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Research Article

MFN Yes, MFN No? Trade Developments Between the EU and Russia and the Principle of Most-Favored-Nation

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Abstract

This research analyzes the consequences of the likely revocation of the principle of the most-favored-nation (MFN) in trade relations between the European Union (EU) and Russia. The analysis shows that this event would have more negative effects on Russia than the EU. The increase in import tariffs would benefit the EU with increase in profits but would lead to an increase in the cost of products for buyers in the short term, pushing them into new, more advantageous markets. Although Russia is trying to replace EU products with Asian ones, and gaining success too, the case of foreign direct investment (FDI) is different, as the country is still heavily dependent on EU.

Keywords: MFN, European Union, Russia, Eurasian Economic Union, Regional Trade Agreements, FDI, International Trade.

Introduction

The growth of Europe's major industrial economies during the Nineteenth Century generated a conspicuous increase in demand for labor, food, and raw materials.[1] Although there was already a thriving presence of workers willing to move from the countryside to the cities to work in the factories, the European powers lacked the material resources to boost the industrialization taking place during the period commonly known as the first Industrial Revolution (1760-1830). On the other hand, unlike the large developed nations, the overseas colonies suffered from a lack of people to exploit the abundant

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resources the land offered, particularly in the Americas. This condition of mutual interest favored the international exchange of materials and capital in the decades of the revolution.[2] Between the Nineteenth and Twentieth Centuries, the growth of foreign direct investment (FDI) to the colonies increased significantly, particularly to Australia and the United States (US), with the latter seeing FDI increase from 7 percent in 1870 to 20 percent on the eve of the World War I (WWI) (it did not reach this level again until 1980).[3] For the great European powers, particularly England, France and Germany, the growth of foreign investment rose from USD 6 million in 1874 to USD 33 million in 1914. England was the largest lender with a 4 percent capital outflow between 1870 and 1914.[4]

Innovations, such as telegraph, enhanced the ongoing global process. However, the policies adopted by the great powers, especially the United Kingdom (UK), including the adoption of the Gold Standard and the MFN principle, had the greatest influence on global trade. Owing to a British policy of imposing the MFN principle 'unconditionally' (i.e. without specific restrictions on its application to other nations) on all the nations with whom it traded, particularly with European nations (France and Germany above all), the MFN played a central role in the composition of the new global trade, profoundly influencing, on the one hand, the growth of nations, and on the other, the expansion of markets towards an increasingly international and interdependent character.[5] Dependence on one another became a central point in the economic-political outlook of the Twentieth Century. This character became increasingly marked through foreign policies of the European nations who internationalized their trade policies. This was demonstrated most significantly after the World War II (WWII) in the form of the General Agreement on Tariffs and Trade (GATT) in 1947 and the establishment of the MFN principle not only as the first Article of the international agreement, but above all as the pillar of every future trade agreement from then onwards.[6]

The benefits that the MFN offered to the nations were crucial to national reconstruction processes, particularly on the European continent, which had remained the scene of much of the conflict. However, these benefits have not been able to withstand the national interests of individual countries. This factor gradually eroded the principle by making it more and more marginal in its application, as visible in the exponential growth of foreign trade agreements (FTAs), preferential trade agreements (PTAs), and regional trade agreements (RTAs).[7] Such agreements do not provide for the MFN principle but tend to offer privileges to small groups of countries and exclude the international community.

In the face of this framework, the strong growth of 'exceptional' agreements during recent decades has led nations to disrupt the previous globalized trade landscape. The new framework is driven by the principle of interdependence where the political relations are polarizing the economic relations. The search for a strong political ally with potential for robust trade relations has led nations like Russia to shift their trade center of gravity from the West to the East, given the fact that the gap between the political visions of both EU and Russia has only widened over time, amplifying this trend over the past two decades. Russia's increasingly aggressive attitude over the last decade—from the Crimea invasion onwards—has led the EU to consider severing trade ties with the country, even going as far as the possibility of removing Russia from the MFN beneficiary nations within the European market,[8] picking up on a theme already proposed by the US.[9]

In the face of this scenario of economic and trade uncertainty and instability, the objective of this research is to understand the trade implications of the EU's suspension of the MFN status to Russia. Also, it aims to understand the future dynamics of this choice, in order to examine the future trade and economic implications as trade is one of the key reflections of political relations between states.[10]

The Approach and the Key Resources

The present research was set up using the secondary quantitative analysis from different sources of literature and databases of international organizations. What characterizes this methodology most is the possibility of cross-referencing information from multiple sources and thus gaining a more detailed understanding of the variables characterizing a given event.[11] The use of the quantitative data approach is advantageous for the purposes of this research as it offers the possibility of using data from previous studies and data offered by institutional or international bodies and cross-referencing them in order to have a unique and innovative understanding of a particular event, absorbing the information offered by the data in a holistic way.[12] In addition to this, the data so gathered may be immediately available and processed without much complication. This method offers an optimal course for studies which, like this one, try to venture and deepen the trade relations between nations.[13] The publically accessible databases consulted in this exercise include the World Bank, the European Commission's (EC's) Eurostat data on foreign trade relations, and the World Trade Organization (WTO). This collection offers a detailed understanding of the specific dynamics of trade.

The collected data can be divided into three sections: first, the analysis examines the import, export, and trade balance indices of trade between the EU and Russia from 1999 to 2021. Subsequently, the research moves on to examine, on the one hand, which major products were traded in this market, and on the other hand, the development of FDIs between the EU and Russia. The assessment of FDI in this research is due to the very nature of the MFN, which, owing to the Marrakesh Agreement (1994), introduced the extension of the principle to foreign investments as well.[14] Finally, the data collected by the organization of Economic Cooperation and Development (OECD), and the Eurasian Economic Union (EAEU) offered by Elvestad and Isachenko[15] helped observe the trend of Russia's trade relations on the international chessboard. It suggested that the country is increasingly distancing from the European market and coming increasingly closer to the Asian one, not only for the commercial benefits of low-cost products, but also for the greater affinity in the political sphere.[16]

To delve into the topic, it is better to understand the context through the next section of this paper.

History of EU-Russia Trade Relations

Partnership and Cooperation Agreement (1997-2012)

According to Carl Bildt, the beginning of trade relations between the EU and the Russian Federation dates back to November 28, 1997, when they signed Partnership and Cooperation Agreement (hereinafter PCA).[17] The agreement, which entered into force on December 1, 1997, set out a number of objectives of common interest, aimed at:

I. strengthening relations;
II. market economy;
III. political and economic freedoms;
IV. consolidation of democracy;
V. economic, social, financial and cultural cooperation based on the principle of reciprocity;
VI. activities of common interest;
VII. Russia's integration into an 'area of cooperation in Europe'
VIII. creation of a common area of free movement of goods, companies, services and capital.

To achieve these goals, detailed regulations were prescribed for the multiple areas of national and international interest, encompassing the exchange of goods and services (Title III), regulating competition (Art. 12), protection of intellectual, industrial and commercial property (Art. 98), legislative cooperation (Art. 55), political and cultural relations (Title IX), communications and information infrastructure (Art. 77), tourism (Art. 75), prevention of illegal activities like arms or drug trafficking (Art.81), and labor protection (Art. 24 and 74). The ultimate goal of the document was building a partnership between the EU and the Russian Federation for establishing liberal and comprehensive trade relations. Article 10 clearly envisages the application of the MFN principle: 'The Parties shall accord to one another the general most-favoured-nation treatment described in Article I, paragraph 1 of the GATT.'

Despite the comprehensiveness of the agreement, Hatipoğlu noticed lack of clarity on some aspects of the agreement, as in case of the possible creation of a common free trade area, where the agreement 'doesn't give a clear explanation of the arrangements concerning the beginning of negotiations.'[18] The gaps between the counterparties on trade and investment led to gradual suspension of the negotiations for renewal of the partnership for 2010.[19]

Accession to the WTO (2012-2014)

On August 22, 2012, Russia's accession to the WTO changed some aspects of its relationship with the EU. Its accession decreed the automatic and mutual application of the MFN, as both had to frame their relations within the rules of the organization. Although the parties tried to reach new partnership and 'good neighbourly' agreements, relations tended to deteriorate in the long run. Kapoor suggests that the inability to sustain stable and lasting agreements between the parties was synonymous with the discordant interests, as well as a 'clash of geopolitical ambitions, an inability to bridge their divergent understandings of the prevailing situation, and a clash of values.'[20] A decade of increasing frictions and contrasts,[21] due to the expansion of EU and North Atlantic Treaty Organization (NATO) towards East, the invasion of Iraq, the 2008 conflict in Georgia, cyber-attacks in Europe (such as Estonia in 2007), weighed negatively on trade relations, as trade is but a reflection of political relations.[22] In this respect, conservative policies on foreign (European) products and companies to favor the domestic economy, and policies for the substitution of imported products, fueled frictions related to the expulsion of European products from the Russian market or the forced relocation of production lines to Russian territory,[23] contravening the WTO rules and causing many trade irritations.

The Crimean Crisis (2014-2022)

The Ukraine crisis with the annexation of Crimea in 2014 and the aversion to compliance with the Minsk Agreements further widened the differences between the EU and Russia in their political visions, with the former straining ties with the latter through a series of sanctions, to be renewed every six months. Subsequent international tensions, including within the United Nations (UN), prompted Russia to withdraw from the G8 countries, and in turn adopt sanctions against the EU. Although some European countries including France and Germany, which had sizable trade relations with Russia, initially maintained a neutral stance but the subsequent disagreements forced all EU nations to adjust their policies towards Russia,[24] as evidenced by the disputes opened over the years, namely Russia - Pigs (EU) (2014); Russia - Commercial Vehicles (2014); Russia - Motor Vehicles (2013); and discriminatory procurement by Russian state-owned enterprises (2021).

The Ukraine Crisis and the Suspension of Relations (2022)

The Russian attack on Ukraine in the start of 2022 resulted in the adoption of further stringent sanctions and trade measures by the EU. These included measures concerning goods (import and export bans on particular products, such as coal, fossil fuels, gold, iron and steel) and services (e.g. depositing money in the European banks by Russian citizens, or even Society for Worldwide Interbank Financial Telecommunications-SWIFT).[25] In particular, as a result of Russia's recognition of the independence of the two people's republics of Donetsk and Luhansk, the West has started to impose limited sanctions on it. Wide-ranging sanctions involving oligarchs, banks, enterprises, currency exchanges, bank transfers, imports, and exports were placed once the onslaught began.[26] Olaf Scholz, the chancellor of Germany, announced the indefinite suspension of the Nord Stream 2 gas pipeline's certification; as a result of this suspension, the pipeline's operator, the Swiss business Nord Stream 2 AG, filed for bankruptcy.[27] The same sanctions endorsed by the EU have been implemented by Switzerland.[28] After protracted negotiations and opposition from some nations, the Western countries declared on February 27 that the main Russian banks would no longer be allowed to use SWIFT, with the exception of those required for payments. The former deputy finance minister of Russia, Sergei Aleksashenko, declared this situation as: 'This is a kind of financial nuclear bomb that is falling on Russia.'[29] According to Bruno

Le Maire, France's finance minister, the total value of Russian assets that have been frozen as a result of sanctions is USD1 trillion as of March 1, 2022.[30] However, some countries like Serbia and Mexico, two of Russia's political and ideological neighbors, indicated that they will not take part in any economic penalties against Russia.[31]

With the brief overview of the EU-Russia relations above, we may now discuss the subject of MFN. The following discussion starts with a brief introduction to the principle of most-favored-nation to help the readers recall its objectives and scope. This is followed by an analysis of the trade between EU and the Russian Federation during more than two decades preceding the revocation of the MFN status. This data would help understand the subsequently presented impact during the current phase after the huge change in the EU-Russia relations.

The MFN Principle

The legal importance of this principle for international trade can be seen from its position within the multilateral GATT that aimed at equalizing the tariff treatment of products in international trade. As stated in the GATT itself in 1986, 'any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be granted immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.' However, due to the Uruguay Round and the signing of the Marrakesh Agreement, which entered into force on January 1, 1995, the MFN principle has seen an extension in its application, encompassing not only goods but also services.[32] The area of application of the principle refers to 'customs duties and charges of any kind imposed or relating to import or export or imposed on the international transfer of payments for imports or exports' as well as the 'method of collection of such duties and charges.'

Based on this, each WTO member country has a duty to extend tariff and contractual treatment in trade matters offered to a country, both in the import and export of products and services that are likely capable of gaining an advantage from the trade achieved (see Appellate Body EC - Seal Products of 2009), to all other nations, as the right of all countries to receive fair treatment in trade relations.[33]

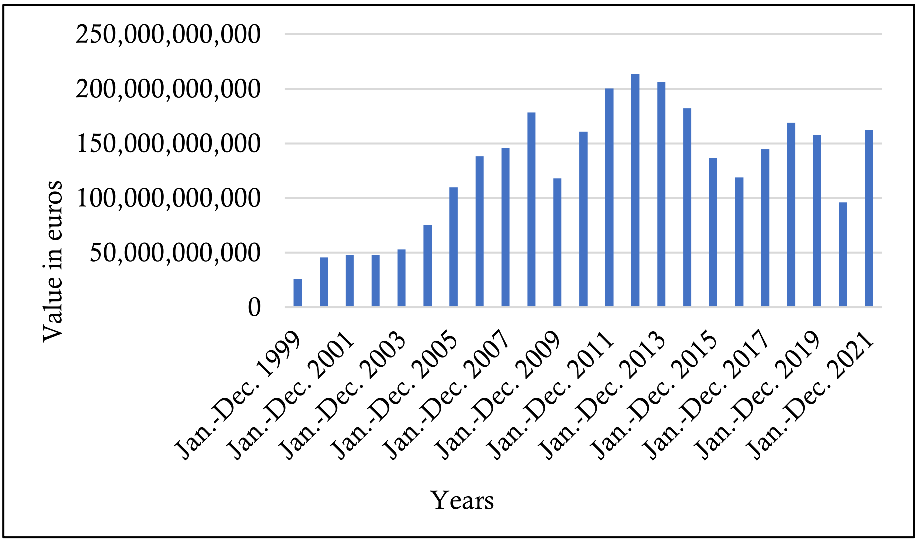
UEU-Russia Trade (1999-2021): Import, Export and Balance

Imports

Presenting the statistics of European imports from Russia, Graph 1 shows a positive trend between 1999 and 2008. This period coincides with the application of the PTA, during which EU imports from Russia were EUR 25.98 billion in 1999 and EUR 213.88 in 2012 – a surprising growth of +723.35within percent within a short period.[34]

When Russia joined the WTO in December 2011, a decrease of -14.83 percent was noticed from 2012 to 2014. In 2014, Russia invaded and annexed Crimea and the negative trend in the EU imports from Russia continued during the following years. Since then, a further decrease of -10.82 percent or more than 19.7 billion had taken place till December 2021 (Graph 1).[35]

Graph 1: EU Imports from Russia 1999-2021

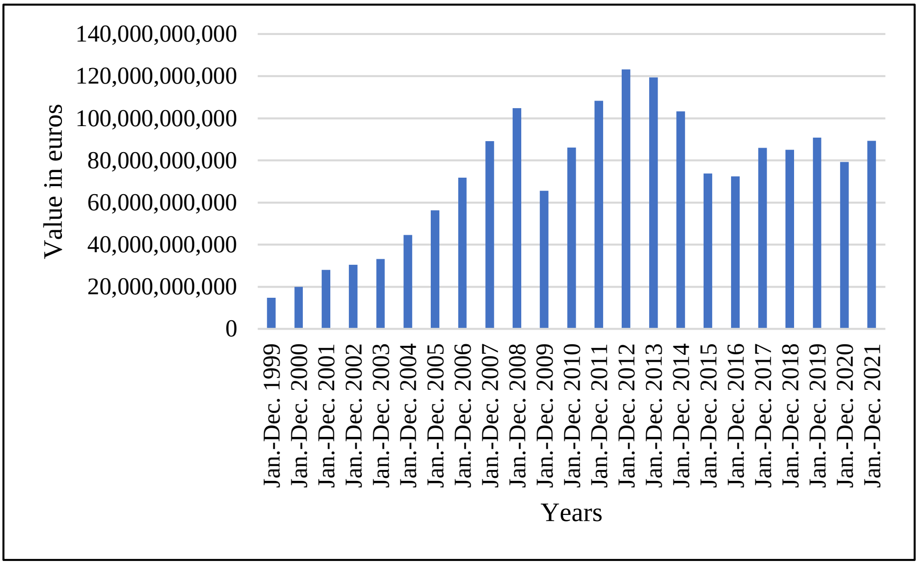


Source: Authors' own elaboration.

Exports

Like imports, exports, too, show a periodic variation (see Graph 2). In the 1999-2012 phase (PTA period), the growth is plus 736.4 percent. Parallel to imports, there is a negative trend in the period 2012-2014 (-16.15 percent) continuing until 2015 (-40.096 percent) and then stabilizing, reaching 2021 with a loss, compared to 2012, of -27.53 percent.[36]

Graph 2: EU Exports to Russia 1999-2021

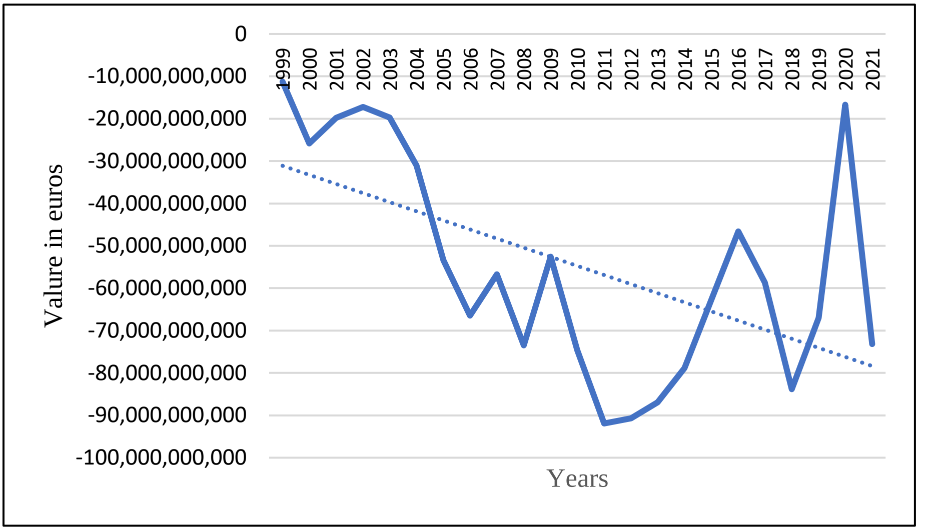


Source: Authors' own elaboration.

Trade Balance

In relation to the trade balance, EU-Russia trade shows a constant deficit (see Graph 3). From -11 billion Euros in 1999, the balance decreased to almost -91 billion in 2012, before reaching -73 billion in 2021. The year with the smallest difference between imports and exports can be found in 2020, during the pandemic (-16.6 billion), due to strong demand for medical materials and products needed to cope with the international crisis.

Chart 3: EU/Russia Trade Balance 1999-2021



Source: Authors' own elaboration.

Products and Services

Goods

The impact of EU-Russia trade in goods is worth EUR 251.7 billion.[37] However, an analysis of the goods and services traded reveals that EU and Russia both hold significance for each other's foreign trade but differently. EU data shows that Russia is among its top five trading partners. Goods that EU imports from Russia are given in the table below:[38]

Table 1: Major Russian Commodities Imported by EU[39]

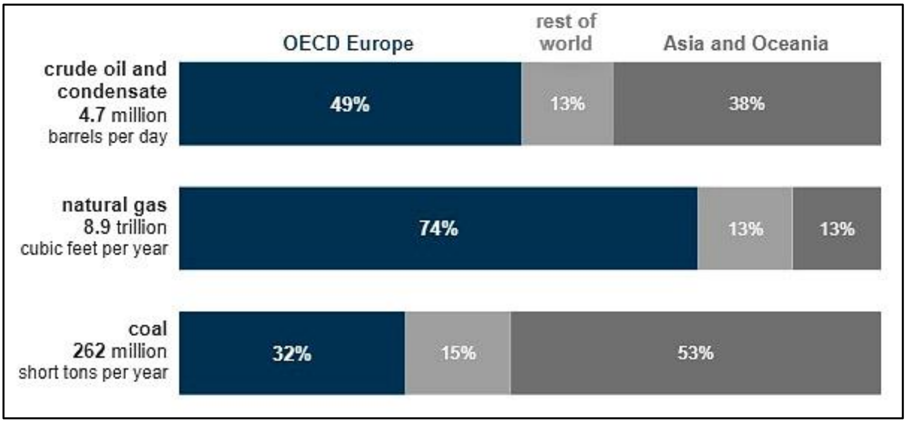
Products	Imports in million EUR (2021)
Mineral fuels, mineral oils, etc.	88.729,41
Iron and steel	7.805,52
Natural or cultured pearls	3.806,07
Wood and its works, etc.	3.243,27
fertilizers	2.591,34

Aluminum and aluminum articles	2.048,23
Minerals, slags and ashes	1.781,54
Nickel and its articles	1.701,81
Copper and copper articles	1.698,61
Organic chemicals	1.695,81
Inorganic chemicals; organic or inorganic compounds of precious metals, etc.	1.636,07
Machines, mechanical appliances, nuclear reactors, boilers; parts of it	1.605,49
Fish, crustaceans, and molluscs etc.	1.447,89
Plastics and their works	1.298,96
Rubber and rubber articles	1.221,18
Residues and waste from the food industries; prepared forage for animals	820,00
Electrical machinery, equipment and parts thereof; sound recorders and reproducers, televisions	574,73
Paper and cardboard; articles of cellulose pulp, paper or paperboard	563,74
Articles of iron or steel	455,62

Source: "Value of Russian Exports to the EU 2021, by Commodity," *Statista.com*.

On the other hand, the EU plays a decisive role in Russia, accounting for more than 37 percent of imported products. According to the EC statistics for 2020, almost 38 percent of goods exported from Russia arrive in the EU. Of these, the energy (oil and gas) and mining sectors are leading the trade relations. Based on data from the Energy Information Administration (EIA) for 2022, EU countries import 49 percent of the 10.1 million barrels of oil per day produced in Russia, 75 percent of the 8.9 trillion barrels of liquefied natural gas (LNG) (Tcf) and 32 percent of the 262 million short tons (MMst) of coal, confirming the EU's dependence on Russian fuels.[40]

Figure 1: Select Russian Energy Exports to EU EIA (2021)



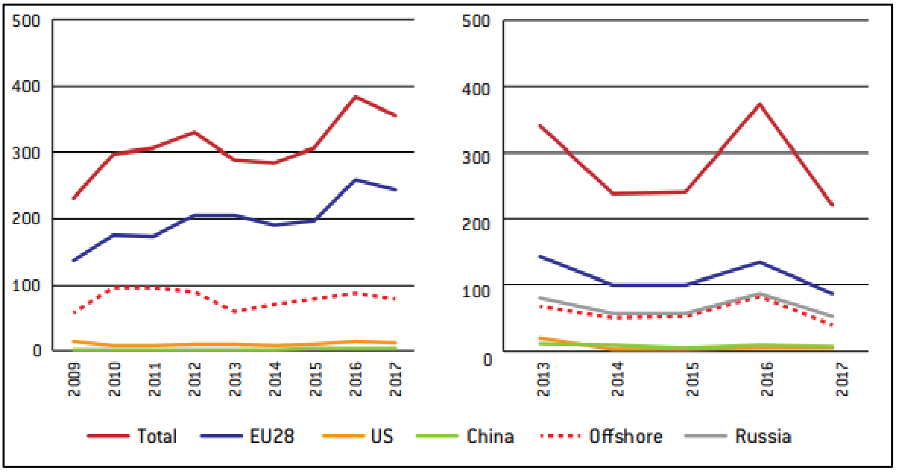
Source: Hilary Hooper, Justine Barden and Tejasvi Raghuveer, "Europe is a Key Destination for Russia's Energy Exports," *Today in Energy-EIA*, December 20, 2022, https://www.eia.gov/todayinenergy/detail.php?id=55021#:~:text=Of%20the%2010.1%20million%20barrels,or%204.7%20million%20b%2Fd.

Foreign Direct Investment (FDI)

EU covers 55 to 75 percent of FDI stocks on Russian territory, amounting to EUR 311.4 billion in 2019. This means dependence of Russian economy on European investments.

Chart 4: FDI Stocks in Russia in EUR billions

Reported (left panel) and estimates (right panel) considering ultimate investing countries



Source: Marta Domínguez-Jiménez and Niclas Poitiers, "FDI Another Day: Russian Reliance on European Investment" (brief 3, Bruegel, Brussels, 2020), 3, https://www.bruegel.org/sites/default/files/wp_attachments/PC-03_2020_-1.pdf.

Conversely, the Russian FDI in EU was around EUR 136 billion in the same year. The sectors most favored by European FDI are energy (oil and gas), mining, wood, iron and cast iron. The influence of these investments is such that, for Marta Domínguez-Jiménez and Niclas Poitiers, 'the Russian economy needs more investment in higher value-added activities' that Russia does not possess, but 'that the EU is able to provide.'[41]

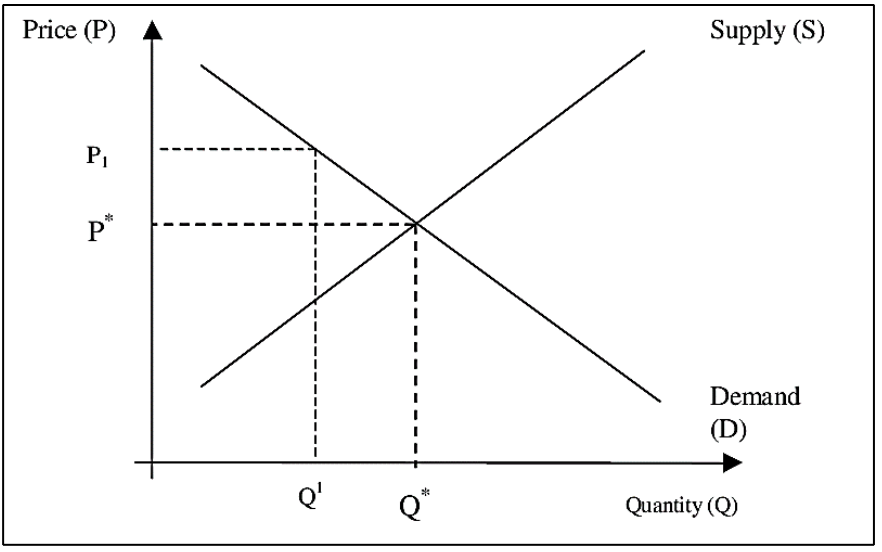
Revocation of MFN Status for Russia by EU and its Consequences

Having provided a statistical overview of the situation immediately preceding the revocation of the MFN status in March 2022, it is now necessary to discuss the impact of this radical change. Such event meant application of tariffs that affect the prices of traded products.

Goods

For Russia, the increase in tariffs on imports from EU (amounting to 37 percent) caused loss of competitiveness in the domestic market for these products, which would decrease demand for them. In market equilibrium, as the cost increases, the demand for the goods falls.[42]

Chart 5: Market Equilibrium

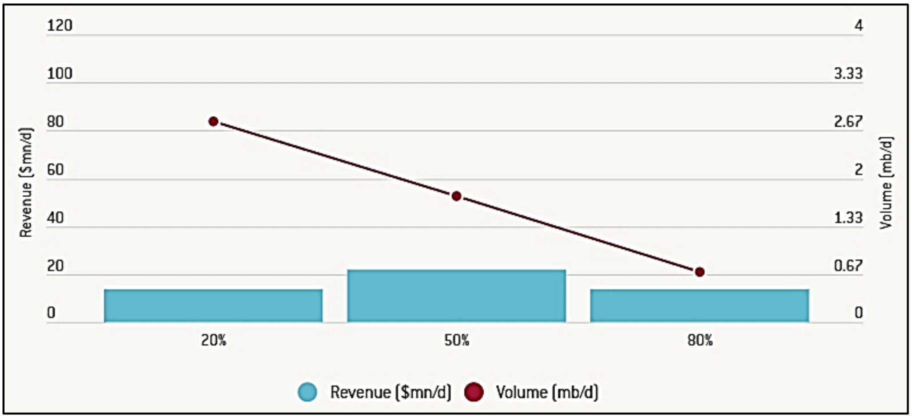


Source: Pavel Gomez, "Effects of the Regulatory Change of 1996 on the Investment and Efficiency Behaviour of the Local Telecommunications Firms: The Case of the American Providers of Local Telephone Services" (PhD diss., Universidad Finis Terrae, Santiago, 2005), DOI:10.13140/2.1.1939.2643.

The consequence for Russian consumers will be a shift towards more competitive markets, such as Asia, as shown by market trends (see ahead).

For EU, the most affected products are the ones that are most in demand, such as timber and fuels. The need to import part of Russian products that cannot be substituted elsewhere could generate agreements with Russia based on two tariff forms: ad valorem or tariff-rate quota (TRQ). Ad valorem taxation, thus based on the value of the product, is the most commonly used in the EU,[43] and ranges from 0 to 40 percent.[44] Alternate option TRQ allows gradual taxation which is adaptable over time 'to achieve the desired political, economic and fiscal effects.'[45] Under this form of tariff, the EU would generate variable revenues based on imported volume and sales price. Taking as an example one of the most popular products (oil) at USD 50 per barrel and three different tariff scenarios, 20 percent, 50 percent, 80 percent, one can estimate a revenue for the EU of USD 14 million per day with tariffs at 20 percent or 80 percent, and USD 22 million at 50 percent:

Chart 6: EU-Russia Oil Tariff Scenarios (Prices, Revenues & Volumes)



Source: Zachmann, McWilliams and Kleimann, "How a European Union Tariff on Russian Oil can be Designed."

In this case, tariffs would create net profits for the EU on those products that are still dependent, such as fuels.

Foreign Direct Investment

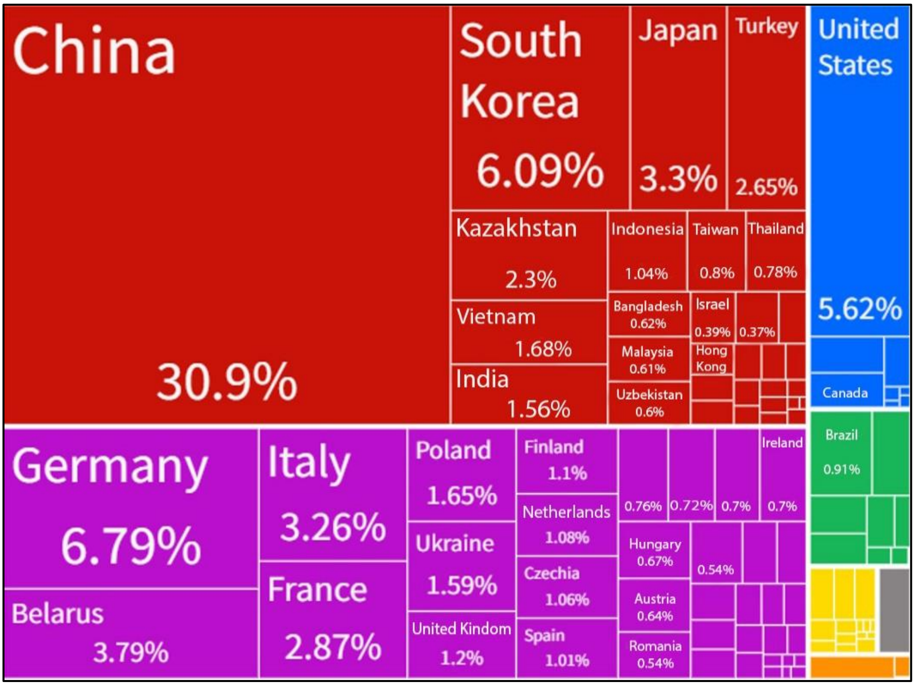
In case of FDI, revocation of MFN would not have serious repercussions in the European landscape, as the Russian incidence is rather low. From 2015 to 2020, Russia had a 1 percent impact on European FDI, affecting the 'wholesale and retail, real estate and professional, scientific and technical sectors.'[46]

On the other hand, Russia is highly dependent on EU investments. The revocation of the MFN would produce a considerable decrease in European investments due to higher tariffs, opening the way for Asian investments. In fact, since 2002, China has increased its FDI presence in the Russian market from 3 percent to 21 percent, increasing by 34 percent in 2021 alone and replacing 'previously EU-sourced products with those from China and Asia.'[47]

Changing Russian Trade Agreements

According to OECD data for 2022, besides the EU, the largest foreign trade partner for Russia is China, from which 30.9 percent of its imports come. Looking at Russia's foreign trade landscape, the region where most business is done, in terms of volume, is Asia, from which more than 55 percent of its imports come.

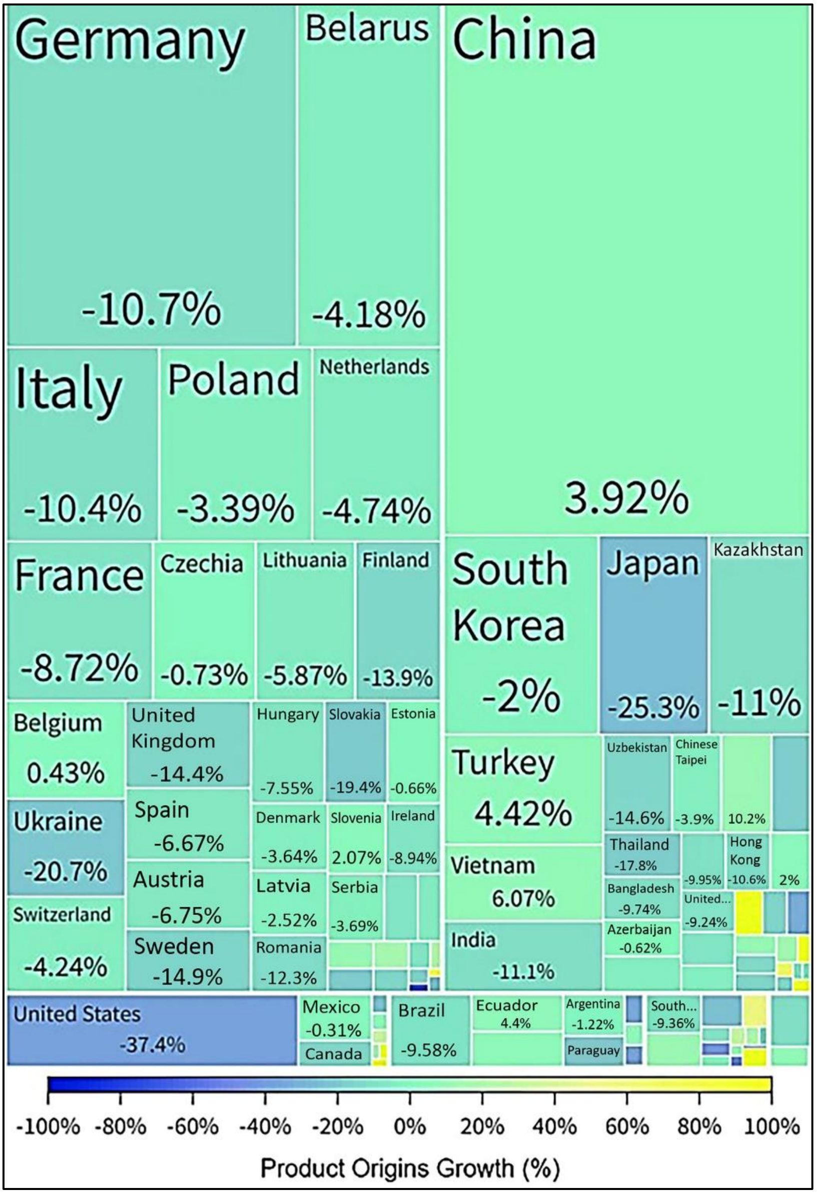
Figure 2: Russian Foreign Trade Partners (2022)



Source: "Russia: Imports, Exports and Trade Partners," *OEC.World*, accessed December 2, 2022, https://oec.world/en/profile/country/rus.

China is also the fastest growing market for Russia, with an import value of USD 7.2 billion and the one with the highest growth in monetary terms (USD 3.34B, +7.05 percent). In the automotive market, where the EU used to be the largest exporter to Russia, China is now making inroads, with the Daewoo and King Long brands.[48] In energy sector, Russia is world's second largest supplier of oil and third largest supplier of gas, owing to growth of its RTAs with the Far East; similar is the situation in the agricultural sector, given the FTAs with Israel or China. The free trade agreements are still in their early stage, but the Russian trade has shown a clear turn towards Asia.[49] On the other hand, the European market has the largest loss of position in the Russian market, primarily Germany and Italy, in absolute values.

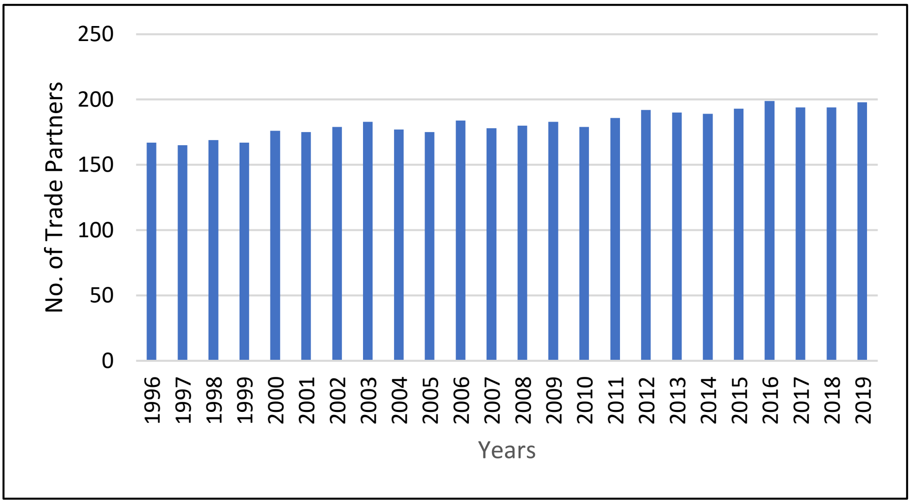
Figure 3: Growth of Foreign Trade Partners in the Russian Market (2022)



Source: "Russia: Imports, Exports and Trade Partners," *OEC.World*.

Interestingly, while the Europeans are losing positions, Russia has increased its trading partners over the past 20 years to 198 in 2019, confirming a shift in the international trade scenario.

Chart 7: Number of Export Partners 1999-2019



Source: "Russia: Number of Export Partners (2016-2020)," *World Integrated Trade Solution-WITS Data*, accessed December 2, 2022, https://wits.worldbank.org/CountryProfile/en/Country/RUSSIA/StartYear/2016/EndYear/2020/Indicator/NMBR-XPRT-PRTNR.

Russian interest in RTAs and FTAs clearly increased after the invasion of Crimea. Tensions with EU prompted Russia to move towards markets with similar political vision, mainly Asia that offered huge economic and production opportunities.[50] This trend became more pronounced after the establishment of the EAEU in 2015, through which Russia expanded its preferential agreements through memoranda of understanding (MoUs) and FTAs/RTAs.

The Eurasian Economic Union (EAEU) and the Displacement of Russian Trade Prerogatives

Formally entered into force on January 1, 2015, EAEU was a forum to bring together the former Soviet nations that still showed mutual political affinity (currently Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia),[51] and aimed at establishing a region of free trade and movement of people and capital with the same dynamics as in the EU.[52] Not surprisingly, its strategic relevance is based on its economic and trade weight in the region. In terms of nominal Gross Domestic Product (GDP), the EAEU has the tenth largest economy in the world and the fifth largest in terms of purchasing power parity (PPP). Since the turn of the century, the member states have experienced economic growth. During the first stage of integration, between 2000 and 2007, GDP growth varied from 6 percent to 8 percent, and increased again in 2010 after the financial crisis of 2007-2008. The amount of trade between the member states of the Eurasian Customs Union (ECU) has increased significantly since its creation in 2010. Mutual trade increased by 33.9 percent in 2011 to USD 63 billion since 2010. Mutual trade was USD 68 billion in 2012, with combined exports of USD 594 billion and imports of USD 341 billion.[53] The main objectives of this stage of integration were to increase trade between members, support economies, and provide a legal and institutional framework for member states.[54] The second step was to enlarge the sphere of member nations, and consequently to increase the trade and economic weight in the Eurasian region, as evidenced by the series of trade agreements that Russia has decided to achieve through the EAEU since its foundation to date. (See Annexure)

WTO data on RTAs signed since 1990 to the present suggest that out of its total fourteen (14) RTAs, Russia has been able to achieve six important milestones since 2015 without invoking MFN under the auspices of the EAEU (see Table 2).

Table 2: Russian Agreements Signed since 1990

RTA Name	Coverage	Date of Notification	Notification	Date of Entry into Force	Signatories
EAEU – Serbia	Goods	November 3, 2021	GATT Art. XXIV	July 10, 2021	Serbia; Armenia; Belarus; Kazakhstan; Kyrgyz Republic; Russian Federation
EAEU — Accession of Iran	Goods	January 31, 2020	GATT Art. XXIV	October 27, 2019	Iran; Armenia; Belarus; Kazakhstan; Kyrgyz Republic; Russian Federation
EAEU — Accession of Vietnam	Goods & Services	May 4, 2017	GATT Art. XXIV &	October 5, 2016	Vietnam; Armenia; Belarus;

			GATS Art. V		Kazakhstan; Kyrgyz Republic; Russian Federation
EAEU - Accession of the Kyrgyz Republic	Goods & Services	September 1, 2015	GATT Art. XXIV & GATS Art. V	August 12, 2015	Armenia; Belarus; Kazakhstan; Kyrgyz Republic; Russian Federation
EAEU - Accession of Armenia	Goods & Services	December 29, 2014	GATT Art. XXIV & GATS Art. V	January 2, 2015	Armenia; Belarus; Kazakhstan; Russian Federation
EAEU	Goods & Services	December 12, 2014	GATT Art. XXIV & GATS Art. V	January 1, 2015	Armenia; Belarus; Kazakhstan; Kyrgyz Republic; Russian Federation
Treaty on a Free Trade Area between Members of the Commonwealth of Independent States (CIS)	Goods	June 6, 2013	GATT Art. XXIV	September 20, 2012	Armenia; Belarus; Kazakhstan; Kyrgyz Republic; Moldova; Russian Federation; Tajikistan; Ukraine
Russian Federation – Turkmenistan	Goods	January 18, 2013	GATT Art. XXIV	April 6, 1993	Russian Federation; Turkmenistan
Russian Federation – Uzbekistan	Goods	January 18, 2013	GATT Art. XXIV	March 25, 1993	Russian Federation; Uzbekistan
Russian Federation – Azerbaijan	Goods	September 13, 2012	GATT Art. XXIV	February 17, 1993	Azerbaijan; Russian Federation

Russian Federation - Belarus – Kazakhstan	Goods	December 21, 2012	GATT Art. XXIV	December 03, 1997	Belarus; Kazakhstan; Russian Federation
Russian Federation — Serbia	Goods	December 21, 2012	GATT Art. XXIV	June 3, 2006	Russian Federation; Serbia
Common Economic Zone (CEZ)	Goods	August 18, 2008	GATT Art. XXIV	May 20, 2004	Belarus; Kazakhstan; Russian Federation; Ukraine
Georgia - Russian Federation	Goods	February 8, 2001	GATT Art. XXIV	May 10, 1994	Georgia; Russian Federation

Source: "Regional Trade Agreements," *Regional Trade Agreements Database-WTO*, accessed November 12, 2022, http://rtais.wto.org/UI/PublicSearchByMemberResult.aspx?membercode=643.

Although China has not signed an FTA with Russia or the EAEU, Russia-led EAEU has steadily increased its reach in the global market by trading preferentially with Asia and with a bilaterally or regionally negotiated tariff advantages. (See Table 3)

Table 3: EAEU Foreign Trade Agreements, 2022

Trade Partners	Type of Agreement	Year/Status	Comments on Scope/Coverage
Iran	FTA	2019	FTA limited in scope (50 percent of mutual trade), interim agreement until 2021
Serbia	FTA	2019	FTA including a wide range of sectors/areas
China	Trade and Economic Agreement	2019	Non-preferential agreement, focus on technical regulations and Intellectual Property Rights

Trade Partners	Type of Agreement	Year/Status	Comments on Scope/Coverage
Singapore	FTA (MoU 2016)	2019	Investment, trade in goods and services
Vietnam	FTA	2016	FTA including a wide range of sectors/areas

Source: Elvestad and Isachenko, "Russia's Regional Free Trade Agreements and Agri-Food Trade After 2014."

These FTAs helped Russia improve its position by (I) creating new markets for the supply of economic materials apart from Europe; (II) expanding hydrocarbon exports to new markets; (III) stimulating the growth of investments in the areas of communication and technological innovation; and (IV) expanding the Russian grain and agricultural market through new customers.[55]

Conclusion

The outbreak of the conflict in Ukraine in February 2022 reignited the debate on the EU's relationship with Russia. The EU decided to drastically limit trade relations by advocating the possible suspension of the MFN principle as stipulated in Article XXI, paragraphs (a) and (b) of the WTO (an 'essential security interest'). However, this decision has important repercussions to affect both sides. For EU, the future trade negotiations with Russia without the benefits of MFN will result in higher tariffs on the most demanded Russian products, in particular manufacturing and energy products, with a consequent increase in the cost of goods for sale in Europe. This would require Europe to look for more competitive products and shift its focus to cheaper products and third country markets. The tariffs on the necessary imports from Russia to EU would generate considerable revenues for the former, quantified in oil alone at an average of five billion euros per year.

On the Russian side, the taxation without MFN would reinforce an already established tendency of the country to leave the EU for more advantageous markets in in Asia, Africa, and South America and avail their cheaper products apart from the political mileage.

On the investment side, the EU is estimated to lose around 136 billion euros a year, mainly in the innovation and research & development (R&D)

sector. However, the potential Russian loss is more considerable and amounts to 311 billion euros. This demonstrates EU's greater independence and investment capacity on this front compared to its counterpart, which is forced to look for new foreign investors and endure possible political-economic dependencies.[56]

Therefore, the future EU-Russia trade agreements without MFN status appear to benefit the EU in relation to both goods and services and investment. Although this will create a shock for the replacement of Russian products in the short run, in the long run, the change will be inevitable due to Russia's already 20-year shift towards Asia. Restricting trade relations may actually turn out to be positive because the most imported Russian products are fuel-related and restricted access to them will incentivize transition to more sustainable sources of energy and independence in those sectors of strategic interest.[57]

Annexure

Table 4: EAEU MoU Agreements (2022)

Trade Partner(s)	Year/Status
Indonesia	MoU 2019, FTA negotiations
Bangladesh	MoU 2019
Argentine	MoU 2019
Thailand	MoU 2018
Faroe Islands	MoU 2018
Cuba	MoU 2018
Jordan	MoU 2017
India	MoU 2017, FTA negotiations
Ecuador	MoU 2017
Morocco	MoU 2017
Greece	MoU 2017
Moldova	MoU 2017
Cambodia	MoU 2016, FTA negotiations
Egypt	MoU 2016, FTA negotiations
South Korea	MoU 2016
Peru	MoU 2015
Chile	MoU 2015
Israel	MoU 2015, FTA negotiations
Mongolia	MoU 2015
Mongolia	MoU 2015
Brunei	MoU negotiations

Source: Elvestad and Isachenko, "Russia's Regional Free Trade Agreements and Agri-Food Trade After 2014."

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