LEGAL ASPECTS OF RUSSIA’S TRADE DISPUTES WITH THE EUROPEAN UNION

Bachelor’s Thesis

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Tartu 2010
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I. **INTRODUCTION**

“I cannot forecast to you the action of Russia. It is a riddle wrapped in a mystery inside an enigma: but perhaps there is a key. That key is Russian national interests.”

Winston Churchill

This frequently cited quote may discourage one from researching the understanding of international law in Russia. Yet as the excerpt itself gives hope, the author of this thesis still finds it interesting, necessary and possible to look at Russia’s standpoints in these questions, namely issues concerning international trade. It would be a feeble excuse to hide behind the widely spread belief that there is no way of comprehending Russia and there cannot be any legal points to research. Similarly with other complicated issues, one has to start from somewhere, even if the situation does not seem very promising and reassuring. It looks the same with Russia and international law as well – efforts could and should be made if there is some will and determination. The following thesis is one of those efforts.

1. **Overview of the thesis**

Starting already in the 1770s, there were rumours that Grigori Potemkin, a Russian general-field marshal and statesman\(^1\), had not done anything to build up Crimea. The legend of Potemkin villages was founded during a trip on the Dnieper River. Georg von Helbig, a bitter delegate of Saxony who did not participate in this journey, spread the concept of *Potemkinsche Dörfer*. He claimed that all the towns on the riverside were only façades – pictures drawn on carton – which were constantly moved from one place to another in order to impress the Russian empress Catherine II.\(^2\)

This political metaphor of Potemkin village could be applied to many situations. After working with several materials and forming a ‘big picture’ of the topic, these legendary villages were one of the similarities that could be correlated with Russia’s international approach. The question is whether Russia really is eager to act friendly and cooperatively on the international level or whether it is just a façade that has been built by several statements of Russia’s e.g. trade liberalisation to form an illusion to the rest of the world. It has to be said at the beginning that there cannot be any firm and definitive answers concerning the topic of Russia’s trade disputes and the legal bases of them. There are opinions, evaluations and some


suggestions of how things should be and how trading with Russia should be legally regulated. The provocative comparison between Russia’s standpoints on international law (including international trade regulation) and the Potemkin village metaphor is an opinion as well. One could probably use the same approach when researching, for instance, trade disputes of the United States (US). The intent is that the situation should be seen in a wider perspective when talking about international law and its effectiveness. As this thesis focuses geopolitically on a vital issue for the European Union (EU) and for Estonia, it conveys a fragment of overall tensions in international law.

As there is a substantial number of nuances and aspects concerning Russia and its trade disputes, it seems quite impossible to give a completely exhaustive and thorough overview considering every bearing. Nevertheless, the current approach is an attempt to somehow gather the separate details together and elicit one conclusive standpoint in these questions. The main issue is whether international (economic) law means the same to every subject concerned and regulates the relations or is there something else besides the law that matters. What about Russia’s standpoints in these questions and its willingness to comply with the rules?

1.1. Aim

The main aim of this thesis is to give one perspective to Russia’s concept of international law by analysing trade disputes with the EU. As this is a legal-oriented thesis, all other fields are researched as briefly as possible, but as much as needed in order to understand the wholeness. Even though the linguistic interpretation of the word ‘dispute’ lets us presume that the topic is exclusively a legal one, disputes are marked by a variety of interests, such as politics. That is why the very essence of disputes may be questioned; therefore, some aspects of other fields have to be touched upon as well. The primary idea of this thesis is to see the legal background of Russia’s international trade disputes, but as it turned out, these disputes are mainly political. Despite the latter depiction, current legal instruments in Russia-EU relations have been described and criticised in light of the (dis)settlements provided in this thesis.

The importance of this kind of research cannot be underestimated, although it is an introduction to a very complex set of relations and rules. As economy is a crucial part of international relations and forms the powers in the world, it is essential to know how these relations are regulated by the international agreements and law in general.\(^3\) What is more, as Russia is a great power, researching its trade relations and presumable rule-based

communication has a considerable importance. Also, another aspect is that the EU, which plays the main role in international trade along with the US and China, has also been included. Therefore, a decent overview could be formed on that basis to evaluate the status quo of international trade and international law.

Firstly, the purpose of this thesis is to show the trade practice of Russia through disputes with the EU. This kind of approach brings out the advantages and bottlenecks of current law-based relations – are there relevant laws which regulate international trade relations, do states accept these norms and what could be improved on? Secondly, a rather theoretical analysis is formed on the basis of the previous level. It is an evaluation of Russia’s general law-abidingness on the international stage and the interconnection of the states all in all – how do countries act with each other and should there be something different for better understanding? For neither of the mentioned levels, however, a clear conclusion can always be given.

The emphasis of this thesis is on finding legal solutions to current and future trade disputes between Russia and the EU. As could be seen afterwards, it is not an easy task to complete. Nevertheless, the main possible legal instruments have been brought out and described; moreover, issues arising from them are considered.

1.2. Structure
The thesis is divided into four substantial chapters. In the first chapter, the theoretical background of the international dispute settlement is given with support of an overview of the current legal instruments in Russia-EU relations for trade disputes. This is followed by a description of Russia’s economy and international trade relations, which gives a background to the chapter on Russia’s trade disputes with the EU. Finally, an evaluation on the basis of the aforementioned points has been derived and a possible future regulation concerning the WTO is provided.

A deductive method of research has been primarily used in this thesis, as the paper starts with general theoretical information and moves towards particular questions of the topic. Nevertheless, some inductive elements can be also found, especially in the evaluation part.

The thesis provides an overall picture of the nature of international disputes and describes the current agreement between Russia and the EU to regulate, among other fields, trade relations. This is followed by an explanation of Russia as a subject on the international plane. The section includes the development of Russia’s economy and an overview of the trade partners

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with illustrative statistical material. Next, two trade disputes are analysed in order to give practical examples of Russia’s trade practice. Finally, the last part sums up the previous aspects and provides an evaluation on the topic. This is rather a debate on different facets, whereas some ideas on the issue are proposed by the author. The latter is given in order to understand Russia’s standpoints and to learn something about Russia – is there a way for a mutual understanding? All in all, the thesis could be seen as following: firstly, the descriptive part is for mapping the theoretical background in concern of the topic; secondly, the analysis of the practical examples of Russia’s international trade disputes show the character of the issues; thirdly, the evaluation of the findings points out the shortcomings in present Russia-EU relations.

Two of Russia’s trade disputes discussed in this thesis are connected to Finland and Estonia. First of them is a trade dispute over the export taxes on timber and the latter concerns the economical effects that followed the removal of the Bronze Soldier monument in Tallinn. The reasoning behind the chosen trade disputes is that Finland and Estonia, with whom Russia has had trade issues, are its “near abroad” and these issues give two different views of the nature of Russia’s trade disputes. It is worth noting that Finland and Estonia are one of the few countries in the EU that have a mutual mainland border with Russia and are therefore more interconnected to their Eastern neighbour.

The agreement under discussion is the Partnership and Cooperation Agreement (PCA) between Russia and the EU. Also, a general principle of law, pacta sunt servanda, is taken into consideration. By analysing the PCA, an overview is given and the issues arising from it are explained. In addition, an introduction to the World Trade Organization (WTO) law is presented as Russia is trying to accede to the organisation and this step would integrate it more bindingly with the international trade system. The bottom line is that current legal instruments do not seem to be very effective\(^5\), but as Russia is somewhat bound to become the member of the WTO, this situation would change.

1.3. Sources

With regard to the sources of this thesis, the author has used as recent materials as possible in order to give the most adequate overview of the current situation. This is, above all, important in light of Russia’s WTO accession process and due to the fact that Russia changes its standpoints quite often. For this reason, various latest articles on the topic have been used with the support of general principles from books on international economic law.

\(^5\) See the analysis and evaluation below.
A problem that arose was the accessibility of the primary sources (circumstances and progress) of the trade disputes. For instance, the Estonian Ministry of Foreign Affairs replied that documents concerning Estonia-Russia disputes have restricted access due to the ongoing debates and therefore cannot be used in the thesis. For these constraints, secondary sources such as Internet and media (press releases and other articles) have been used to restructure the events and consequences of the chosen trade disputes. Of course, these sources have been used with a measure of scepticism. In addition, the information about Finland-Russia trade dispute is mainly acquired from a research done by Tuomas Forsberg and Antti Seppo. It has to be emphasised that the amount of existing material on the topic of Russia’s international trade disputes is very limited. Available articles are written from a political perspective, not legal; therefore, the thesis brings a new dimension to this kind of research.

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II. TRADE DISPUTES BETWEEN RUSSIA AND THE EU

1. The settlement of international disputes

The main goal of a dispute settlement in general is to achieve a result that satisfies all the parties of the dispute in an effective way. In order to understand the mechanics of international ‘rows’, one must first determine what international disputes are and, especially, what international trade disputes are. After knowing the terms and substance of this question, it could be seen how these disputes are dealt with on the international level. In this section, distinctions between different kinds of international disputes are discussed; furthermore, a general overview of settling disputes in international law is given.

1.1. International trade and disputes

There is no certain definition of an international dispute, but it can be said that there is a dispute when states have opposing viewpoints concerning some fact, legal or political question, when there is a conflict of interests or when the justification of one state to claim e.g. losses is declined by another state. In general, a dispute means that there is no consensus between the states. Nevertheless, it is complicated to state when exactly the aforementioned elements are expressed in a dispute situation.

As for one of the distinguishing points, disputes should be treated separately from conflicts. The term ‘conflict’ could be understood as a general state of hostility between the parties, while a ‘dispute’ is rather a specific disagreement relating to a question of rights or interests in which the parties proceed, for instance, by way of claims, counter-claims and denials. In this sense, conflicts have a wider meaning than disputes, because the latter are particular problems arising from the former. Disputes proper could be seen as results as well as causes of the conflict. Conflicts can seldom, if at all, be solved by settling of a particular dispute which could have caused the conflict.

With reference to the international trade disputes, it has to be emphasised that they are one part of international disputes. By definition, trade is “the act or an instance of buying and selling goods and services either on the domestic (wholesale and retail) markets or on the international (import, export, and entrepôt) markets”. The basic theoretic fundamentals of international trade systems are based on two major economic doctrines – Adam Smith’s absolute advantage theory and David Ricardo’s comparative advantage theory. The latter is a

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development of the former as Ricardo took Smith’s interpretation of international trade to the next level. The following classic example by Ricardo describes the theories in the best possible way.\(^\text{10}\)

Suppose in England a gallon of wine costs 120 and a yard of cloth 100 units of work, while in Portugal a gallon of wine costs 80 units and a yard of cloth costs 90 units. Portugal has an *absolute cost advantage* in both wine and cloth [Smith’s approach to international trade – K.A.]; but England has a *comparative advantage* in cloth [Ricardo’s theory – K.A. […]].\(^\text{11}\)

Smith’s main point was that every country should produce goods in those fields where they have an absolute advantage over other states. Since all countries do not have an absolute advantage in a certain industrial area, Ricardo suggested that states could still benefit from international trade when they concentrate on manufacturing goods with which they have a comparative advantage.\(^\text{12}\)

Although free trade is the basis of today’s international commercial relations, trade disputes may still arise and, in this sense, they are misunderstandings or dissenting opinions on trade-related issues.

### 1.2. The essence of international dispute settlement

The main purpose of solving disputes on the international level is to maintain peace in the world. International law is generally a peculiar system of norms that regulate the relations between states\(^\text{13}\); moreover, it seems to stand on the political volition of the states – whether or not they are willing to comply with the rules. Nonetheless, international law provides a framework by which the international relations are seen and understood. However, recourse to legal processes for the settlement of disputes is optional.\(^\text{14}\)

International law, in comparison with the domestic law, is less certain. If we look at it from the perspective of a dispute settlement, one could see that resolutions and remedies are not as developed in international law as they are in the domestic legal systems. Yet law on international trade, in the sense of international law enforcement is the most developed area as the World Trade Organization has a decent dispute settlement system.\(^\text{15}\)

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\(^{13}\) See for example M. Kiviorg *It*, *supra note* 7, lk. 31.


Above all, it is essential to know the ways to resolve international disputes in order to analyse and evaluate states in their issues with other countries. Article 33 of the United Nations Charter gives the main means for international dispute settlement. These are negotiation, enquiry, mediation, conciliation, arbitration, judicial settlement, resort to regional agencies or arrangements.16

1.3. The distinction between political and justiciable disputes

Even though some justified cynicism about the effectiveness of the international rules exists, it could be perceived that the world is moving towards a rule-based society. This kind of tendency means that states reckon rules as problem solvers and presume that they actually operate effectively. In economic context, it is believed that the regulation makes the trade relations more predictable and stable. While assuming the latter and noting the increasing importance of the rules, one has to distinguish between power-oriented and rule-oriented approaches. According to the former, trade disputes are decided by the more powerful party, e.g. an economically influential country, and therefore are not often related to the questions of law, but rather politics. However, the rule-oriented principle is hinged on the rules from which parties seek the solution for their dissention.17 Although clear regulations are preferred in today’s economically interdependent and complex global world, disputes are occasionally also solved by the power – this is the reality of the politics.

There are several ways to settle disputes, but the means could generally be divided into two categories – diplomatic procedures and adjudication. In principle, states do not have an obligation to resolve the disputes between them at all, because in international law, methods available for dispute settlement are relevant upon the consent of the parties of the dispute. However, states are interested in resolving issues and for these reasons, various possibilities have been developed. As there is a distinction between political and legal disputes, problems may rise when finding a basis for the solution, because it is difficult to say which dispute is legal and which is not. It has to be borne in mind that international disputes always involve some political considerations and whether a dispute is termed legal or political depends on concrete circumstances, views of the parties and how they see the differences between them. The decision of settlement mechanisms depends on the nature of the dispute, whereas for political disputes, the methods are less restricted and also not so binding.18

18 M. N. Shaw, supra note 7, pp. 1010-1013.
1.3.1. **Diplomatic methods**

Negotiation\(^{19}\) is the most employed way to solve international disputes. It basically is a discussion between the parties involved with the aim of solving dissenting opinions, or at least trying to understand the dissimilar positions. Negotiation differs from other forms of dispute settlement because it does not include a third party. This type of dispute settlement method is usually the first option in line of resolving different positions and could be transformed to other methods.\(^{20}\) Negotiation, sometimes also referred to as consultation, may often be indicated in treaties as an obligation of prior consultation before action is taken. Negotiations can be both bilateral and multilateral, depending on the parties involved.\(^{21}\)

Good offices and mediation\(^{22}\) are the next possible ways to solve international disputes. They both include a third party – individual or individuals, a state or group of states or an international organisation – to reach a settlement, or at least try to come to a solution. Good offices and mediation differ from arbitration and adjudication for the reason that parties are persuaded to achieve a satisfactory result by themselves in former mechanisms.\(^{23}\) The distinction between mediation and good offices could be seen in the fundamental difference that, in the former one, the mediator fulfils an active role, whereas in the latter, it is involved more passively. However, these mechanisms are quite similar and not so discerned form each other in practice.\(^{24}\)

Inquiry\(^{25}\) is a kind of dispute settlement mechanism which does not involve the investigation or application of the provisions of law, but seeks for factual justice. Therefore, if the dispute concerns only facts, then inquiry is the method to solve the case. This mechanism of dispute settlement has an ancillary task in combination with negotiation, mediation, good offices and conciliation.\(^{26}\)

Conciliation\(^{27}\) is a method of dispute settlement which has the characteristics of both inquiry and mediation. When there is a dispute, it may be referred to a person or commission whose

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\(^{23}\) M. N. Shaw, *supra note* 7, p. 1018.

\(^{24}\) J. Collier, V. Lowe, *supra note* 3, p. 27.


\(^{26}\) J. Collier, V. Lowe, *supra note* 3, p. 25.

task it is to neutrally clarify the facts and propose a settlement which does not have a binding nature.\textsuperscript{28}

\section*{1.3.2. Legally binding methods}

The dispute settlement mechanisms discussed so far are legally not binding to the parties. Besides the diplomatic ways to solve disputes, there are also the ones that are binding. Shaw, in his work, refers to Jennings, who has written that ‘the adjudicative process can serve, not only to resolve classical legal disputes, but it can also serve as an important tool of preventive diplomacy in more complex situations’.\textsuperscript{29} There are basically two types of binding mechanisms in the international dispute settlement system – adjudication and arbitration. Since they are quite similar, the overview of both is given in comparison.

Litigation or adjudication is a way of resolving disputes quite similarly to the arbitration, with the exception that the latter is not related to the jurisdiction of permanent courts like the International Court of Justice.\textsuperscript{30} In international courts, sides cannot decide on the neutral third party as it is possible in arbitration. The procedure in courts is more formal as well. Arbitration is usually a quicker and cheaper way to solve disputes, but at the same time, it lacks the possibility to appeal.\textsuperscript{31}

In addition to the process of litigation, an alternative way of solving disputes bindingly is suggested in the form of arbitration\textsuperscript{32}. Arbitrational procedure originates from the means of diplomatic dispute settlement. The acknowledged definition of arbitration is ‘the settlement of differences between states by judges of their own choice and on the basis of respect for law’. In arbitrational proceedings, international law is applied, but there could also be an agreement between the parties, from which certain principles would be taken into account.\textsuperscript{33}

Classical arbitration is typically voluntary but final and binding, although it must be noted that there is a number of jurisdictions that use arbitration as a mandatory procedure; however, it would not result in a binding decision. As arbitration is something which sides have to agree on, the process cannot be unambiguously described. Yet arbitration usually includes the same elements as court adjudication: proofs and arguments are submitted to a neutral third party, who has the power to issue a binding decision.\textsuperscript{34}

\begin{flushleft}
\textsuperscript{28} J. Collier, V. Lowe, \textit{supra note} 3, p. 29.
\textsuperscript{29} N. Shaw, \textit{supra note} 7, p. 1047.
\textsuperscript{30} J. Collier, V. Lowe, \textit{supra note} 3, p. 31.
\textsuperscript{31} S. B. Goldberg, F. E.A Sander, N. H. Rogers, \textit{supra note} 19, p. 234.
\textsuperscript{33} N. Shaw, \textit{supra note} 7, pp. 1048-1049, 1052.
\textsuperscript{34} S. B. Goldberg, F. E.A Sander, N. H. Rogers, \textit{supra note} 19, p. 233.
\end{flushleft}
2. The legal framework of trade relations between Russia and the EU

As it appears, there are many ways to solve international disputes, but what is the situation between Russia and the EU in light of these mechanisms? Currently, Russia-EU relations are regulated by the Partnership and Cooperation Agreement. It is indistinct how much legal power the agreement has and whether it is valid or not. Regarding the following, an overview of the fundamental principle of law, pacta sunt servanda, is given firstly and the agreement between Russia and the EU is discussed secondly.

2.1. Pacta sunt servanda principle

To begin with, a brief reference to the nature of international agreements and treaties. Under the Vienna Convention on the Law of Treaties (VCLT) a “treaty” means an international agreement concluded between States in written form and governed by international law, whether embodied in a single instrument or in two or more related instruments and whatever its particular designation. VCLT applies to treaties between states and the mere fact that the convention does not apply to certain agreements does not affect “the legal force of such agreements”. In international law, ‘agreement’ and ‘treaty’ are basically used as synonyms; therefore, the name of the arrangement does not have any influence on the legal effect.

One of the most important provisions in the VCLT in light of this topic is article 26 – pacta sunt servanda. The article says, “Every treaty in force is binding upon the parties to it and must be performed by them in good faith.” This kind of understanding lets us presume that if there is a treaty or international agreement in force and there is no objection from parties to the validity of the contract, the treaty or international agreement has binding effects on the sides.

2.2. Applicable law – the Partnership and Cooperation Agreement

As noted before, the current legal agreement between Russia and the EU, which regulates their relations, including economical relations, is the PCA. An analysis of this international

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36 Ibid., art. 1.
37 Ibid., art. 3(a).
41 See for example European Commission: Trade: Russia (Bilateral relations). Available at: http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/russia/. 07.05.2010; The EU Common Foreign and Security Policy Toward Russia. Riga, 2006, p. 35. Available at:
agreement is introduced in light of the *pacta sunt servanda* principle and the shortcomings of this treaty are also brought out.

### 2.2.1. Overview of the PCA

The PCA was signed in 1994 and came into force in 1997, regulating political, economic and cultural matters between the EU and Russia. It is also the legal basis of the trade relations between the parties. The agreement could be described as a rather idealistic umbrella contract between the sides and its goal is to broaden and intensify the political and economic relations between two partners. The treaty was extended after every EU enlargement: in 1995, in 2004 and in 2007. As it can be seen from art. 106, the PCA was originally meant to stay active for ten years. Yet the same norm refers to the automatic renewal of the agreement if neither of the parties explicitly declares the denunciation of the agreement six months in advance of the expiry. Although there have been attempts to start the negotiations concerning the prospect of a new PCA, no considerable breakthrough has yet been made and the current PCA is therefore still in effect.

### 2.2.2. Relevant norms for the settlement of trade disputes

Among the 112 articles in the PCA, there are regulations on trade between the EU and Russia. First of all, it is stated already in the preamble that the parties are committed to liberalise trade, based on the principles included in the General Agreement on Tariffs and Trade (GATT) as amended by the Uruguay Round trade negotiations and taking into account the establishment of the WTO. Concrete norms of trade are presented in the “Title III Trade in Goods” section. The most relevant of them in light of the topic are, for instance, art. 12, which states that “The Parties agree that the principle of freedom of transit is an essential condition of attaining the objectives of this Agreement” and art. 16, which concludes that “Until Russia accedes to the GATT/WTO, the Parties shall hold consultations in the Cooperation

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42 European Commission, *supra note* 41.
44 A. Härmaste, *supra note* 41, p. 4.
Committee on their import tariff policies, including changes in tariff protection. In particular, such consultations shall be offered prior to the increase of tariff protection”.

At the same time, the agreement comprises provisions, which leave a rather wide space for interpretation of what free trade should be. One particular example is art. 19 of the PCA, which allows to restrict trade with certain reasons, for instance, if the trade ban is needed to protect the health and life of humans. On the one hand, this kind of norm is justified, but on the other hand, it may lead to the misuse of the right, and through that, free trade could be restricted.

2.2.3. The mechanism of settling disputes provided in the PCA

The PCA contains little on the dispute settlement – one norm, art. 101, which explicitly describes the mechanisms for solving issues relating to the agreement. The provision gives the following regulation:

1. Each of the Parties may refer to the Cooperation Council any dispute relating to the application or interpretation of this Agreement.
2. The Cooperation Council may settle the dispute by means of a recommendation.
3. In the event of it not being possible to settle the dispute in accordance with paragraph 2, either Party may notify the other of the appointment of a conciliator; the other Party must then appoint a second conciliator within two months. For the application of this procedure, the Community and its Member States shall be deemed to be one Party to the dispute.

The Cooperation Council shall appoint a third conciliator.

The conciliators' recommendations shall be taken by majority vote. Such recommendations shall not be binding upon the Parties.


Under art. 101, there is a possibility to turn to the Cooperation Council, which has the right to discuss the arisen dispute. However, it has to be noted that the outcome of the Cooperation Council’s discussion as well as the possible conciliator’s resolution is of a recommendatory and non-binding nature, which means that the decision does not implement any legal obligations to the parties.

From the previous overview, it could be concluded that although in respect to the *pacta sunt servanda*, which makes international treaties binding to the parties, the PCA between Russia and the EU lacks legal (enforcing) power. It has to be emphasised that, as it is known to the author, there have not been any trade disputes under the PCA. Even if there have been trade disputes, they have not been made public, which lets us presume that the issues are solved by diplomatic methods.
Having described the theoretical background of the trade relations between Russia and the EU, the thesis continues with an overview of Russia as an international actor in trade relations and after that, examples of Russia’s trade disputes are analysed.
III. RUSSIA IN INTERNATIONAL ECONOMIC RELATIONS

Although Russia has lately gone through many economical difficulties, it has still been named as a second greatest power besides the US. It is important to note that Russia is a vast country by the surface area (world’s largest) and by its population (ninth in the world\(^{46}\)), but by economical indicators it does not have the same greatness. For instance, in 1988, the importance of the Soviet Union in overall world export was only 3,8% and in import 3,6%\(^{47}\). Today, as it is estimated that the members of the World Trade Organization make up some 95% of the international trade\(^{48}\) and Russia is not a member of this organisation, its import and export proportions in the world trade are more or less the same.

The recent tendencies, however, show that Russia, who is one of the BRIC\(^ {49} \) countries, is forming into considerable global economic power. Russia’s economy has been in a constant rise since 1999\(^ {50} \), and if the influence of the latest global economical crisis is not considered, it shows no signs of weakness.\(^ {51} \) It reveals that Russia is developing into a more powerful economy. At the same time, when elaborating on the international dimension and particularly on the relations with the EU, then it can be seen that, due to the lack of integrated trade relations based on legal grounds, those interrelations are developing more slowly than they could or should. To put it simply, there is no consensus on how international economic relations should be like.

These are not only economical issues that impede the mutual understanding in international cooperation. One must also take into consideration, for instance, law, history and politics as areas that form the relations. The latter is probably the main instrument in today’s international community. Kosovo crisis, the US missile defence project in Czech Republic and in Poland, the removal of a Red Army victory monument from the centre of Estonia’s capital Tallinn to its outskirts are only some examples which have led Kremlin to show its displeasure.\(^ {52} \) These examples of irritating Russia are rather of a political nature, but as the country has shown in many cases, it tends to use economical means as political instruments to express its anger.


\(^{49}\) See more for example The trillion-dollar club. The Economist, 15.04.2010. Available at: http://www.economist.com/world/international/displaystory.cfm?story_id=15912964. 15.05.2010.

\(^{50}\) Approximately a 7% annual economic growth.


\(^{52}\) Ibid.
1. The structure of Russia’s economy

To understand a country’s behaviour, one must study various aspects of its actions. It is important to be aware of history as well as culture in order to see patterns of practice and the soul of the nation. Moreover, this knowledge is also essential as to form an opinion on state’s trade.

The development of Russia’s economy has gone through several distinct stages in history, the most substantial one being the collapse of the Soviet Union in 1991. Until that time, centrally-planned economy was practised, but since then, Russia has turned to market economy. It can be argued whether contemporary Russia really has a market economy or not, but if we look at the time period during which Russia has had the new economical system – only 20 years or so –, then it is understandable that some elements of the old system have still remained. Changes take time and one system cannot be substituted with another in just a day’s time.

1.1. From Soviet Union’s centrally-planned economy to market economy

The Union of Soviet Socialist Republics was formed on 30 December 1922. From that time on, the main elements of the union’s economy were industrialisation, collectivisation and central-planning. The development of the economy was aimed at the production growth. For instance, in the industry sector, the plan was to increase manufacturing figures by 70% in 5 years (1950-1955). Another field where Russia invested enormous amounts of material, labour and financial resources was military industry. These investments on military development were made on the account of other economical sectors. Disproportionate development of military industry caused backwardness in other sectors and ultimately brought along disadvantages in international competition. Faulty economical planning led from one problem to another and instead of further development, the administration of economy turned out to be a constant fixing of numerous issues. It was clear that a centrally-planned system with too general approaches to diverse aspects cannot be sustainable.

In 1990, the whole political and economical system of the Soviet Union collapsed. Although, the reforms for solving the aforementioned problems started already in 1989 – hints were seen even earlier –, they only resulted in high inflation and unemployment rate. As described briefly, the Soviet Union collapsed mainly because of its ineffectively planned economy that could not withstand armament races with the US. Besides the economical reasons of the collapse, there were political reasons as well. Namely, it was impossible to prevent the

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53 E. Tomson, supra note 47, lk. 56-57, 61-63. See more about the economical changes in the Soviet Union period from the same source.
54 Ibid., lk. 66.
55 Which, however, survived for more than fifty years.
evident processes of disintegration of the Soviet Union, because one after another, republics declared their independence.56

Unlike the majority of the other republics, Russia launched rather radical economical reforms after the declaration of independence. The two most important keywords in economical renewal starting from 1992 were the liberalisation of prices and a unique privatisation program in the whole world by its scale and capacity. Due to the lack of competence in market economy system and changes that were implemented too suddenly, the economy of Russia still did not develop in the way that was wished.57

As the transition of Russia’s economy from one system to another is not the primary point of research in this thesis, then details have been left out. What one should comprehend is that while trying to understand Russia, a strict condemnation is not a solution. As could be seen from the previous, Russia has had many fundamental changes in the past few decades, therefore the setting up takes time. From another perspective, one could ask how willing Russia is on developing a true market economy with adherence to the concept of free trade. The latter is rather a political and economical question and will not be discussed in the current topic.

1.2. Russia’s position in international trade relations

It is somewhat interesting to follow the developments in Russia’s trade relations because although the nature of its international trade has changed as Russia wanted, it still has a certain recurrent line. For instance, Russia has always protected its domestic market from foreign investments and foreign goods, services etc. This has to do with the functioning and the structure of the economy, because protectionism economics policy as a shortcoming has been revealed in Russia’s WTO accession process58, which is currently one of the most important subjects in international trade for the country. The latter will be discussed below.

Even though Russia practises protectionism policy, it still has to have international trade relations. Russia mainly imports from China (12,9%), Germany (12,6%) and Japan (6,9%). The commodities that Russia imports include vehicles, machinery and equipment, plastics, medicines, iron and steel, consumer goods, meat, fruits and nuts as well as semi-finished metal products. Russia’s main export partners are the Netherlands (12,2%), Italy (9%) and

57 E. Tomson, supra note 47, lk. 66. See more about the reform problems from the same source.
Germany (6.9%). Export articles include petroleum and its products, natural gas, wood and its products, metals, chemicals and a wide variety of civilian and military manufactures. This shows that Russia exports industrial products and imports more high-technology products. If we compare the figures of export and import, the statistics are $295.6 billion to $196.8 billion (2009 estimated) respectively. With these numbers, Russia is the world’s 14th exporter and the 18th importer, whereas the EU is first in both. It demonstrates that Russia’s trade is not of a substantial importance in the world and that it is not in balance – it exports more than imports. The latter is an indirect expression of protectionism in certain sectors.

All in all, Russia has had rough times when practising a certain economical model. It is quite evident that structural changes are not easy to follow through and not very quick by means of time. What is more, according to statistical figures, Russia is not the most powerful trading country in the world. This lets us presume that Russia is behaving modestly on the international stage and develops its economy to be internationally competitive. Nonetheless, in practice it is not so, which can also be seen in Russia’s WTO accession process and in relation to its neighbours concerning trade. Therefore, Russia either has a secret weapon in trading or is repeating the mistake of the Soviet Union’s economical system.

1.3. The development of trade relations between Russia and the EU

In the changing world, relationships between neighbours also have a dynamic nature; therefore, it can be argued how future relations will be formed. As said before, in order to understand the status of interconnections between states at least to some extent, one can look into the past. When trying to simplify the situation and see things from Russia’s point of view, a model of the world can be created – there is Russia and there is the West. As the EU is also a part of the West, it can be considered pertinent to this topic as a representative of the West.

Throughout the history, states have declared various positions towards other countries, whereas these standpoints seem to change. The latter is evidently obvious as the world order itself changes. At the same time, certain expectation of states’ behaviour could be formulated in these changing conditions. When referring to Russia, it is difficult to see this straightforward or expected acting policy on the international level.

When the Russian tsar Peter I stated in 1702 that Russia will, from now on, concentrate on Europe and shaped the purpose of taking over the values of the Evening Lands, it was the first great leap towards Russia’s integration to the West. The mentioned decision was a pure

60 Ibid.
expression of an absolute ruler and gave a firm base for reforms. It is also worth noting that law was meant to be the guide to Russia’s way of implementing western values. In case of success, this kind of approach would have had a vast effect on making international relations more coherent. Let everybody be the judge of how this integrating process has turned out, but probably it has not been as smooth as one could hope.

1.3.1. The effect of the EU’s legal framework on relations with Russia

Before the EU got its large membership and became the unified economical power on the international level, member states had bilateral agreements with one another and with third countries. For instance, before Estonia became the member of the EU, it had several agreements with Russia. However, there were problems with bilateral treaties as well.

What has been affecting the relationships between Russia and Estonia is that there are no concluded fundamental contracts on economic relations. One of the main impediments of developing effective economic relations between the mentioned parties was Russia’s decision to impose double tariffs on Estonian goods in 1995 (200% of the base tariff). After Estonia became the member of the EU (i.e. 1 May 2004), these double tariffs were abolished. Just to illustrate the situation before the membership of the EU, Estonia had e.g. an agreement concerning aviation (which came into force on 30 August 2000) and an agreement on cooperation and mutual aid concerning customs (which came into force on 9 August 1999) with Russian Federation. These bilateral agreements between the members of the EU and Russia are not vital nowadays because of the legal framework of the EU itself. To sum up the topic of bilateral agreements, it has to be mentioned that these agreements still seem to be valid, but as there is a common legal system in the EU, the agreements on the EU level are more relevant than the contracts between the members of the EU and third countries.

Article 28 of the Treaty on the Functioning of the European Union affirms that the EU is a customs union and has a common customs tariff in relations between the member states and third countries. Based on that, it can be derived that the EU is a unified economical system that acts on behalf of its members when dealing with third countries. In this sense, Russia is a third country as it is not a member of the EU. This basically suggests that the EU should be acting by the common consent; moreover, it could also be said that the members of the EU

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62 E. Tomson, supra note 47, lk. 91.
should be treated as a unified international subject in issues like trade with third countries – that presumption is followed in this thesis as well.

It has to be noted that even though the EU is defined as a customs union, Russia still practises its “divide and rule” policy, which roughly means that Russia does not accept the unified EU, but rather wants to break it into parts and discuss matters separately with each member state with whom it has problems. It is up to the EU how it proves its unified nature and how it acts on behalf of all the member states; therefore, this political aspect of Russia’s approach does not have any legal consequences. However, it is interesting to see that although the EU should be taken as an integrated entity by Russia, the latter still seems to prefer the bilateral approach.

### 1.3.2. Trade relations between Russia and the EU

Russia is the EU’s third major trading partner and the economical ties are even stronger vice versa – the EU is the number one trade partner of Russia. The EU mainly imports mineral fuels, lubricants and materials related from Russia, which constitutes 68,1% of overall import value. About half of the EU’s export to Russia consists of machinery and transport equipment. What particularly concerns the EU in trade relations with Russia is energy. Russia is the chief supplier of energy to Europe; moreover, Russia knows its position and the dependence of relations with the EU – it provides the EU with energy and therefore has some kind of control over forming politics (as economical matters have become the means of manipulation).

All in all, Russia and the EU are highly interconnected in trade matters. The difference is that Russia treats energy as a secret weapon and acts more aggressively towards the EU in order to protect its interests. Although the bilateral agreements formed the EU’s system, there are still some unsolved issues concerning the unitary action with the third states. To put it simply, the EU has not reached the consensus in every question and Russia uses the situation against the union when manipulating, for instance, by means of supplying energy. The EU, on the one hand, wants to define itself as a single entity on the international level, but on the other hand, does not want to make Russia angry because of the interdependence on energy. This status quo could be illustrated with examples of Russia’s trade disputes – one with Estonia and another with Finland. Even though these trade disputes are not connected with the energy issue, they still show the attitude of Russia and the weakness of the EU system.

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64 See for example T. Forsberg, A. Seppo, supra note 6, p. 1809.
IV. DESCRIPTION OF THE TRADE DISPUTES

The following overview and analysis of the two trade disputes between Russia and the EU were not selected randomly. The reasons of this decision are explained below. It has to be emphasised that these examples have an illustrative value on Russia’s international trade practice. As there was only an insignificant amount of information available, then no fundamental analysis could be formed. Still, these two trade disputes are not thoroughly investigated (at least not known to the author) from the perspective of law and the agreements between the parties; therefore, a new approach is added to the overall research of Russia’s international trade disputes.

1. Russia’s international trade disputes

Trade disputes between different parties serve various goals. Also, the reasons of disputes do not collide and often, causes tend to be very dubious by their nature. In general, disputes are devastating to both sides – it only depends how painful they are specifically. Trade disputes seem to be undertakings similar to ordinary law suits in courts – both sides spend more resources than they should and whoever comes to their senses first, proposes a settlement and therefore loses in legal aspect. In fact, the win for one side is still an illusion because the winning side also has to invest money and time into the dispute. By their nature, disputes in their very essence have more negative side effects than positive ones.

The situation is the same with Russia’s trade disputes. Here, one must include Russia’s claim of supremacy as well, but in the end, there are still two losers in the game of trade disputes. To support this argument even further, it can be seen from various trade disputes with Russia that these rows tend to achieve only short-term goals and are rather declarations of power. Consequently, Russia often damages its economy with trade disputes which serve the purpose of power demonstration. In the dispute settlement chapter, an overview was given of the power-oriented and rule-oriented approaches. To understand the theory, it is important to know some examples of the trade disputes.

1.1. Overview of the trade disputes

Russia is no exceptional country among the international community, which has had dissenting opinions with its partner states in various questions. Disputes between countries can be of a different nature – not all the disputes that arise between countries are economical; however, it is the primary topic in the thesis. As a matter of fact, economical measures are closely interrelated to other types of disputes like political or historical ones. Russia has had many arguments of this kind, in which it claims that these are political, not legal questions.
and that economical sanctions are only consequences. Overall, there are different types of disputes in Russia’s practice and it is often complicated to draw a line between the specific spheres of the issues, because they are interlinked. Just to illustrate the diversity of Russia’s disputes, there has been, for instance, an import ban on Polish agricultural products, a dispute on Lufthansa Cargo overflight rights with Germany, problems with Georgian and Moldovan wines, oil supply cuts with Germany, threat on pork ban with Bulgaria, trade sanctions (canned sprats) and discriminatory rail tariffs with Latvia, trade disputes (flowers, fruits and vegetables) with the Netherlands etc. When looking at the substance of the mentioned disputes, then it can be seen that the main reasons of them are more often of a political nature, not economical. Therefore, it can be concluded that economical sanctions are measures in relation to other issues. Although the backgrounds of the disputes are different, they often have economical elements in them. This could be seen vice versa as well – trade disputes tend to have, for instance, political elements in them.

1.1.1. Selection
Firstly, the selection has been made concerning the topic, which is narrowed to the EU. Finland and Estonia are one of the few countries, being the members of the EU, which have a mutual mainland border with Russia. The closest countries to their Eastern partner, Finland and Estonia represent the “near abroad” and are therefore subject to the purest behaviour of Russia. It must be also noted that Finland and Estonia do not come from the same historical background in relations with Russia – first of the countries has enjoyed its sovereignty for 92 years, while the other has been under the occupation of the Soviet Union for a half century. Therefore, a difference concerning Russia’s attitude towards its relatively different neighbours can be seen in these chosen disputes. This aspect can be analysed from another perspective as well – Estonia and Finland are ‘the doors’ of the EU for Russia, so these countries have a considerable importance when communicating with the Eastern partner.

Secondly, these two trade disputes give a rather different overview of Russia’s trade disputes – one was Russia’s countermeasure for the Bronze Soldier monument removal, the other was a political expression of the necessity of the Nord Stream gas pipe. Accordingly, the dispute

69 Besides Latvia, Lithuania and Poland.
with Estonia was a reaction to the political decisions made in Toompea, whereas Finland’s dispute was an exchange of reciprocal interests.

2. Russia’s and Estonia’s trade dispute after the Bronze Soldier case

In the communication between Estonia and Russia, more negative tones come to mind, at least from an Estonian’s point of view. Various political and economical tensions, which occur once in a while, let us notice that these two states have different views on certain principles. This, of course, does not mean that we should blame one or both of the parties – because quarrels, in essence, are usually not unilaterally caused –, but rather understand the distinct aspects. What is more, even best friends can argue over many things, so there is no presumption of a good or a bad side in this research. The latter discussion would belong to the field of psychology; moreover, one could also raise a historical issue or other perspectives to be considered in order to understand complex interrelations on the states’ level, but these aspects are not the objects of research in this thesis.

In relations with Russia, Estonia is considered to be a ‘frosty pragmatist’ along with Czech Republic, Denmark, Ireland, Latvia, the Netherlands, Romania, Sweden and the United Kingdom. This categorisation derives from the fact that although these countries tend to be pragmatic and business-oriented, they consistently raise issues on democracy and human rights; furthermore, they are willing to challenge Russia when it violates their commercial interests as well as diplomatic norms.\(^\text{70}\)

When referring to one of the ‘frosty pragmatists’, Estonia, then it has to be mentioned that because of the geographical closeness and historical connection to Russia, the smaller state is an eyesore to the bigger one. Also, Estonia depends on Russia in many ways, for instance, 100% of gas need is supplied by the Eastern neighbour.\(^\text{71}\) Hereby, almost all political decisions of Estonia are delicate because of the tense relationships.\(^\text{72}\) The dispute under discussion concerns Estonia’s political step of removing a war memorial, which consequently irritated Russia.

2.1. Facts of the dispute

Under the War Graves Protection Act, the Estonian government decided to relocate the Monument to the Liberators of Tallinn (Bronze Soldier), which was erected in 1947, from the center of Tallinn to its outskirts. Before the actual work started on 26 April 2007 by removing

\(^{70}\) M. Leonard, N. Popescu, supra note 68, p. 42.

\(^{71}\) Ibid., p. 43.

\(^{72}\) See M. Roth, supra note 66, p. 12.
the monument and reburying the remains found under the statue, Russia warned Estonia of “most serious consequences in relations between Russia and Estonia”.73

The crisis started when the excavation preparations at the site were accompanied by demonstrations and even violent riots. The Estonian government held an emergency meeting to deal with the situation. The Bronze Soldier was removed in the early hours of 27 April, but the situation in Tallinn calmed down the day after. Two days of rioting and looting resulted in over 1000 persons detained, more than 150 injured and 1 dead. Inflammatory rhetoric was used in Russian government-controlled media and Russian officials condemned Estonia’s actions as ‘barbarism’ or ‘blasphemy’.74

2.2. Outcomes of the case

What resulted from the dispute was a major diplomatic row with economic pressure employed by Russia on Estonia.75 Russian Federation Council even passed a resolution in which Russia stated that it may terminate diplomatic relations with Estonia. The latter also suffered large-scale cyber attacks and to make matters worse, the Estonian embassy in Moscow was ravaged by the youth movements “Nashi” and “Molodaya Gvardiya” with no protection from the Russian authorities, which was considered as a breach of the Vienna Convention on Diplomatic Relations.76

Besides the aforementioned consequences, Estonia also faced economic pressure by ‘hidden sanctions’.77 For instance, Russia banned the import of Estonian meat with the explanation that the products do not meet the set requirements.78 Russia also closed the bridge across the Narva River for trucks with the capacity over 3,5 tons (later 13,5 tons) with reference to the “unsafe condition” of the bridge.79 What is more, the port of Tallinn handled 17,5% less freight compared to the same period a year before. This kind of decrease cannot be caused only by the ‘pure’ business fluctuations, but also by the drastically changed politics of Russia. Russia’s decisions affected the Estonian railways even more. It was estimated by Estonian railways in September 2007 that the amount of cargo had dropped 30% since the Bronze Soldier affair, causing some 200 rail workers to lose their jobs. Russia excused its steps by

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74 M. Roth, supra note 66, p. 13.
75 M. Leonard, N. Popescu, supra note 68, p. 46.
76 M. Roth, supra note 66, p. 13.
77 Ibid.
79 Truck traffic resumes over bridge linking Russia with Estonia. RIA Novosti, 17.05.2007. Available at: http://en.rian.ru/world/20070517/65636573.html. 02.05.2010.
saying that the railways needed urgent repairs.\textsuperscript{80} Estonia’s main countermeasure in reaction to Russia’s behaviour was a travel ban against some Nashi activists.\textsuperscript{81}

2.3. \textit{Summary}

As could be seen from the previous overview, Russia put a pressure on Estonia in several possible ways. However, this case is not a traditional trade dispute – state vis-à-vis another state –, because there was no official import ban declared by Russia. Yet Russian businesses blocked imports and some politicians recommended people not to buy Estonian products.\textsuperscript{82} It could be said that the Russian government had a dilemma concerning how they should act. On the one hand, they wanted to show Estonia who dominates in the relations between them and also protect their national pride. On the other hand, as long as Russia’s economy depends on petrodollars, the Kremlin has to think about the stable revenues as well.\textsuperscript{83}

The main aspects of the dispute that arose from the removal of the Bronze Soldier were not exclusively economical. Yet Russia wanted to show that no-one should disagree with it and used a variety of measures against Estonia, including economical pressure. At the same time, those sanctions started working against Russia’s interests and in the end, these measures turned out to be temporary. It could be claimed that the acts against Estonia were clearly an expression of power, but Russian government somehow held a low profile position. On the high authority level, Russia did not declare a formal trade war with Estonia. As mentioned before, all the trade-related measures were ‘hidden sanctions’. Some of the Russian officials and government-related companies urged to abolish trade relations with Estonia, but there was no consent decision on the governmental level. At least it was shown that way. Practically, it still could be said that the trade sanctions against Estonia were political decisions with ‘decent reasoning’.

As a demonstration of power, Russia showed that it can establish and drop the trade sanctions, being arrogant even when those sanctions started to counterwork. Basically, trade bans were dropped as they were emerged. Negotiations between the two sides remained on the diplomatic basis with no certain legal ground. The involvement of the EU remained modest in this particular case.\textsuperscript{84} All in all, Russia’s sanctions against Estonia affected both countries negatively in various ways. Rationally, there should be a way how Estonia could claim the

\textsuperscript{80} I. Stupachenko. No Loyalty, No Cargo. – Transitions Online, 19.11.2007, p. 5.
\textsuperscript{81} M. Leonard, N. Popescu, \textit{supra note} 68, p. 46.
\textsuperscript{82} Russian ministry has no plans to limit trade with Estonia. RIA Novosti, 08.05.2007. Available at: http://en.rian.ru/russia/20070508/65118263.html. 02.05.2010.
\textsuperscript{83} Russian-Estonian relations: stuck between a rock and a hard place. RIA Novosti, 28.04.2007. Available at: http://en.rian.ru/analysis/20070428/64620110.html. 02.05.2010.
\textsuperscript{84} See more about the EU’s part from M. Roth, \textit{supra note} 66, pp. 14-15.
economical loss from Russia’s inappropriate action and maybe even vice versa, but it would not be politically the wisest decision for a small country to start rebelling against the bigger neighbour. As a matter of fact, this dispute has terminated similarly to many other political ones – things have somehow settled in a satisfactory way and the matters are left to rest again.

3. **Russia’s and Finland’s trade dispute over export taxes on timber**

Another Russia’s trade dispute has analogous traits with the previous one, but in some sense, it is different as well. When Estonia is a ‘frosty pragmatist’ towards Russia, then Finland is categorized as a ‘friendly pragmatist’. The latter is the biggest group of states in the EU, consisting of Austria, Belgium, Bulgaria, Hungary, Luxembourg, Malta, Slovakia, Slovenia and Portugal. These countries rather follow the mainstream policy of the EU than try to form the rules. They do not actively participate in the Russia question and tend to avoid actions which they fear might irritate Moscow. What is more, these countries tend to take full advantage of the opportunities offered by Russia’s economic growth.\(^{85}\)

Russia, as for Estonia, is an important trading partner to Finland as well. Russia is Finland’s principal supplier of energy, providing more than 70% of the energy imported by Finland, whereas all the natural gas used in Finland comes from Russia. These two countries have also other subjects of cooperation, like investments.\(^{86}\) Hereby, as could be noted in case of Estonia, due to the regional connection, states are greatly interlinked in various areas. Similarly to Estonia, Finland has persistent problems in trade relations with Russia. Currently, the most difficult and serious issue is related to export duties on timber imposed by Russia.\(^{87}\)

3.1. **Facts of the dispute**

Russia started to rapidly raise the export duties on timber from July 2007 and its goal was to quintuple the tariff from €10 to €50 per cubic meter by 2009. This kind of decision threatened to halt Finland’s import of timber from Russia. The background of this dispute is connected to the structural change of Russia’s economy. The high timber tariffs serve Russia’s interest in the sense that Russia wants to diversify its one-sided economical structure in order to compete in the global markets and be less dependent on the sales of raw materials only. To achieve that, Russia was using customs and duty policy to force Western countries to build up pulp and paper mills in Russia, while at the same time, its own industry was planned to acquire

\(^{85}\) M. Leonard, N. Popescu, *supra note* 68, p. 36.
\(^{87}\) *Ibid.*
cheap wood. Hereby, Russia’s purpose was not to earn more money, but also to stop the export entirely.\textsuperscript{88}

The tariff hike on timber is a crucial issue for Finland as higher taxes seriously affect Finnish industry, since one fifth of the wood used by the country’s pulp and paper manufacturers is imported from Russia.\textsuperscript{89} According to the Bank of Finland, some 16 000 jobs in the Finnish forest industry were at stake. Stora Enso Oyj and UPM-Kymmene Oyi, Europe’s two biggest papermakers, already had to cut more than 1000 jobs in Finland in 2008 due to the dependence on Russian wood and problems arising from that.\textsuperscript{90} What is more, Russia’s plans to impose export tariffs on timber also concerned Sweden, which imports mainly birch from Russia.\textsuperscript{91}

3.2. Outcomes of the case

Finland tried to solve the situation through bilateral talks in the summer of 2007, but with no effect. After that, the government decided to increase the ground of the matter, taking it to the EU level. Russia’s main standpoint in this situation was that those tariffs were normal market mechanisms and the country was irritated that this problem was directly connected to its WTO accession process. The Finnish government claimed that as a part of Russia’s accession process to the WTO, Russia and the EU signed a protocol in which the former committed to giving up trade barriers and that agreement was now breached by Russia.\textsuperscript{92}

After several attempts to solve the situation\textsuperscript{93}, a turning point came with Russia’s need for Finland’s consent on the Nord Stream gas pipeline along the Baltic seabed from Russia to Germany.\textsuperscript{94} Russia did not end the dispute, but postponed the negotiations. Putin’s official version for postponing the tariff implementation was that “this is done with the aim to help our Finnish colleagues and friends in the times of crisis”.\textsuperscript{95}

\textsuperscript{89} Russian export tariff could end timber imports into Finland. Helsingin Sanomat, 12.02.2007. Available at: http://www.hs.fi/english/article/Russian+export+tariff+could+end+timber+imports+%20into+Finland/1135225040316. 02.05.2010.
\textsuperscript{91} T. Forsberg, A. Seppo, \textit{supra note} 6, pp. 1816-1817.
\textsuperscript{92} Ibid.
\textsuperscript{93} See more from T. Forsberg, A. Seppo, \textit{supra note} 6, pp. 1817-1818.
\textsuperscript{94} Russia Delays..., \textit{supra note} 90; What the Russian papers say. RIA Novosti - Russia and Finland reach understanding on Nord Stream. Available at: http://en.rian.ru/analysis/20090421/121235599.html. 02.05.2010.
\textsuperscript{95} Finland, Russia agreed on timber trade. BarentsObserver, 03.06.2009. Available at: http://www.barentsobserver.com/finland-russia-agreed-on-timber-trade.4601506-116320.html. 02.05.2010.
3.3. **Summary**

Due to Russia’s firm standpoint on this question, the dispute has not been fully solved as Russia postponed the tariff increase on timber. This kind of approach represents the most common version of Russia’s international disputes in the best way. Even though, as mentioned, there is a commitment to give up trade barriers, Russia is not willing to do that. On the one hand, Russia again shows its power on controlling others and follows its national interest. This cannot be rebuked to Russia as everyone protects their interests. On the other hand, this somehow reflects the current weakness in dealing with Russia in such situations. The latter is a question of enforcing the agreements between the parties. As it could be seen, binding contracts are not always treated as something obligatory.

4. **Similarities between Russia’s trade disputes**

For an interim conclusion of the sample trade disputes, issues concerning Russia seem to go as the Great Power wishes. In relations with the EU, Russia manipulates with its monopoly-like status on energy supply and enjoys the freedom of deciding on several matters, for instance, how disputes will be solved. The EU is somehow trying to push the legal framework towards Russia and act as a union, but Russia is not so willing to comply. Deriving from that, various disputes are rather solved on other basis than judicial. Also, as the topic of this thesis suggests that the EU is under scope in relations with Russia, states have, in many cases like the two described before, decided to solve the problems primarily on bilateral basis vis-à-vis Russia. Even though the weaknesses of the EU and Russia’s “divide and rule” policy towards it are not covered in detail in this thesis, those aspects have significant relevance in forming relations and solving the issues.

It could be claimed that the two sample trade disputes covered in this thesis do not represent the reality, or at least no similarity could be formed from this basis. Actually, Russia’s practice looks more or less the same with other trade disputes as well. If the readers’ interest is more profound, then there is a possibility to learn about Russia’s other trade disputes from different researches.96 Just to bring out some bright examples of how Russia generally behaves in international trade, the acts against Georgia and Poland could be mentioned – one can buy Georgian-origin Borjomi mineral water in many countries except Russia, because the latter has claimed that the water is dangerous for health; the same grounds were for the ban of Polish meat.97

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97 I. Stupachenko, *supra note* 80, p. 5.
V. ANALYSIS OF THE **STATUS QUO OF RUSSIA-EU RELATIONS AND A POSSIBLE FUTURE REGULATION**

In this section, the aspects described before are correlated and an opinion of Russia’s understanding of international law is provided on that basis. Also, a hypothetical future scenario is discussed from the perspective of Russia’s accession to the WTO.

Bearing in mind the fact that no certain answer could be given in Russia question, the evaluation part hereinafter largely reflects the standpoints of the author. Nevertheless, it is possible to reach the conclusion provided by evaluating the aforementioned topics in a quite objective way. To justify this kind of approach even more, it has to be noted that lingering in the frames of formalism, which could appear in scientific papers, decreases the potentiality of new ideas. Hereby, while still retaining the academic basis, rather practical observations and suggestions are brought out in light of the theory, current Russia-EU interrelationships and specific examples of trade disputes argued before.

1. **Russia and international law**

According to the Russian constitution, international law is an integral part of the country’s legal system.\(^98\) Yet there is a debate over the question of monist and dualist approaches in Russia.\(^99\) Despite the latter, the idea of a constitution prevails in this thesis, so it could be said that Russia follows international law, at least in theory. This approach also applies to international treaties and agreements of Russia, as stated in the same provision of the constitution. Generally, it means that in our case, the PCA is a part of Russia’s legal system and therefore has a compulsory nature. The question that remains, though, is how the norms are followed by both of the parties and which problems exist with the PCA overall.

1.1. **Patterns in Russia’s behaviour on the international level in light of the trade disputes**

Russia's common position in foreign affairs has been stated and also demonstrated from time to time: without proven loyalty or cooperation, no economic benefits.\(^100\) This general announcement is also plausible in the trade disputes described above. When we add this assumption to the trade disputes analysed in this thesis, one could see that in reality Russia indeed acts in that way. In the Estonia-Russia dispute, the standpoint of the Eastern neighbour

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\(^100\) I. Stupachenko, *supra note* 80, p. 5.
was that if Estonia acts unfriendly towards Russia, it cannot expect understanding and suffers from negative consequences. However, in Finland-Russia case, the restriction of free trade is more a political instrument, which is another principle in Russia’s behaviour. Hereby, two main elements could be brought out – reciprocity and politics.

Now, if we take into account the legal aspect of the question, the existence of the PCA must be acknowledged. It is an international agreement and is binding for the parties, as could be seen from the analysis before. Putting together the non-legal elements of reciprocity and politics with the PCA, one could note that in these cases the former prevailed. The author did not find any evidence on the use of the PCA in practice and so it turned out to be with the two trade disputes as well. There was rather a political debate on how things should be solved.

The mistakes or shortcomings in this situation should be sought from the PCA itself. As discussed above, it is an important document that regulates Russia-EU relationships in various fields. Concurrently, it appeared that the agreement lacks enforcing power, since the dispute settlement has a voluntary and a non-binding nature. From that it could be seen that Russia may be acting wrong legally, but it cannot be made accountable under the PCA. Another explanation to the situation is that Russia is not satisfied with the rules as it has stated the reluctance of following the norms from outside.101 According to that, Russia shows its attitude and there is legally nothing much to do. One must also bear in mind the economical interconnection of Russia and the EU, especially from the standpoint of the latter, which needs the Russia’s energy.102 These are political considerations that play quite an important role in the relations.

1.2. Summary

All in all, with current legal instruments, it is difficult to reproach Russia because the question is more about politics. On the one hand, when looking at the trade disputes, Russia is acting against the general principles of free and liberal trade. On the other hand, there is no legal way of making Russia responsible for its actions. It must be noted here that the overall issue is not in the international law, but rather in the will of the states. Presumably, the West prefers the rule-based communication, but this is not fully acceptable to Russia. It also has to be noted that the approach of the West towards Russia is rather supercilious than friendly. Russia, however, wants to be taken as an equal partner on the international level. So we can see the clashing interests and values here, which is not a question of international law, but rather of a general intercourse. It is a question of understanding Russia. A possible way of changing the

101 See for example M. Light, supra note 45, p. 15.
102 See for example D. Bungs, supra note 43, pp. 46-47.
status quo would be to look also at ourselves, not only make an effort to change Russia. The following illustration of the character of Russia by Stuermer somehow catches the very substance of the country on the international level:

“The result is usually described as a paradox, but perhaps it is much more the combined effect of imperial nostalgia, unrealistic expectations, everyday bullying and the desire to develop an identity somewhere between the vastness of the Eurasian steppe and the complacency of the Western club. Russians after a century of catastrophe, humiliation and disappointment have a need to define for themselves a role in accord with their self-respect and their newly discovered – one-dimensional and therefore fragile – power. The national discourse is not only about material well-being, it is also about the meaning of Russianness, history, civilization, the relationship with Europe, and the mirror image of the US.”

Currently, it seems that Russia is in a defending position and the West tries to apply its rules to the country which does not exactly know its position on the international level. Logically, the insecurity creates an automatic reluctance, which could be seen from the earlier discussion. It is not easy to say what to do in this situation. On the one hand, rules are rather guidelines to life and they should not be overrated, but on the other hand, some kind of critical approach to Russia should be retained. One possible key to more comprehensive trade relations would be the legal framework of the WTO.

2. A possible future regulation – the WTO

At present, Russia is not the member of the WTO, being therefore the last important economic power not in the club, but is eager to integrate itself to the international trade by fits and starts. Due to the latter observation, the review following is based on the present WTO system with a hypothetical presumption – what if Russia was a member of the organisation. If Russia would join the most important trade-related international organisation, what would change?

2.1. The World Trade Organization

The history of the law of international trade roughly dates back to the time of World War II, particularly to the end of the war, when the Allies started formulating the post-war world. One of the most important issues among the other considerations was the question of international trade. The 1947 GATT became a fundamental system of international trade and after the

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103 M. Stuermer, supra note 51, p. 175.
104 Understanding the WTO – members. Available at: http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm. 08.05.2010.
Uruguay Round, the principles were formed into the World Trade Organization.\textsuperscript{105} The WTO was established in 1995 and at the moment it has 153 members. The main functions of this central trade organisation are administering trade agreements, being a forum for trade negotiations, handling trade disputes and monitoring national trade policies as well as giving technical assistance to developing countries and cooperating with other international organisations.\textsuperscript{106}

2.1.1. \textit{The settlement of trade disputes in legal framework of the WTO}

The Dispute Settlement Understanding (DSU), which is a part of the WTO Agreement, formulates a unified system for the settlement of trade disputes, based on articles XXII and XXIII of the GATT. The task to put those rules into force is given to the WTO Dispute Settlement Body (DSB), which consists of every member of the WTO and makes the decisions by consensus. If there is a dispute, primary methods to solve them are usually in form of good offices, conciliation and mediation, but if these mechanisms do not provide a solution, then the complaining party may request the DSB to establish a panel of three or five members to solve the case. The WTO system also foresees a possibility to appeal to the Appellate Body, which consists of seven members. Appeals may be made by the parties only and in questions of law and legal interpretations in the panel report.\textsuperscript{107}

The procedure with strict time limits of dispute settlement starts with a complaint, where one member of the WTO brings out the breach of another member. If consultations between the parties have failed, a panel is requested and the specific issues will be brought before the panel. After that comes the establishment of the panel and pre-panel proceedings, whereas in the latter, oral and written statements will be gathered together. Firstly, the panel issues a descriptive report on the facts and positions of the parties, but with no outcome. This is done to avoid mistakes in the circumstances. Secondly, a final report is issued. Prior to that comes the adoption of the Panel Report, which means that if there does not exist a consensus on not adopting the outcome, it will come into force. At that point, parties have a right to appeal to the Appellate Body, but the points of appeal are limited to the issues of law and legal


interpretations only. The Appellate Body Report is binding to all the members in the same way as the Panel Report, unless DSB decides not to adopt the ruling by consensus.\(^{108}\)

The bottom line in relation to the thesis is the legal power of the outcome of the dispute settlement. As argued above, current legal mechanisms between Russia and the EU seem to lack such enforcement strength as the WTO dispute settlement system, which also includes the regulation on compliance with the decisions.\(^{109}\) Hereby, there exists a more binding and possibly even more effective way of resolving trade disputes, but the problem is that it does not apply to Russia.

\[2.1.2. \textit{Russia on its way to become a member of the WTO}\]

The ongoing process of Russia’s accession has been the longest in WTO history as the negotiations have lasted for 17 years, as of 2010. Although bilateral agreements have been almost obtained, multilateral consensus has not been achieved.\(^{110}\) It does not seem to be a question any more whether Russia will accede to the WTO, but when it happens.\(^{111}\) Therefore, many of Russia’s trade partners are waiting for Russia to become a member of the international trade community. For instance, the European Union has tied its future relations with Russia to the membership in the WTO and the new PCA will be negotiated in light of the new status of Russia.\(^{112}\)

There have been many signs of dragging on the accession, but Russia also has come up with several economical concerns (protection of the domestic market) as well as changed its approach. One of the latest unexpected alterations in Russia’s strategy was its claim to join the WTO as a customs union with Kazakhstan and Belarus. This was something new for the WTO because there has never been such a precedent of this kind.\(^{113}\) The idea of attempting to join as a customs union, however, was dropped several weeks later, but the three countries still seem to coordinate their accession processes.\(^{114}\) It is also interesting to see how the official approach of the Russian government has varied. During the first term of Putin as a


\(^{110}\) J. Z. Yin, \textit{supra note} 58, pp. 60-61.


\(^{112}\) \textit{Agreement on partnership and cooperation…. supra note} 40, art. 4: The Parties undertake to examine together, by mutual consent, amendments which it may be appropriate to make to any part of the Agreement in view of changes in circumstances, and in particular of the situation arising from Russia's accession to the GATT/WTO. The first examination shall take place three years after the entry into force of the Agreement or when Russia accedes to the GATT/WTO, whichever is earlier.

\(^{113}\) Russia, Belarus, Kazakhstan to Join WTO on Separate, But Coordinated, Terms. ICTSD reporting. Available at: http://ictsd.org/i/news/bridgesweekly/57412/. 09.05.2010.

\(^{114}\) Belarus, Kazakhstan Raise Doubts about Customs Union with Russia. ICTSD reporting. Available at: http://ictsd.org/i/news/bridgesweekly/74017/. 09.05.2010.
president of Russia, he made Russia’s entry into the WTO as a priority in the economic reforms, whereas when he was re-elected, Putin seemed to change his view and the WTO became a minor concern.\textsuperscript{115} What may have offended Russia somehow is that China is in the WTO, but is not recognised as a market economy, whereas Russia is not in the WTO, but has been granted the status of market economy by the EU and the US.\textsuperscript{116}

Besides the political and strategic steps, Russia has expressed the concerns in opening markets. For instance, Russians say that the businesses which are oriented to the domestic market will be swamped by cheaper products from foreign enterprises, while Russia will make little progress in entering international markets. These kinds of concerns have been brought out in many fields including services and agricultural industry.\textsuperscript{117}

2.2. \textit{Summary}

When Russia accedes to the WTO, it will make a legally binding commitment to the rules of international trade. On the one hand, Russia would then have a chance to influence the process of making and implementing rules. On the other hand, opening markets to foreign goods and services is likely to affect Russia’s economy quite grievously. If we think of the mainstream economic theories and the record of economies that have gone through similar transitions, we could say that trade liberalisation in the long run will lead to a more competitive Russian economy on the international level. At the same time, it has to be noted that short run consequences may be quite harsh, resulting in the loss of jobs and in the interference of Russian government for assistance.\textsuperscript{118}

The legal framework of the WTO will provide more binding mechanism for the dispute settlement, compared to the current one in EU-Russia regulation. This will give more legal basis for the relationship, but in reality, the aspect of politics nevertheless remains. Legally speaking, means of solving the disputes in the WTO framework seem to make the relations more stable and maybe even transparent; however, other aspects besides the law still play their own role in the communication of the states.


\textsuperscript{116} Ibid.

\textsuperscript{117} J. Z. Yin, supra note 58, pp. 61, 68-70.

\textsuperscript{118} W. H. Cooper, supra note 111, pp. 24-25.
VI. CONCLUSION

Aspects discussed in this thesis show the complexity of relations between the states. In order to somehow disentangle the topic, this paper seeks an answer to the question of how effectively trade disputes are solved between Russia and the EU.

The existence of international disputes refers to the imperfection of the system. Misunderstandings between the states show that the current world order is not satisfactory for fulfilling everyone’s interests. Hereby, problems could be seen as guidance towards the adjustment of the status quo. In the relations between Russia and the EU, this observation is relevant as well, as the current regulation, the PCA, does not provide an effective dispute settlement mechanism. If we look at the situation only from a legal perspective, the present situation in concern of resolving trade disputes between the parties shows the lack of enforcement in the occasions were breaches occur. At the same time, the law cannot be taken in clinical isolation from the reality. Many international disputes have political reasons and, as described in this paper, the examples of Russia’s trade disputes largely share the same nature.

This thesis explains the problems in current Russia-EU relations from the perspective of the agreement between the parties, but also evaluates the shortcomings which are not clearly law-related by bringing out the possible reasons of the status quo. The main idea of this paper is to give an approach to understand Russia and to elicit an opinion about how the relations with the great power could be improved. As it comes out from the research, international law does not always have an ultimate control over the issues.

While looking at Russia in the context of the international trade agreement with the EU, one could see from the sample trade disputes provided before that Russia is acting disrespectfully to the rules. Simultaneously, it is difficult to make Russia accountable for its breaches because the PCA does not provide binding resolutions to trade disputes. It is also important to note that the economical interconnection of the parties also plays a role, especially when thinking of the EU’s energy need, which is provided by Russia. Hereby, we could depict that even if there is a legal agreement regulates the relations, Russia knows the bottlenecks of it as well as the other aspects like economical dependence, which form the reality.

Recurring concepts in Russia’s international trade disputes are the principles of reciprocity and politics. It appears that Russia is artfully using the legal loopholes in the PCA and therefore nothing could be clung to in order to blame it. The trade disputes with Russia are generally expressions of politics – reciprocal reacts to the acts which irritate Russia, like the

economical sanctions following the Bronze Soldier case, or as in the case of Finland, political trade with postponing the increase in timber tariffs in return to the Finnish government’s approval in the Nord Stream question.

On the contrary, maybe Russia’s непосредственно ignorance of the international rules is more honest than hiding behind the law? It can be concluded from the thesis that Russia’s market economy is still quite young and Russia has not entirely found its place in the international community. It may seem like a rather philosophical debate, but at the same time, it has relevance on the relations. If we assume that the West prefers a rule-based world which they impose on Russia, it creates an automatic reluctance to comply with the forced norms from the latter and therefore generates tensions in international law. A solution could be that every state is treated equally and without a prejudice – that may lead to a harmonised world not only in trade-related issues, but more widely. This kind of approach might seem a bit naïve, but is nevertheless worth trying. In international trade relations, the platform for this kind of discourse could be in the WTO, once Russia accedes to the fundamental international trade organisation.

The bottom line is that current Russia-EU relations are not based on firm legal instruments. This gives a rather loose possibility for the parties to interpret the norms as they want, but at the same time, no certain outcome of the dispute settlement can be pinpointed because of the non-binding nature of the agreement. Accordingly, there cannot be any manifest breach of international law, even though the West perceives Russia to be severely infringing it. These shortcomings can be surmounted in the WTO, which has a compulsory legal framework and a binding dispute settlement mechanism. Once Russia has acceded to this organisation, it is integrated to the obligatory system and trade relations with Russia would become rule-oriented. The latter will not solve all the problems, but at least it is a step further in interstate relations.

It is said that the term “Potemkin village” was invented by a man who had never been to the south (Crimea) and seen the duke’s achievements. Whether the background events of this metaphor for political fraud (a façade) are really true or not, it has a meaning in light of this thesis.121 Possibly, Russia’s façade may only be in the mind of the West, who does not understand the country. On the other hand, Churchill might be right as well when he claims that Russia is acting according to its national interests. The truth is probably somewhere in

120 Meaning ‘simple’ or ‘simply’ in Russian.
121 S. S. Montefiore, supra note 2, lk. 422.
between and it takes a lot of effort to reach a unified world, which hopefully will be achieved at least in international trade.
VENEMAA JA EUROOPA LIIDU VAHELISTE KAUBANDUSVAIDLUSTE ÖIGUSLIKUD ASPEKTID

Resümee

Venemaa ja EL-i vahelised kaubandusvaidlused omavad kahe rahvusvahelise õiguse subjekti vahel tähtsust eelkõige praktilise vaatenurga pärast. Kindlasti pole see lihtne ülesanne kirjeldada ammendavalt pooltevahelisi suhteid ning ka õiguslikke aluseid, mis neid suhteid reguleerivad, kuid käesolev töö on üks lähenevine sellele komplekssele teemale. Kuna autor arvates on rahvusvahelises õiguses üldjoontes suurem rõhk just argumenteerimis- ja veenmisokusel ning vähem konkreetsetel seadusesätetel, mis kokkuvõttes püsivad vaid tänariikide tahte, siis on selliselt lähenedud ka kogu teemale. Läbivaks jooneks antud bakalarusest töö on ka nn suure pildi nõgemine ehk riikide/organisatsioonide omavahelisi suhteid on küll uuritud eelkõige õiguslikul tasandi, kuid tihti on sellises olukorras vaja just mõista ka tausta teiste eluvaldkondade kaasabil.


Töös moodustavad keskse osa kaubandusvaidlused, millest on kirjeldatud kahte: Pronkssõdurite monumendi teisaldamisele järgnenud Eesti-Venemaa kaubandusprobleemide olemus ning
Soome ja Venemaa vaidlusoid puidutollide üle. Sellele kirjeldavale analüüsile eelnäeb ülevaade Venemaaast kui rahvusvahelisel tasandil tegutsevast subjektist. Nimetatud alateema all on toodud välja Venemaa ühiskonna arengu, mis on toimunud seoses plaanimajanduse muutumisega turumajanduseks, lisaks veel Venemaa olulisemad kaubanduspartnerid ja panus rahvusvahelisse kaubandusse. Antud teema raames on keskendutud põhjalikumalt Venemaa ja EL-i omavaheliste kaubandussuhetele, millest on samuti ülevaade tehtud.


reguleerimises. Nagu tööst nähtub, on Venemaa ja EL-i vahel küll kaubandust reguleeriv leping olemas, kuid sellel napib õiguslikku survevemehhanismi. Seega on pigem tegemist poliitilise kokkuleppega kui õiguslikult üdini siduva dokumendiga.


Kui rääkida tulevikust, siis rahvusvahelise majandusõiguse vallas ja Venemaaga sõlmes on üks olulisemaid küsimusi, millal saab viimane Maailma Kaubandusorganisatsiooni liikmeks. Tegemist on küll täiesti eraldi uurimisteemaga, kuid pörgusalt on seda ka antud töös käsitletud eelkõige sellest aspektist, mida see liikmekssaa mine muudab rahvusvahelises kaubanduses ja vaidluste lahendamises. Üsna selge on see, et varem või hiljem saab Venemaa selle keskse kaubandusorganisatsiooni, mille õigust peetakse üheks paremini arenenud rahvusvahelise õiguse valdkonnaks, liikmeks, kuid ebaselge on see, millal nimetatud sünnimis toimub. Igatahes saab Venemaa siis rahvusvahelise kaubanduse klubisse ja talle hakkavad kehtima ranged reeglid ning ka tõhusam vaidluste lahendamise süsteem. Käsitav on nüüdgi see, kas midagi ka praktiliselt muutub, kui võtta arvesse eelnev teemaarendus poliitiliste otsuste vaatevinklit. Samas võiks WTO selleks tasandiks olla, kuus koostöö võrdsetena arendatukse.

Kokkuvõttes saab võita, et mõnes mõttes on Venemaa käitumine just peegeldus Potjomkini külade metafoorist ning seaduskutsele fassaadi taga on tegelikult riik, mis kujundab olukorda vastavalt oma rahvuslikele huvidele. Siiski tahab autor siinkohal rõhutada, et ka kiire
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### ABBREVIATIONS

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