	-0,1
2901	Acyclic hydrocarbons	10299	3,0	9,0	0,0	3,6	0,6	0,0	0,0	-9,0	-0,3
3104	Fertilisers, potassic	4057	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
4011	New pneumatic tyres, of rubber	3962	9,0	9,0	0,0	4,5	-4,5	0,0	0,0	-9,0	-0,1
3105	Fertilisers containing two or three of the fertilising elements	5138	6,0	6,5	0,0	6,5	0,5	0,0	0,0	-6,5	-0,1
7605	Aluminium wire	1584	9,0	9,0	7,5	7,5	-1,5	0,0	0,0	-1,5	0,0
7202	Ferro-alloys	1589	13,1	13,1	0,0	7,0	-6,1	0,0	0,0	-13,1	-0,1
7211	Flat-rolled products	1656	13,1	13,1	1,3	1,6	-11,5	0,0	-0,1	-11,8	-0,1
8482	Ball or roller bearings	3457	9,0	9,0	0,0	0,0	-9,0	0,0	-0,1	-9,0	-0,1
4403	Wood in the rough	297	3,0	3,0	0,0	0,0	-3,0	0,0	0,0	-3,0	0,0
7209	Flat-rolled products of iron or non-alloy steel, cold-rolled	443	13,1	13,1	1,3	1,5	-11,6	0,0	0,0	-11,8	0,0
2905	Acyclic alcohols and their derivatives	4349	9,0	27,0	0,0	9,6	0,6	0,0	0,0	-27,0	-0,3
3804	Lyes	1504	9,0	9,0	5,0	5,0	-4,0	0,0	0,0	-4,0	0,0
5205	Cotton yarn	2677	9,0	9,0	4,0	4,9	-4,1	0,0	0,0	-5,0	0,0
3801	Artificial graphite	2506	9,0	9,0	3,6	6,5	-2,5	0,0	0,0	-5,4	0,0
2836	Carbonates; peroxocarbonates	2991	6,0	9,0	3,7	5,5	-0,5	0,0	0,0	-5,3	0,0
5504	Artificial staple fibres	1464	6,0	6,0	5,2	5,2	-0,8	0,0	0,0	-0,8	0,0
2910	Epoxides, epoxyalcohols, epoxyphenols	2160	6,0	9,0	5,5	5,7	-0,3	0,0	0,0	-3,5	0,0
7306	Other tubes, pipes and hollow profiles	3774	13,1	13,1	0,0	3,0	-10,1	0,0	-0,1	-13,1	-0,1
4101	Raw hides and skins of bovine	3171	0,0	5,0	0,0	0,0	0,0	0,0	0,0	-5,0	0,0



8429	Self-propelled bulldozers,	392	9,0	9,0			-9,0	0,0	0,0	-9,0	0,0
4704	Wood pulp, sulphite	2598	3,0	3,0	0,0	0,0	-3,0	0,0	0,0	-3,0	0,0
7216	Angles, shapes and sections of iron	613	13,1	13,1	1,1	1,5	-11,6	0,0	0,0	-12,0	0,0
7603	Aluminium powders and flakes	1418	9,0	9,0	5,1	5,3	-3,7	0,0	0,0	-3,9	0,0
7210	Flat-rolled products	1392	5,0	13,1	1,5	1,6	-3,4	0,0	0,0	-11,6	0,0
7308	Structures of iron or steel	1639	13,1	13,1	1,2	1,2	-11,9	0,0	-0,1	-11,9	-0,1
2917	Polycarboxylic acids, their anhydrides	155	9,0	9,0	0,0	8,5	-0,5	0,0	0,0	-9,0	0,0
7201	Pig iron and spiegeleisen in pigs	920	3,0	3,0	0,0	2,2	-0,8	0,0	0,0	-3,0	0,0
2826	Fluorides; fluorosilicates,	634	9,0	9,0	5,0	7,5	-1,5	0,0	0,0	-4,0	0,0
6206	Women's or girls' blouses, shirts and shirt-blouses	31	19,7	19,7	12,5	12,5	-7,2	0,0	0,0	-7,2	0,0
8708	Parts and accessories of the motor vehicles	1409	0,0	15,0	3,0	45,0	45,0	0,0	0,2	-12,0	0,0
7019	Glass fibres	754	9,0	9,0	5,0	7,0	-2,0	0,0	0,0	-4,0	0,0
7607	Aluminium foil	656	9,0	10,0	7,5	10,0	1,0	0,0	0,0	-2,5	0,0
2713	Petroleum coke, other residues of petroleum oils	6	9,0	9,0	0,0	0,7	-8,3	0,0	0,0	-9,0	0,0
5209	Woven fabrics of cotton	59	13,1	13,1	0,0	8,6	-4,5	0,0	0,0	-13,1	0,0
<b>TOTAL:</b>		<b>360994</b>						<b>1,0</b>	<b>-1,4</b>		<b>-11,4</b>

Own calculations based on  
Source: Russia (2001), Annexes

<b>Appendix table 1c</b>		<b>Estimate of change in tariffs facing Russian exports due to the enlargement Czech Republic</b>										
TARIC code	Description	Russian export 2000 USD 000	Czech tariff rate 2000 per cent min.	Czech tariff rate 2000 per cent max.	EU tariff rate 2000 per cent min.	EU tariff rate 2000 per cent max.	Maximum tariff increase			Min. tariff increase		
1	2	3	4	5	6	7	Difference 7 minus 4	Value weights 9	Value weighted tariff changes 10	Difference 5 minus 6 tariff changes 11	Value weighted tariff changes 12	
271000	Petroleum oils	1818,14	4,6	6,4	0,0	4,7	0,1	0,0	0,0	-6,4	-0,1	
271112	Propane, liquefied	620,71	1,2	1,2	0,0	8,0	6,8	0,0	0,0	-1,2	0,0	
271113	Butanes, liquefied	262,84	1,2	1,2	0,0	0,7	-0,5	0,0	0,0	-1,2	0,0	
280300	Carbon (carbon blacks and other forms of carbon)	347,77	2,3	2,3	0,0	0,0	-2,3	0,0	0,0	-2,3	0,0	
282530	Vanadium oxides and hydroxides	13960	5,0	5,0	5,5	5,5	0,5	0,1	0,1	0,5	0,1	
283640	Potassium carbonates	2615,55	2,0	2,0	5,5	5,5	3,5	0,0	0,1	3,5	0,1	
310540	Ammonium dihydrogenorthophosphate and mixtures thereof with diammonium hydrogenorthophosphate	3187,52	0,0	0,0	5,5	5,5	5,5	0,0	0,2	5,5	0,2	
440710	Wood sawn or chipped lengthwise, sliced or peeled, of a thickness exceeding 6 mm, coniferous	2803,54	2,9	2,9	0,0	0,0	-2,9	0,0	-0,1	-2,9	-0,1	
441214	Plywood, each ply not exceeding 6 mm thickness	867,6	4,8	4,8	7,0	7,0	2,2	0,0	0,0	2,2	0,0	

520812	Woven fabrics of cotton, unbleached	3705,8	4,4	4,4	8,6	8,6	4,2	0,0	0,2	4,2	0,2
720852	Flat-rolled products of steel, of a thickness of 4,75 mm or more but not exceeding 10 mm	437,1	5,5	5,5	1,3	1,5	-4,0	0,0	0,0	-4,2	0,0
720853	Flat-rolled products of steel, of a thickness of 3 mm or more but less than 4,75 mm	311,3	5,5	5,5	1,3	1,3	-4,2	0,0	0,0	-4,2	0,0
721391	Bars and rods, hot-rolled, of circular cross-section measuring less than 14 mm in diameter	11,8	3,4	6,6	1,5	1,5	-1,9	0,0	0,0	-5,1	0,0
730660	Tubes, pipes and hollow profiles (including welded) of iron or steel	240,1	6,6	6,6	3,0	3,0	-3,6	0,0	0,0	-3,6	0,0
760110	Aluminium, not alloyed	435,7	0,0	0,0	6,0	6,0	6,0	0,0	0,0	6,0	0,0
760120	Aluminium alloys	6407,8	0,0	0,0	6,0	6,0	6,0	0,1	0,4	6,0	0,4
760310	Aluminium powders of non- lamellar structure	2173,9	4,4	4,4	5,1	5,1	0,7	0,0	0,0	0,7	0,0
760511	Aluminium wire of a thickness exceeding 7 mm	730,8	4,0	4,0	7,5	7,5	3,5	0,0	0,0	3,5	0,0
840130	Fuel elements (cartridges), non-irradiated, for nuclear reactors	53302,7	0,8	0,8	3,7	3,7	2,9	0,6	1,6	2,9	1,6
841112	Turbo-jets, of a thrust not exceeding 25 kN	880	2,9	2,9	0,0	2,7	-0,2	0,0	0,0	-2,9	0,0

	Motor cars and other motor vehicles principally designed for the transport of persons, of a cylinder capacity exceeding 1500cc but not exceeding 3000cc	466,16	17,1	17,1	10,0	10,0	-7,1	0,0	0,0	-7,1	0,0
	870323										
	Propellers and rotors and parts thereof	701,8	6,4	6,4	0,0	2,7	-3,7	0,0	0,0	-6,4	0,0
	880310										
<b>TOTAL:</b>		<b>96288,63</b>						<b>1,0</b>	<b>2,5</b>		<b>2,2</b>

*Source:* Own calculations based on Russia (2001), Annexes

**Appendix table 2a** Estimate of change in AD-measures facing Russian exports due to the enlargement Hungary

TARIC code	Description	Russian		EU's AD-measure	EU rule		EU rule	
		export in 2000 tons	USD 000		Minimum tariff revenue USD 000	Minimum tariff equival. per cent	Maximum tariff revenue USD 000	Maximum tariff equival. per cent
1	2	3	4	5	6	7	8	9
284920000	Carbides of silicon	200	120,2	Duty of 23,3%	28	23,3	0	0
310210100	Urea	8372	494,2	Price of €115 less export price	7,6	1,5	0	0
310230900	Ammonium nitrate	72001	3089,6	Min.price of €102.9/t c.i.f.	222	7,2	0	0
31028000	Mixtures of urea and ammonium nitrate in aqueous or ammoniacal solution	0	0,0	Duty of €20,11/t			0	0
31042010	Potassium chloride	0	0,0	Duty from 19,61 to €40,63/t			0	0
310420500		81189	5786,5		1398,1	24,2	2896	50,0
31042090		0	0,0				0	0
441111000	Fibreboard of wood	452	55,1	Duty of 31,1%	16,9	30,7	0	0
44111900		0	0,0		0		0	0
72251091	Transformer steel	0	0,0	Duty of 40,1%	0		0	0
72261031		0	0,0		0		0	0

730410100	Tubes and pipes, seamless	89	27,8	Duty of 26.8%	7,5	27,0	0	0
730410300		473	148,3		39,8	26,8	0	0
730431990		2673	793,8		212,7	26,8	0	0
730439910		2746	690,0		184,9	26,8	0	0
73043993		0	0,0		0		0	0
731210820	Cables and wire, of steel	21	10,3	Procedure instituted	0	0,0	0	0
731210840		108	67,5		0	0,0	0	0
731210860		67	29,1		0	0,0	0	0
73121088		0	0,0		0		0	0
731210990		1	3,8		0	0,0	0	0
76071110	Aluminium foil	0	0,0	Procedure instituted	0		0	0
79011100	Zinc	0	0,0	Duty of 5,2%	0		0	0
79011210		0	0,0		0		0	0
79011230		0	0,0		0		0	0
810411000	Magnesium	135	306,1	Min.price of €2602/t c.i.f.	0		0	0
810419000		904	1918,2		5,8	0,3	0	0
<b>TOTAL:</b>			<b>13540,5</b>		<b>2123,4</b>	<b>15,7</b>	<b>2896</b>	<b>21,4</b>

Source: Own calculations  
based on Russia  
(2001), Annexes.

*Note:* According to Russia (2000), Annex, the EU antidumping duties are applied as follows: ad valorem duties for carbides of calcium, fibreboard of wood, transformer steel, seamless tubes and pipes, zinc; and specific duties for mixtures of urea and ammonium nitrate in aqueous or ammoniacal solution, potassium chloride, and for urea the difference between ECU115 per ton c.i.f. and the export price. The lowest prices (c.i.f.) are applied for ammonium nitrate and magnesium. In all cases actual prices, volumes and costs of supplies are based on the data of the State Customs Committee for 2000 (f.o.b. prices)

**Appendix table 2b**  
**Estimate of change in AD-measures facing Russian exports due to the enlargement Poland**

TARIC code	Description	Russian		EU's AD-measure	EU rule		EU rule	
		export in 2000	USD 000		Minimum tariff revenue	Minimum tariff equival.	Maximum tariff revenue	Maximum tariff equival.
1	2	3	4	5	6	7	8	9
284920000	Carbides of silicon	1140	262,3	Duty of 23,3%	61,1	23,3	0	0,0
310210100	Urea	6073,3	5600,5	Price of €115 less export price	77,9	1,4	0	0,0
31021090		0	0		0	0,0	0	
310230900	Ammonium nitrate	12890,8	5310,8	Min.price of €102,9/t c.i.f.	388,3	7,3	0	0,0
31024090		0	0,0		0	0,0	0	
31028000	Mixtures of urea and ammonium nitrate in aqueous or ammoniacal solution	0	0	Duty of €20,11/t	0		0	
31042010	Potassium chloride	20,6	1,5	Duty from 19,61 to €40,63/t	0,4	26,7	0,7	46,7
310420500		13697,9	1003,4		235,9	23,5	488,6	48,7
31042090		5893,1	407,9		101,5	24,9	210,2	51,5
441111000	Fibreboard of	1541,6	126,9	Duty of 31,1%	38,8	30,6	0	0,0

	wood							
44111900		2	1,6		0,5	31,3	0	0,0
72251091	Transformer steel	0	0	Duty of 40,1%	0		0	
72261031		0	0		0		0	
	Tubes and pipes, seamless							
730410100		0	0	Duty of 26.8%	0		0	
730410300		0	0		0		0	
730431990		0	0		0		0	
730439910		0	0		0		0	
73043993		0	0		0		0	
	Cables and wire, of steel			Procedure instituted				
731210820		4,1	4,3		0	0,0	0	0,0
731210840		25,9	19,7		0	0,0	0	0,0
731210860		7.2	4,5		0	0,0	0	0,0
73121088		0	0		0		0	
731210990		0	0,4		0	0,0	0	0,0
	Aluminium foil			Procedure instituted				
760711110		406,1	621,8		0	0,0	0	0,0
790111100	Zinc	0	0	Duty of 5,2%	0		0	
79011210		0	0		0		0	
79011230		0	0		0		0	
	Magnesium			Min.price of €2602/t c.i.f				
810411000		0	0		0		0	
810419000		49,4	187,4		0	0,0	0	0,0
<b>TOTAL:</b>			<b>13553</b>		<b>904,4</b>	<b>6,7</b>	<b>699,5</b>	<b>5,2</b>

Source and note: See Annex table 2a.