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"ENDING THE SANCTIONS IS NOT AS DIFFICULT AS IT SEEMS"

Already a year has passed since the US, EU and others imposed sanctions on Russia. 24 June 2015, the head of state (President Putin) signed a decree on the extension of the counter-sanction food embargo through August 5, 2016. Many people realize that this prolonged confrontation does not lead to a resolution of the international conflict, but only creates more problems. Read what is the current status between the US and Russia, the impact of sanctions on trade with the Far East, and why aren't American companies afraid of China as a competitor in this exclusive interview to IA "data" with the President of the Council on U.S. relations-Russia, Executive Director of the Secretariat of RAPP USA Derek Norberg.

Russian-American Pacific partnership (RAPP) is a bilateral forum between the private and public sectors to identify and overcome obstacles to business and commercial cooperation between the Russian East and the United States. 20th annual meeting of RAPP in Yuzhno-Sakhalinsk, Russia, will be held on 7-8 October 2015.

Derek, it's been a year and a sanctions confrontation between Russia and the US continues. Analyzing the past year and the present situation, what can you conclude about the state of bilateral relations? What damage brought sanctions or, on the contrary, they have won one of the parties?

The situation in Russian-American relations is troubling. But worst of all, both on a bilateral basis and in a more global sense, our countries are losing a great deal for the lack of full cooperation on critical issues between the U.S. and Russia. In my opinion, the reason lies in the fact that both of our countries, the USA and the Russian Federation, each took an overly principled and insufficiently pragmatic position towards the Ukraine crisis. The USA fiercely defends the territorial integrity of Ukraine, and Russia has undertaken to protect the rights of some Ukrainian citizens to self-determination. The problem is not in the positions of both countries. Both positions are understandable. The problem is that the U.S. and Russia either did not anticipate the conflict and then are unable to avoid it, or consciously sought it. But a year later all sides must realize that the crisis will end badly for everyone. Foremost badly for Ukraine. From the beginning, economists have been clear that the West had neither the funds nor sufficient interest to underwrite the rebuilding of Ukraine. In this regard, Ukraine was naive to expect that they could become a fully integrated member of the European economic bloc.

Now, because of the war in the East of Ukraine, the economic condition of the country is even worse, and all the international ratings agencies cite Ukraine's default as inevitable and imminent. In response to a default, the International Monetary Fund (IMF) with other creditors will announce economic austerity measures which many Ukrainians, probably, will refuse. It is entirely possible the government in Kiev will itself be threatened, and the country could collapse.

How do you see a way out of this situation?

Currently, Russia and the U.S. continue to look at the Ukrainian crisis from a completely different perspectives - Russia protects the rights of Ukrainian citizens of Russian origin, and the U.S. continues to support the territorial integrity and the preservation of the Ukrainian borders inclusive of Crimea. To solve the problem in Ukraine, the parties need to better understand the position and concerns of the other, and also need to address the root causes of the conflict, including NATO enlargement and the spread of the U.S. missile defense systems in Europe. After all, the crisis in Ukraine took place in the context of pre-existing tensions between the U.S. and Russia that had nothing to do with Ukraine – strategic, economic and political – and solving Ukraine without addressing the factors that led to the crisis is at best only a temporary solution.

The sanctions can be judged in different ways, but primarily they are an extreme measure to influence the policies of a second country – in this case the Russian Federation's policies on Ukraine. Of course, there are more subtle or sophisticated means of international influence, and, in my opinion, the USA was wrong in imposing sanctions, and inadequately exercised diplomacy to avert or end the crisis early.

The benefit of the sanctions for the U.S. might only be relative to the economies of other countries, many of whom last year experienced more significant economic downturns. But the economic sanctions are slowing commerce and inhibiting economic development and benefits broadly.

The sanctions over the Ukraine crisis are varied and were enacted in phases. The Crimea sanctions came first and they are relatively insignificant and ineffective because they principally prohibit commerce with Crimea, which was virtually non-existent. The initial sanctions on Donbas targeted individuals (termed "Putin's inner circle") and they also proved not so effective. The more significant sanctions are the sector-based sanctions against many financial, oil and military-industrial companies.

These sanctions were designed not only to change the policy of the Russian Federation as regards Ukraine, but also in part to inflict costs on the economy of the country. However they have proven effective only in the second case. But the impacts on the Russian economy in turn affect the economies of Europe, and through the international markets on the condition of the global economies.

Those countries that have imposed sanctions against Russia are suffering market access limits in Russia due to the retaliatory counter sanction measures of Russia, which will likely have residual effect for decades after the sanctions themselves are lifted.

Thus, the price of this conflict for Russia and for all countries party to the sanctions, is extremely high, although only over time will the parties fully appreciate the extent of the costs. Were the sides to take a more pragmatic and less principled approach, they would see there is simply no advantage in continuing the current standoff. Ukraine should now understand that there is no reasonable path for a dignified economic integration with the European Union and it is better if Ukraine adopt a blended economic development posture allowing for the participation of both the East (Russia) and West (Europe) and taking advantage of Ukraine's geographical position between the two.

Do you think that actually sanctions have affected market relations or it might be more of an element of the political struggle that has affected more on the relation of Nations to each other in General?

The sanctions, of course, have affected our market relations. To a greater extent played the role contraction measures of the Russian Federation, namely the ban by Russia on food imports from countries party to sanctions against Russia. The western sectoral sanctions were imposed on specific companies and individuals and I am against these sanctions. But the counter sanction measures by Russia deny market access to many good partners of Russian companies that had nothing to do with the foreign policies or sanctioning decisions of their countries. In the U.S. the number of companies engaged in food exports to Russia, and the volume of sales compared with total global exports are not large and therefore the Russian counter sanction measures have no influence on the U.S. government policies. The Russian market limitation may ultimately have a positive effect as a stimulus to domestic Russian production, but in terms of attracting foreign investment and economic cooperation, it is better to promote international business cooperation and not close access to the Russian market.

Then how, in your opinion, should Russia have acted in response to sanctions from the United States?

First of all, we must understand that the sanctions were imposed not only by the USA but by a broad and influential part of the international community, including the EU countries, with whom Russia has a large volume of trade. I am against the sanctions because carry serious economic consequences and were introduced before alternative approaches for a diplomatic resolution to the conflict had been considered or exhausted. The sanctions aimed at Russia's economy impact the citizens of the Russian Federation who are not to blame for the situation in Ukraine.

However, I believe that, no matter how difficult, Russia should not have answered sanctions in-kind. Russia could have risen above this. The more so, when Russia's response measures hurt her own consumers and domestic companies along with their foreign partners.

An obvious way out of this, the implementation of the Minsk agreements and the cessation of hostilities in the Donbass. The intention of all parties must be clear and everyone should realize that this situation no one will be the winner. All parties now have already lost and lost big, and no one is innocent. If we agree that peace in the Donbass and the lifting of Western sanctions and Russian counter respectively measures is a priority, we must make more serious efforts from all sides to achieve these goals. It's not as difficult as some may assume.

How would you describe the level of relations between the Russian Far East and the U.S. West coast? What area of work continues to remain relevant and continue to evolve, to bypass the sanctions?

I follow these issues in the course of preparations for the Russian-American Pacific partnership (RAPP) forum annual meeting. The level of trade relations with the Western coast of the United States in most regions of the Far East was low even before the imposition of sanctions. But in one case, I know one company in the Far East purchasing equipment and materials from the USA, that has considered to its shift its supply, as he felt that the risk of further deterioration in U.S.-Russian relations was simply too great and if potential threat. They have started to develop alternative sources of supply outside the U.S.

I was recently in Sakhalin and, while sanctions will certainly have an impact on major oil and gas projects (especially in the development of the Arctic), the projects on Sakhalin are progressing well, and most of the contractors on the projects are in full swing. Asking a company about their work, I had expected to hear that their activities has decreased but on the contrary they said that they are receiving record orders.

But I also heard that during the execution of orders from certain manufacturers in the USA there are problems due to incorrect interpretation of sanctions: sometimes manufacturers can cancel the order for Russia and not because the current sanctions prohibit it, but because the manufacturer is not clear what further restrictions might be introduced tomorrow. Most American companies have no time to study law or political developments. If the terms of reference for relations with Russia, they do not understand, for some it is easier to cancel than to risk, to produce and then, in the case of the export ban, stay with goods. Such cases are few, and most often it is special orders.

By region, it is no secret that Sakhalin continues to lead in terms of cooperation with the United States. But in recent years the Kamchatskiy Krai and the Republic of Sakha (Yakutia) continue to actively participate in the forum. Chukotka has a special trading relationship with the United States and regularly imports large quantities of goods, although I assume that because of the ban of the Russian Federation on the import of food products in the past year, the volume has decreased.

Understand, the sanctions for the most part do not prohibit the activities of most western companies in the Russian Far East and for that reason, most all companies continue successful cooperation in the Far East despite the sanctions, with the exception of food imports to Russia prohibited by Russia's counter sanction ban. Many of the larger U.S. companies such as GE (General electric) will participate in the 20th RAPP meeting and will elaborate on their activities.

What issues are planned for discussion at the 20th meeting of RAPP? This time the event takes place on Russian territory, in Yuzhno-Sakhalinsk. Do you think this will have an impact on the number of participants?

Now, of course, there is no lack of questions for discussion. But as an inter-regional forum, while the issue of sanctions will be discussed it will not dominate the agenda. At the RAPP meeting it is more important for us to preserve the good friendly relations between our regions, States and companies that we've developed over 20 years. We are confident that the current standoff will come to an end, and that the politicians of both countries will soon realize that Russia and the US have many more common interests than issues of contention. Considering our common interests and geographies, at the 20th meeting of RAPP I propose to discuss the Far

East and the Arctic as exceptional regions for our bilateral cooperation. This is probably not actionable at this moment, but as soon as our bilateral relations improve, and they will improve, our countries will need a suitable platform for collaboration and confidence-building. I hope that the Far East can once again serve as the region where we can significantly advance our bilateral relationship.

Given the significant strengthening of relations of the Russian Far East with China, is the U.S. not feeling this competition for partnerships? Have Russian companies come to prefer cooperation with Chinese and not American partners?

This is a fear expressed in numerous Think Tanks. I'm not an expert on China, and it is hard for me to judge. But although Russia's strengthening of relations with China are more and more obvious, it need not necessarily be detrimental to Russian-American cooperation. There are lots of projects in the Far East, and intensified competition may be a good thing. But there certainly will be projects that are better suited for U.S. cooperation and others better suited for China. I also see the potential for mixed partnerships and multinational collaborations. Perhaps Russia's reaching out to China can attract more American companies to the Russian Far East, in so far as many U.S. companies have subsidiaries and affiliated companies in China. For example, at the 20-th RAPP meeting, a representative of the American engineering Corporation "Black & Veatch" Beijing office is coming to Sakhalin to present on their projects liquefied natural gas distribution model in China, that could be of interest to many regions of the Far East.

Many experts believe that if Moscow and Beijing continue their foreign policy trajectory, the Far East may fall under the serious influence of China. What is the opinion of Americans on this?

I may have partially answered this question above. But the Far East should certainly be careful in choosing the course of its economic relations development. I've always advocated for a greater diversity of economic partners. With a variety of economic partners, no single country can exert too much influence. This is particularly important with China, based on its financial capacity, geographic proximity, and geopolitical and demographic interests. In this regard, I have always been in favor of strengthening economic relations between Russia and the USA. And not on the basis of benefits to the United States, and as a strategically important and profitable for Russia Union to create a balance of partners in international economic relations in the far East of Russia. But this is my opinion. To most American politicians understand the importance of the Far East never came. The RAPP for their 20 years managed to bring dozens of representatives of Federal ministries USA to the far East, but still need time to influential figures American community became aware of the possibilities and prospects of the Far East.

Delegations from the U.S. arrive in Russia, American companies continue to conduct its business in the Far East, in particular with regard to food. Do you think that the American businessman would be better if the sanctions will be lifted or has he learned to do business in spite of the sanctions?

It will be better for everyone when the sanctions are lifted. It's not even what transactions are specifically prohibited by sanctions, but in the general negative conditions for bilateral business that come to exist. The negative environment has developed due to a variety of contributing factors. But even companies that have learned to conduct their business despite the sanctions, will feel much more comfortable, when the sanctions are lifted. Doing business in unusual conditions is inconvenient and in many cases costly. Both our countries need to create the most comfortable conditions possible for business expansion and collaboration. Our countries should also pursue less their own singular interests and focus more on strengthening international law and improving the state of the world. There are lots of problems in the world including common threats to Russia and the USA. The bilateral relations of both our countries over the last year and a half is not the best example of international diplomacy. We must strive to again become partners and renew collaborations in the interest of the world community.

Chief Editor Information Agency "DEITA"

Kulakov V.M.