



INTERNATIONAL TRADING SYSTEM

**Compendium
of teaching materials**

МЕЖДУНАРОДНАЯ ТОРГОВАЯ СИСТЕМА

**Сборник
учебных материалов**



WORLD TRADE ORGANIZATION
ORGANISATION MONDIALE DU COMMERCE
ORGANIZACIÓN MUNDIAL DEL COMERCIO



St. Petersburg State University
Faculty of Economics
Санкт-Петербургский государственный университет
Экономический факультет

INTERNATIONAL TRADING SYSTEM

COMPENDIUM
OF TEACHING MATERIALS

МЕЖДУНАРОДНАЯ ТОРГОВАЯ СИСТЕМА

СБОРНИК
УЧЕБНЫХ МАТЕРИАЛОВ



Европейский Дом
Санкт-Петербург
2011

Рецензенты:

Кузнецова Наталия Петровна,
доктор экономических наук, профессор

Исаченко Татьяна Михайловна,
кандидат экономических наук, доцент

Составители:

Сутырин Сергей Феликсович,
доктор экономических наук, профессор

Трофименко Ольга Юрьевна,
кандидат экономических наук, доцент

Сборник учебных материалов «Международная торговая система» раскрывает различные аспекты развития мирохозяйственных связей. Издание представляет собой набор кейсов для работы на семинарских занятиях и статей для самостоятельной работы.

Сборник предназначен для студентов и магистрантов экономических ВУЗов, занимающихся изучением внешнеэкономических связей.

*Печатается по постановлению
редакционно-издательского совета
Экономического факультета
Санкт-Петербургского
государственного университета*

International Trading System (*Compendium of teaching materials*). **Международная торговая система** (*Сборник учебных материалов*). — 2011 — Санкт-Петербург, Издательство «Европейский Дом» — с. 236.

ISBN 978-5-8015-0283-0 © Сутырин С.Ф., Трофименко О.Ю. составители, 2011
© Коллектив авторов, 2011
© Издательство «Европейский Дом», 2011

СОДЕРЖАНИЕ

Introduction ♦ 5

CASES

Alexandra G. Koval. Economic Integration and Trade Flows in MERCOSUR ♦ 7

Alexandra G. Koval. Mexico and Dispute Settlement: WTO versus NAFTA ♦ 15

Dr. E.F. (Ric) Riccio. Dispute Resolution in Ukraine ♦ 22

Nikita E. Lisitsyn. Russian-Finnish "Raw Wood Dispute": tactic necessity versus strategic neighbourliness ♦ 26

Alexander I. Pogorletskiy. Liberalization of air Transportation Industry in the European Union: new opportunities for Travelling and Some Lessons for Russia ♦ 31

Sergey F. Sutyurin. Could customs union help Russia to join the WTO? ♦ 41

Sergey F. Sutyurin. "Rolekas?" ♦ 44

Olga Y. Trofimenko. Foreign investments in Russia: The case of Segezhabumprom-AssiDoman ♦ 48

Olga Y. Trofimenko. Olympia's Preferential Tariff Quotas ♦ 51

Maryana A. Gubina. Services in the System of International Trade: the Example of Health-Related Services ♦ 55

As a result, these factors forced Russian authorities to postpone the introduction of higher duties first from January 2009 to January 2010, then until 2011, and finally till year 2012. The last postponement was announced by Russia's Prime Minister Vladimir Putin on December 10, 2010. By now the raw wood dispute led mostly to huge losses reported both by Finnish pulp and paper companies, and by Russian suppliers of raw wood.

Tasks and questions:

1. What were the main reasons for the duty raising campaign? Do you consider these reasons to be significant enough?
2. What measures, to your opinion, could be taken to avoid the dispute?
3. Could this dispute lead to economic conflict of wider range between Russia and Finland?
4. What sectors of economy in Russia and Finland could potentially benefit from the export duty on raw wood raised to 50% or higher? What direct and indirect circumstances it could have on economies of both trade partners?
5. How would you assess the use of unilateral approach in trade disputes between two countries?

Alexander I. Pogorletskiy
Professor Department of World Economy
St. Petersburg State University

Liberalization of air Transportation Industry in the European Union: new opportunities for Travelling and Some Lessons for Russia

Liberalization of the European Air Travelling Industry

Economic liberalization of air travel was a part of deregulation campaign based on the idea that state-controlled economy is no longer in the focus of public interest. Deregulation of airlines industry was initiated in the US and later spread globally, being especially intensive in Asia, Latin America, and European Union (EU). Nevertheless the effects of air industry liberalization in Europe were undoubtedly quite different in scope and magnitude than in the US.

European Union as well as many other states has followed the initiative, leading to an increase of free market business strategies throughout the sky industry. The EU has decided that governments should not be allowed to subsidize their loss-making airlines. Governments' concerns over their own financial performance and recognition of benefits of privatization have led to a gradual transfer of ownership from state to private sector elsewhere. In order to attract prospective shareholders, airline companies are trying to be more efficient and competitive. Deregulation is also stimulating competition, created by small carriers (low-costers).

Deregulation of air transportation industry in Europe in 1992 gave carriers from each EU country the right to supply scheduled services in

other EU states. The EU's final stage of deregulation took place in April 1997, allowing an airline from one member state to carry passengers at another member state's domestic market. Outside Europe 'open skies' agreements are beginning to dismantle some of the regulations which refer to carriers flying on certain routes.

After the EU abolished most restrictions on air carriers flying in Europe and what their tariffs, prices decreased roughly two-fold, but remained still higher than those for comparable distances in the US. The question is: should deregulation spur competition, resulting in lower prices? The answer is that many carriers remain state-owned, like Air France, and are only now beginning to cut operating costs. Nevertheless changes have occurred.

Here are some examples of European air transport fares since 1995:

- ♦ Sabena and Alitalia both charge \$1,600 for a mid-week, economy and round-trip ticket between Brussels and Rome;
- ♦ Sabena and Austrian airlines charge \$1,400 for a round-trip between Brussels and Vienna;
- ♦ Sabena and Iberia charge \$1,450 for Brussels to Madrid round trips.
While Sabena airlines collapsed in 2001 because of financial difficulties and it was replaced soon by Brussels airlines, in May 2011 fares for a mid-week, economy and round-trip ticket on the same routes were as follows:
- ♦ \$410 by Alitalia and \$535 by Brussels airlines for a flight between Brussels and Rome;
- ♦ \$370 by Austrian airlines and \$320 by Brussels airlines on the route between Brussels and Vienna;
- ♦ \$720 by Iberia and \$800 by Brussels airlines for a trip between Brussels and Madrid.

So the most visible effect of the European passenger air market liberalization was sufficient price contraction (2 to 4-fold in abovementioned example).

The EU decided to remove the remaining barriers for competition on European routes in 1997 and a growing number of small but motivated carriers are rising up to get better positions on the busiest routes. Most analysts say that only four or so of dozen of the biggest carriers will survive in their present form once deregulation is complete, throwing state-owned airlines into the uncertainties of the private sector. Nevertheless, some of previously unknown companies became the market leaders. The best example of such a kind is Ryanair — number one low-cost air carrier in Europe.

Ryanair — The Low Fares Airline

The Ryanair history. Ryanair was founded in 1985 by Christy Ryan (after whom the company is named), Liam Lonergan (owner of an Irish tour operator named Club Travel), and noted Irish businessman Tony Ryan, founder of Guinness Peat Aviation and father of Cathal Ryan and Declan. The airline began with a 15-seat Embraer Bandeirante turboprop aircraft flying between Waterford and London Gatwick with the aim of breaking the duopoly on London-Ireland flights at that time held by British Airways (one of the biggest European airline) and Aer Lingus (the national Irish air carrier).

In 1986 the company added a second route — flying Dublin-London Luton in direct competition to the Aer Lingus / BA duopoly for the first time. Under partial EU Deregulation, airlines could begin new international intra-EU services as long as at least one of the two governments gave approval (the so-called "double-disapproval" regime). The Irish government at the time refused its approval in order to protect Aer Lingus, but Britain, under Margaret Thatcher's pro-free-market Conservative government, approved the service. With two routes and two planes, the fledgling airline carried 82,000 passengers in one year.

Passenger numbers continued to increase, but the airline generally ran at a loss, and by 1991 was in need of restructuring. Michael O'Leary was charged with the task of making the airline profitable. Ryan encouraged him to visit the USA to study the 'low fares/no frills' model being used by Southwest Airlines — the world's first low cost air carrier. O'Leary quickly decided that the key to low fares was to implement quick turn-around times for aircraft (a standard for Ryanair is only 25-30 minutes instead of about 1 hour for traditional full-service European air companies), "no frills", and no business class, as well as operating a single model of aircraft.

O'Leary returned, convinced that Ryanair could make huge inroads into the European air market, at that time dominated by national carriers which were subsidised to various degrees by their parent countries. He competed with the major airlines by providing a "no-frills", low-cost service. Flights were scheduled into regional airports (some of them are situated till nowadays far away from declared destinations such as Brussels-Charleroi in Belgium or London-Stansted in the United Kingdom), which offered lower landing and handling charges than larger established international airports. O'Leary as Chief Executive did a publicity stunt where he helped out with baggage handling on Ryanair flights at Dublin airport. By 1995, after the

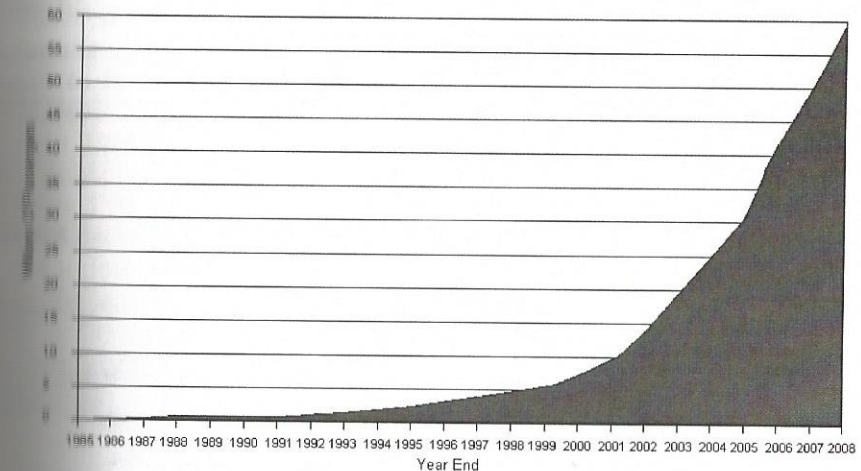
consistent pursuit of its low-cost business model, Ryanair celebrated its 10th birthday by carrying 2.25 million passengers.

During the 1990s. European Union's deregulation of the air industry in Europe in 1992 gave carriers from one EU country the right to operate scheduled services between other EU states, and represented a major opportunity for Ryanair. After a successful floatation on the Dublin Stock Exchange and the NASDAQ Stock exchanges, the airline launched services to Stockholm, Oslo (Sandefjord Airport, Torp, 110 km south of Oslo), Paris and Charleroi near Brussels. Flush with new capital, the airline placed a massive \$2 billion order for 45 new Boeing 737-800 series aircraft in 1998.

Entering the 21st century. The airline launched its website in 2000, with online booking initially said to be a small and unimportant part of the software supporting the site. Increasingly the online booking contributed to the aim of cutting flight prices by selling direct to passengers and excluding the costs imposed by travel agents. Within a year the website was handling three-quarters of all bookings, and now accounts for 100% of the total.

Ryanair launched a new hub of operation in Brussels South Charleroi Airport in 2001. Later that year, the airline ordered 155 new Boeing 737-800 series aircraft from Boeing at what was believed to be a substantial discount, (taking full advantage of the downturn in aeroplane orders after the slump in air travel following the September 2001 aircraft attacks in the United States) to be delivered over eight years from 2002 to 2010. Approximately 100 of these aircraft had been delivered by the end of 2005, although there were slight delays in late 2005 caused by production disruptions arising from a Boeing machinists' strike. In 2002, Ryanair launched 26 new routes and established a hub in Frankfurt-Hahn Airport, its European expansion firmly on track. In 2003, Ryanair announced the order of a further 100 new Boeing 737-800 series aircraft, and in February a third continental base was opened at Milan-Bergamo in Italy. During the period of 2000-2008 airline grew very fast by opening new routes and buying a lot of new planes. The enlargement of the European Union on 1 May 2004 opened the way to more new routes as Ryanair and other budget airlines tapped the markets of the EU accession countries. Decrease of a dollar exchange rate to euro was favorable for ordering US made aircrafts Boeings instead of European Airbus. The growth of a number of passengers carried by Ryanair for 1985 — 2008 is shown on the Picture 1 (see the Picture). Thus, in 2008 Ryanair carried 58,700,000 passengers, an 18% increase over 2007. Ryanair traffic in 2010 grew by 10% from 65 million in 2009 to over 72 million passengers.

Picture 1. Passenger numbers carried by Ryanair, 1986–2008.



Source: http://en.wikipedia.org/wiki/File:Ryanair_pax_fig.JPG

Nowadays. Today Ryanair is the biggest low-cost carrier in Europe. It operates 729 routes across Europe and North Africa from 29 bases (see Picture 2). Ryanair is the third largest airline in Europe in terms of passenger numbers and the world's largest in terms of international passenger numbers. Even period of 2008 — 2009 (time of the global financial and economic crisis) was favorable for Ryanair: many passengers including businessmen turned to low-cost airlines from traditional full-service air carriers in their attempts to cut costs of air travelling. While a lot of full-service European airlines did not receive any profits in 2009 and decreased a number of their passengers for the year (some of them even went bankrupt), Ryanair's profits in 2009 rose 100% to over 318m and traffic growth continued during a global recession. Continuing devaluation of the US dollar to euro in 2011 still favorable for Ryanair to order new Boeing aircrafts.

Ryanair: a real leader in price competition in the EU. On flights from Brussels Charleroi Airport Ryanair proposes following prices for routes to Rome, Vienna and Madrid (compare with prices of full-service airlines in above done examples):

€140 for a mid-week, economy and round-trip ticket to Rome (almost 2 times cheaper than traditional full-service air carriers such as Alitalia and Brussels airlines for the same dates);

Picture 2. Ryanair destination map.



Source: <http://vairyanair.webs.com/destinations.htm>

- ♦ \$130 for return flight to Bratislava (only one hour bus trip from Vienna Schwechat airport), that is 2.5 times lower than the appropriate prices of Austrian airlines and Brussels airlines;
- ♦ \$150 for return ticket to Madrid in the mid-week days (5 times less than air charges of Iberia and Brussels airlines).

So price competitive advantage of Ryanair is unprecedented in comparison with its rivals from the list of traditional (non low-cost) airlines. As of February 2010, Ryanair had an average fare of 32 euro. Ryanair stood by that fact that its average fare was less than half of competitor easyJet's of 66 euro.

One more basing thing to be competitive is a competition between airports of the same destination. In most cases Ryanair can chose from

several alternatives the cheapest airport serving the same city. For example, where are 5 airport in London: Heathrow, Gatwick, Luton, Stansted and London-City. So Ryanair fly to Stansted where service fares are more favorable. If where are no any alternatives, Ryanair try not to serve the destination. The best illustration is Budapest. On 29 April 2010, Ryanair announced the cancellations of all of its routes from Budapest Ferihegy Airport, after talks about decreasing taxes with the airports management failed. Ryanair stated it would have opened 25 new routes from the Hungarian capital, if the taxes had been decreased. As Ferihegy Airport is the only one serving Budapest, the airline is not able to operate from an alternative low cost airport in the surroundings.

Analyses of the Price Competition between Airlines on Some Routes from Berlin

With appearance of low cost air carriers, such as Ryanair, European travelers received good possibilities to spend their weekends abroad for a low price. Moreover, the followers of Ryanair came to the European deregulated air market quite soon. These circumstances guaranteed the continuation of air travel price decrease in the EU. One of the most open and competitive markets for European air transport companies after the liberalization of air transport industry is Germany. Indeed, almost all popular European air carriers including low cost airlines are today present on the German market. There are Ryanair (ranked as number one), EasyJet (ranked as number two), Air Berlin (number three) and Germanwings (low-cost subsidiary of Lufthansa), which are definitely price leaders on some major routes. Table 1 (see the Table) indicates several popular destinations from the capital of Germany both for low-cost airlines and for traditional full service air carriers. The table contains the lowest prices for a return weekend trip from Berlin to Milan, London, Oslo, Stockholm, Petersburg and Moscow where the low cost air carriers are flying to. Moreover, all companies are flying to or from the same airports such as Berlin-Tegel (TXL) and Berlin-Schoenefeld (SXF) situated not far from the city center (about 30 min trip by public transport from the airports to Alexanderplatz).

Table 1. The cheapest tickets for return direct flights from Berlin (inbound flights on June 3, 2011 outbound flights on June 5, 2011), Internet price in euro on May 5, 2011

Air carriers, airport	Destinations					
	Milan	London	Oslo	Stockholm	St.Petersburg	Moscow
Ryanair (SXF)	105.19	144.51	48.98	72.98	No direct flights	No direct flights
easyJet (SXF)	96.98	135.32	No direct flights	No direct flights	No direct flights	No direct flights
Norwegian (SXF)	No direct flights	No direct flights	87.20	114.10	No direct flights	No direct flights
Air Berlin (TXL)	219.98	466.98	218.98	313.98	248.98	203.98
Germanwings (SXF)	No outbound flight	No outbound flight	No direct flights	328	No direct flights	208.99
Lufthansa (TXL)	No direct flights	250.17	No direct flights	No direct flights	No direct flights	No direct flights
British Airways (TXL)	No direct flights	177.33	No direct flights	No direct flights	No direct flights	No direct flights
Aeroflot (SXF)	No direct flights	No direct flights	No direct flights	No direct flights	No direct flights	277.62
Rossija (SXF)	No direct flights	No direct flights	No direct flights	No direct flights	No inbound direct flight	No direct flights
Transaero (TXL)	No direct flights	No direct flights	No direct flights	No direct flights	No direct flights	189.10

Sources: composed by A.Pogorletskiy based on Internet sites of air carriers (accessed on May 5, 2011).

Tasks for students:

Basing on the analyses of the above-done table which also indicates all direct flights from Berlin to appropriate destinations and using information about the European air transport market liberalization and experience of low-cost airline Ryanair please give answers to the following questions:

- ▷ Was the effect of EU air travel industry liberalization on internal EU routes starting from Berlin positive in general or not?
- ▷ Is there any competition between airports of Berlin to attract air carriers?
- ▷ How competitive is Ryanair in comparison with its rivals including both low-cost airlines and full-service airlines?
- ▷ Could the EU liberalization of air industry be expanded on the flights from Berlin to Russian cities (such as Moscow and

St.Petersburg)? How Russia's accession to the WTO could change the present situation?

Some Lessons from the European Air Industry Liberalization Related to the Internal Market of Air Travelling in Russia

One of the most competitive Russian air route is St.Petersburg — Moscow with at least seven air carriers in June weekends of 2011 (even eight on working days including Ural Airlines). Prices for one way ticket for the flight St.Petersburg — Moscow (distance 650 km) booked one month in advance are depicted in the Table 2 (see the Table). In comparison: prices for one way trip for almost the same distance Berlin — Munich (600 km) in Germany for the same date also booked one month in advance were equivalent of:

- 300 Rubles by Air Berlin;
- 300 Rubles by Lufthansa;
- 650 Rubles by Germanwings;
- 200 Rubles for ICE train (analog of the Russian high speed train Sapsan).

Table 2. The cost of the cheapest ticket for one-way trip from St.Petersburg to Moscow

Carriers	Aeroflot	Utair	Transaero	Rossija	Sky Express	S7	Gazpromavia	Sapsan train
Price	3 752	2 990	2 980	3 050	2 000	3 577	No data available	
Distance								2 355

Tasks for students:

Basing on the analyses of the above-done table give answers on the following questions:

- ▷ How could you assess the route St.Petersburg—Moscow for different types of carriers in terms of the price competition?
- ▷ Which are the basic distinctions of the route St.Petersburg—Moscow from the same in terms of distance route Berlin—Munich?
- ▷ Which lessons from the European air transport industry liberalization could be implemented in the Russian market?

▷ Some times ago on the route St.Petersburg—Moscow has operated the Russian low-cost airline Avianova whose prices were less than 2000 Rubles per one-way flight (for some dates prices were close to 1000 Rubles). Now it leaved the market. Why repetition of the successive story of Ryanair in the Europe is impossible in Russia where full-service airlines are dominating in the industry?

▷ ould Russia's accession to the WTO change the competitive situation for the domestic air routes?

Sources

- Airline Deregulation. URL:
<http://www.econlib.org/library/Enc/AirlineDeregulation.html>
- European experience of air transport liberalization. URL:
http://www.icao.int/icao/en/atb/ecp/CaseStudies/EuropeLiberalization_En.pdf
- International Business Still Worlds Apart on Air Fares: European Travelers See Few Benefits of Deregulation. URL: <http://www.nytimes.com/1995/12/20/business/international-businessstill-worlds-apart-air-fares-european-travelers-see-few.html>
- Kawagoe M. Air Transport Deregulation in the EU: Study from the Europeanization Perspective. URL: // http://www.juris.hokudai.ac.jp/gcoe/journal/LPG_vol2/2_8.pdf
- Ryanair Virtual Airlines. URL: <http://varyanair.webs.com/>
- Ryanair. URL: <http://en.wikipedia.org/wiki/Ryanair>
- Site of Ryanair. URL: <http://www.ryanair.com>
- The Airline Industry. URL:
<http://adg.stanford.edu/aa241/intro/airlineindustry.html>

Sergey F. Sutyrin

Professor, Head of the World Economy Department
 St. Petersburg State University
 The WTO Chair holder

Could customs union help Russia to join the WTO?

Disintegration of the Soviet Union in 1991 gave birth to 15 new countries emerged on its former territory. In addition to many other urgent problems to be solved, they needed to elaborate their trade policies. The latter had to be in conformity with an overall trend of social and economic transformation, namely the transition to market economy. Hence, the policies under review strategically should have been aimed at creating the best opportunities to promote mutually beneficial trade relations with various foreign partners. The main mean to achieve afore-mentioned goal was consistent trade liberalization, i.e. reduction or complete elimination of different barriers hampering this form of economic cooperation.

At the moment World Trade Organization (WTO) is the key institution in charge of working out of international trade rules. It was established in 1994 on the basis of General Agreement on Tariffs and Trade (GATT). Marrakesh Declaration of 15 April 1994 officially announcing an appearance of the WTO in particular runs: "2. Ministers affirm that the establishment of the World Trade Organization (WTO) opens a new era of global economic cooperation, reflecting the widespread desire to operate in a fairer and more open multilateral trading system for the benefit and welfare of their peoples. Ministers express their determination to resist protectionist pressures of all kinds. They believe that the trade liberalization and strengthened rules achieved in the Uruguay Round will lead to a progressively more open world trading environment".

INTERNATIONAL TRADING SYSTEM

COMPENDIUM
OF TEACHING MATERIALS

МЕЖДУНАРОДНАЯ ТОРГОВАЯ СИСТЕМА

СБОРНИК
УЧЕБНЫХ МАТЕРИАЛОВ

Директор издательства
Е.Н. Кальщиков

Оригинал-макет
Татьяны Николаевой

ЛР № 065334 от 7 августа 1997 г.

Формат 60х88/16.
Бумага офсетная Печать офсетная.
Печ.л. 14,75. Тираж 350 экз.
Заказ №

Издательство «Европейский Дом»
191187, Санкт-Петербург, ул. Моховая, 15
Тел./факс: (812) 579-08-33, e-mail: evrodom2006@list.ru

In 2010 Faculty of Economics, St.-Petersburg State University has become the only institution that received the status of the WTO Chair in former Soviet republics. The project aims to support and promote trade-related educational and research activities. MA Programme International Trading System constitutes the key element of WTO Chairs project at SPSU.

В 2010 году экономический факультет СПбГУ стал единственным на постсоветском пространстве Национальным институциональным партнером Всемирной торговой организации в рамках проекта «Кафедры ВТО». Проект направлен на поддержку образовательной и научной деятельности в сфере международной торговой политики. Реализуемая на факультете магистерская программа «Международная торговая система» является одним из ключевых направлений деятельности в рамках проекта «Кафедра ВТО в СПбГУ».



Европейский Дом