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CHAPTER VIII

Ocean Policy Toward Russia & the Pacific Fisheries: The U.S. & Western Countries' Perspective

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Ocean Policy Toward Russia & the Pacific Fisheries: The U.S. & Western Countries' Perspective

Vlad M. Kaczynski*

ABSTRACT

Successful maritime relations with Russia are vital for the U.S. and other Western countries because of the international trade, investment and business links, common environmental concerns, shared marine resources and pending marine border issues. These relations are currently hampered as Russia is challenged by the social and economic difficulties resulting from unsuccessful shift from the communist to the free market regime. Unfinished post-communist reforms and failed governmental interventions resulted in deterioration of marine environment and crisis in the Russian maritime economy.

Distortions in management of national economy lead to the declining living standards in Russia as the state failed to secure transition process to democracy and the free market system, assure economic growth, and prevent environmental degradation. International experience shows that failed states are seedbeds of lawlessness, criminality, parallel markets, smuggling and pirate marine economic operations that accelerate depletion of the renewable resources in the coasts and adjacent seas. As the Russian Government cannot provide basic public goods and services for the population or secure adequate conditions for sustainable use of the natural resources, the Russian society is experiencing steeply escalating problems that spill over to the rest of the world. Russia can hardly recover from the existing crisis without healthy economic policy and better management of the ocean and coastal resources – one of the few pillars of its national economy. The recovery process in Russia should be supported by international aid.

However, international donors, which enjoy substantial U.S. funding, have shown little interest and proven to be ineffective in supporting reforms in maritime Russia, the U.S. Government should take the initiative and design a long-term aid program that would be negotiated directly with the Government of Russian Federation. This effort should not only consider vital Western interests,

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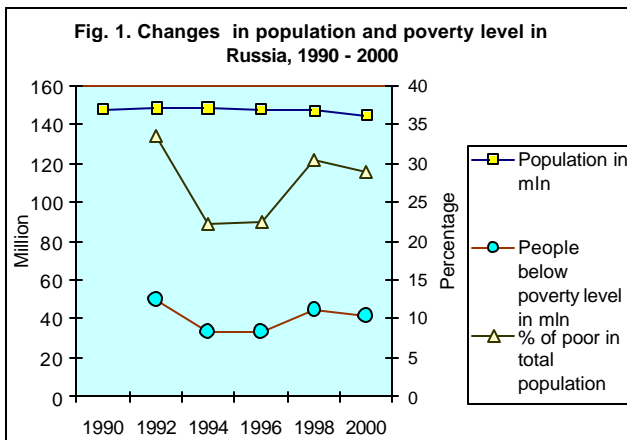
but also promote developed and prosperous Russian marine economy and the wellbeing of its citizens living in the coastal provinces, particularly in the Russian Far East regions.

The U.S. should assume a leading role in an international effort to help Russia escape from distortions that happened in this country's transition process during the 1990's and might persist in the following decades. Support of the economic growth of Russia's marine economy, sustainable use, health of the marine resources and fair distribution of the benefits they generate among all segments of the Russian society should be the vital components of U.S. and Western ocean policy toward Russia.

I. RUSSIAN OCEAN POLICY AND ITS STRATEGIC SIGNIFICANCE

At the time of important global political, social and economic changes in the world and significant evolution of the global policies initiated by industrialized countries, there is a need to turn our attention to the importance of the U.S. international marine relations with other countries and regions. However, the difficult socio-economic changes that many developing nations and transition economies are undergoing in building market systems have frequently resulted in outright decline in the living standards and economic crisis in these countries.

In Russia, the free market reforms brought serious negative impacts on the



population, on the level of poverty and accelerated emigration of inhabitants from the Russian Far East (Figures 1¹ and 2). There was a substantial decline in the quality of the marine environment in this region, as well as deterioration of the Russian ocean science, merchant marine and fishing fleet capabilities. Significant changes took place also in the

Russian role as a global ocean power.

The U.S. and Western interests in successful economic growth and robustness of the ocean resources in the Russian Federation are multifaceted, but are fundamentally connected with this country's rule of law and economic success

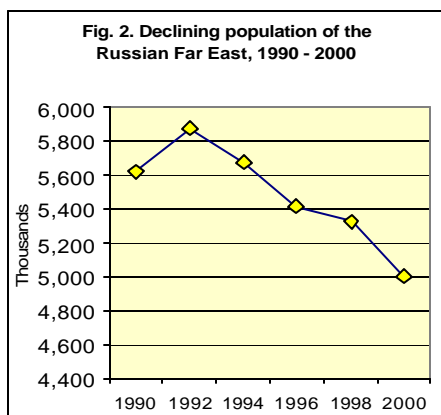
¹ Vyacheslav K. Zilanov, *Impact of Population and Markets on Sustainability of the Ocean and Coastal Resources of the North Pacific* (Vlad M. Kaczynski & D. L. Fluharty eds., 2002).

or failure. These outcomes will determine the gains from trade and investment in the Russian marine economy and sustainability of its coastal resources that could also benefit the Western markets. However, the ramifications for the United States of good or bad economic performance of Russia go beyond direct economic returns. Implications of the Russian transition from centrally controlled to the free market economic system for the marine and coastal environment and for the country's ocean security and international ocean relations, are equally important for the U.S. and the world community. Two sets of factors must be taken into account as a base of this analysis:

- a) In the international arena, the end of the Cold War and subsequent changes taking place in the World have contributed to the decline of Russian ocean capabilities, Russia's place as an ocean power and to worsening status of marine and coastal environment in this country. From its role as a competitor in global ocean affairs today's Russia is looking to the West as a source of foreign capital, technology and expertise needed to restore its declining marine economy and to prevent further deterioration of its coastal and sea resources.
- b) Domestically, socio-economic reforms increased the role of the private sector, brought freedom of business decisions, contributed to an opening to the West, and allowed for international trade and travel opportunities. However, these changes did not fully restructure the Russian economy. Rather they have lead to a number of distortions particularly in economic activities, such as in the area of finances, illegal use of natural resources and their uncontrolled exports.

A well-defined and stable national marine policy is needed to provide an adequate legal, financial and administrative climate for successful transition of Russian maritime economy to the free market-oriented system.² Such an environment is also necessary to facilitate reconstruction and conversion of marine industrial potential in Russia from promoting Soviet ideological and military influences in the World Ocean to more business-oriented activities guided by free market principles.

² According to the Lehman Brothers and Eurasia Group index *See Emerging Market Indicator: Political and Economic Stability*, THE ECONOMIST, Aug. 2002. Russia's political and economic stability declined in 2002 to 55 out of a possible 100, placing it below China and the countries of Eastern Europe previously included in the Soviet Russia's sphere of influence.



involved, the United States can play an important role in this process (Figure 2).³

II. COLLAPSE OF THE SOVIET UNION AND ITS OCEAN POLICY IMPLICATIONS

In spite of the loss of 50 marine ports and 43% of the GRT tonnage of its merchant marine transferred to the Newly Independent States (NIS) after the collapse of the Soviet Union, the Russian Federation retained developed marine industrial infrastructures, a large nuclear-powered navy, significant ocean research and fishing fleets and a well trained cadre of marine specialists. A vast network of international agreements and joint ventures in shipping, fisheries, oceanographic research, seafood trade and port access rights for the navy ships were other important assets that Russia could potentially use to continue its presence in the world ocean.⁴

However, as a result of changed Russian ocean doctrine after the Cold War and growing economic problems, the Russian navy has undergone substantial reductions and because of financial constraints was forced to scrap many nuclear submarines with nuclear reactors damped in the navy bases of Kola Peninsula, on beaches of the Far East or disposed in or around the Arctic islands. Several catastrophes of the Russian nuclear ships produced serious environmental damage both in Russia and in international waters.⁵

Russian navy specialists are hired in some foreign countries to help in increasing local naval capabilities while Russian ocean scientists can be found in various marine scientific institutes of developing countries. In contrast to all NIS

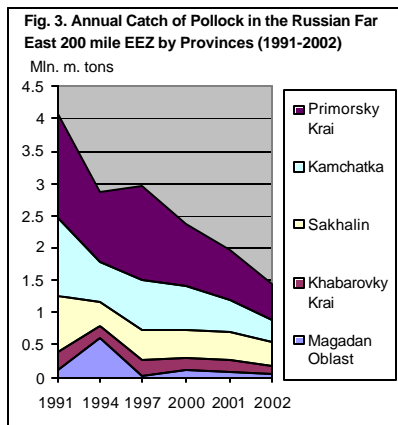
³ Zilanov, *supra* note 3.

⁴ Vlad M. Kaczynski, *Perestroika and Soviet Marine Living-Resource Policy: The Pacific Dimension*, 5 REVIEWS IN AQUATIC SCIENCES 1 (1991).

⁵ Thomas Nilsen & Nils Bohmer, *Sources of Radioactive Contamination in Murmansk and Archangelsk County*, BELLONA REPORT (1994).

with access to the sea (particularly Baltic Republics, Ukraine, Georgia) and former Soviet Bloc countries (such as Poland, Bulgaria, and Romania) Russian Federation retained very rich fishery resources within its own coastal waters and inherited an industrial fishing fleet capable of exploiting national and distant-water fishing grounds. The Russian merchant marine can currently cover approximately 37% of the national sea trade needs⁶ while the Navy, albeit significantly reduced, is capable of protecting the coasts and projecting some Russia's interests overseas.

However, recent changes in Russia's economic system have put severe strains on industrial production, performance and profitability of all segments of the national marine economy.⁷ Dramatic decline in harvest of most important fish species in the Russian Far East seas is the most visible symptom of existing resource and fishing industry management problems (Fig. 3).⁸⁹



Restructuring marine sector of this country from its formerly notorious subsidization, global orientation and confrontational position to more peaceful and nationally oriented activity requires massive demilitarization, change of the Russian ocean development strategies, and promotion of private investment.

It will also entail complete re-education of society to adopt principles of democracy and enjoy benefits of the free market system. Under a favorable marine policy environment, foreign

aid and investment can help Russia to go through the transition period by providing management and marketing expertise, capital and new technology, all of which are in Russia today in extremely short supply. Table 1 indicates that during 1996 – 2000 foreign direct investment (FDI) in Russia was less than in Czech Republic and was two times smaller than in Poland. The ratio of FDI to Gross Domestic Product (GDP) was lowest in Russia among all post-communist nations.

⁶ Maria Chernobrovkina, *Russia's Seaports* (1999), available at <http://www.bisnis.doc.gov/bisnis/isa/9902port.htm> (last visited Feb. 20, 2004).

⁷ William W. Lewis, *Russia's Survival of the Weakest*, ASIAN WALL STREET JOURNAL, Nov. 5 1999.

⁸ K. Zgurovsky & V. Spiridonov, *Preserving Marine Biodiversity in the Russian Far East*, Presentation at the School of Marine Affairs, University of Washington Nov. 25, 2002.

⁹ E. Ardalyanova, *The Gref's Chowder* (in Russian), 1 THE FAR EAST CAPITAL, Jan. 2003, available at <http://www.kapital.zrpress.ru> (last visited Feb. 20, 2004).

Table 1. Net Foreign Direct Investment: Selected Transition Countries

	<u>Foreign Direct Investment (FDI) 1996-2000</u>		<u>FDI: Forecast 2001-2005</u>	
	Cumulative US %GDP	%GDP	Cumulative US\$	%GDP
Newly Independent States (NIS)	6699	1.7	10540	2.1
Czech Rep.	3463	6.4	4960	6.9
Hungary	2029	4.3	2030	3.0
Lithuania	460	4.4	450	3.1
Poland	6528	4.3	6900	3.2
Romania	1115	3.0	1350	2.9
Russia	3246	1.1	6600	1.7
Ukraine	596	1.5	1060	2.1
Average, 6 other countries		4.0		3.5

Source: APEC Seventh Annual Investment Symposium "Investment development in the APEC region in the age of globalization" Vladivostok, Russian Federation: September 4-7, 2002

International scientific, economic and commercial cooperation with foreign countries could be seen as the main channel through which technology, know-how and capital can flow from the Western World to Russia. This effort can involve both governments and private sector interactions. Help is needed because the free market system in Russia, in stark contrast to other post-communist countries such as Poland or Czech Republic, is working only partially. The socio-economic reforms in the Russian Federation, Ukraine and NIS are bringing much confusion and a breakdown of their economies including marine industries.¹⁰ They also caused degradation of Russian marine environments and depletion of sea resources. These changes result in growing scarcity of seafood products in the national market, declining official exports, loss of jobs and shrinking opportunities for the private sector.

Because of the poor business environment, the 1998 financial crisis in Russia and significant depletion of commercially important marine resources in the Russian Far East seas many Western companies and banks have lost their

¹⁰ George Saber & Jeffrey Sachs, *They Are Going to Pursue Dangerous Policies*, TIME MAGAZINE, Jan. 31 1994, (interview).

investments in that country, particularly long-term fishing vessel leases, equipment and supplies delivered on a credit basis for the Russian fishing and merchant vessel owners. A number of the U.S. enterprises doing business in the Russian Far East announced bankruptcy as they lost their assets in Russia, suffered reduced exports opportunities in marine technology while services of the U.S. shipyards and ports for the Russian companies nearly completely ceased.

III. RUSSIAN OPENING TOWARD THE WEST

The most dramatic changes in the Russian marine economy have come from elimination of widespread subsidies that supported uneconomical activities, its opening to the Western markets and diffusion of new forms of international marine cooperation such as joint research projects, commercial ventures, vessel chartering, ship conversions in foreign shipyards and seafood trade. However, evolution from a state owned and controlled industry to private enterprise system is rather slow. At present this country's marine sector is undergoing a complicated period of transition from the centrally planned economy to the pluralism of properties: private, state-owned, foreign, mixed, and other. The effects of these changes are frequently confusing for foreign businesspersons and discouraging them from investing there because of high risk.

In the increasingly interdependent world of ocean relations and accumulation of debts for deliveries of Western fishing and merchant ships to Russia during early 1990's, Russian marine policy became a significant concern for many foreign governments, banks and shipyards.¹¹ Mismanagement of the marine resources and seafood exports contributed to large-scale illegal operations in Russian 200 mile Exclusive Economic Zone. These distortions led to the economic crisis in the Russian Far East, significant depletion of the marine living resource in that region, and raised serious concerns in the U.S. (which is sharing with Russia some commercially valuable marine living resources in the Bering Sea)¹² in Japan (because of dumping of nuclear materials by Russia in the Japan Sea) and in Norway (which is sharing the Barents Sea fish resources with Russia).

The Russian Federation's regional (basin) administrations and local entrepreneurs, trying to become more independent from the Moscow's dictate and in an attempt to maximize benefits from relations with foreign markets, have turned to industrialized countries of the Pacific for commercial partnership. This could accelerate the pace of privatization undertaken by Russians and reduce the

¹¹ Vlad M. Kaczynski, *Financing Fishing and Merchant Fleet Renewal in the Russian Federation*, Manuscript, School of Marine Affairs, University of Washington (2000).

¹² J. Novell & E. Wilson, *Chapter: Primorsky Krai*, THE RUSSIAN FAR EAST 45-64 (1996); *Id.* at 69-87, Friends of the Earth, *Chapter: Khabarovsk Krai*.

costs of transition from state-controlled to privately owned and managed enterprises.

IV. OCEAN POLICY RAMIFICATIONS OF THE RUSSIAN STATE FAILURE

When the government fails to provide basic public goods and services for their populations or secure adequate conditions for sustainable use of the natural resources, the society is likely to experience steeply escalating problems that spill over to the rest of the world, including the United States.¹³ Economic failure in Russia raises the risk of state failure as well as the collapse of marine environmental policies with disastrous impacts on its marine economy whose present and future growth can only be assured if it is based on a healthy ocean and coastal environment. In an increasingly complex and volatile economic environment of the Russian Federation and some NIS, the United States and other Western countries could cooperate in marine affairs, designed in cooperation with the Russian counterparts considering real needs and past mistakes in international aid for maritime Russia.

From the ocean policy perspective, inefficient marine environmental management is a seedbed of lawlessness in allocation of natural resource and their use, criminality in commercial operations, expansion of parallel markets, smuggling and pirate sea operations.^{14,15} Table 2 shows that only in the Kamchatka region the number of detected violations increased significantly and their environmental implications grew three times during 2000 – 2001.

Table 2. LAW ENFORCEMENT IN THE KAMCHATKA COASTAL WATERS
STATISTICAL REPORT FOR 11 MONTHS OF THE YEAR 2001

	2000	2001	% growth
Number of violations detected	5,361	6,105	114
Penalties assessed in US\$	25,223	45,095	179
Estimated value of environmental damages in US\$	1,644,249	5,430,539	330
Confiscations:			
Fish cargo (tons)	242	326	134
Roe products (kgs)	10,176	20,569	202
Fishing gear (items)	4,070	4,472	110
Transporting equipment (items)	1,187	1,283	108
Number of court cases opened	76	113	149

Source: Rybak Kamchatki, January 10, 2002.

¹³ Jeffrey D. Sachs, *The Strategic Significance of Global Inequity*, 24 WASH. Q. 187, (2001).

¹⁴ *Id.*

¹⁵ David Gordon, *Suckered at Sakhalin*, THE NORTH PACIFIC DIGEST (2002), available at <http://www.npacific.kamchatka.ru>.

In order to save costs and effort responding to failed Russian coastal and oceanic policies, Western states will have to invest more in helping Russians to establish more pragmatic marine policy and to reconstruct its marine capabilities based on the free market system. Western countries including the U.S. have certain, although limited, economic and international policy instruments such as trade, investment and international aid programs to help prevent state-caused distortions or mismanagement of the maritime sector. Table 3 indicates present instruments of U.S. assistance that could be used to help Russia in accelerating and rationalizing its marine resource-related reform programs.

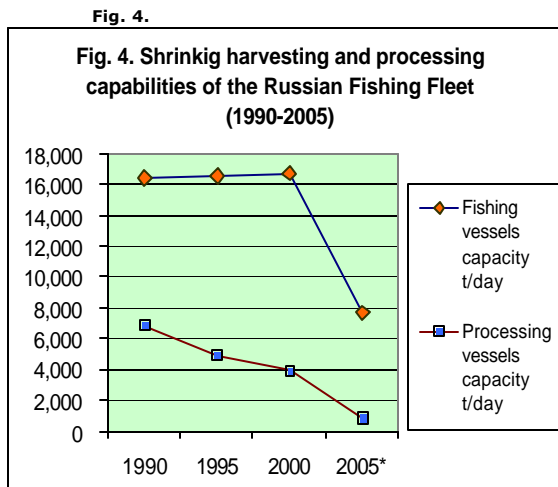
Table 3. Multilateral and Bilateral Institutions and Economic Links Affecting Russian Far East Economy and Natural Resources
<ul style="list-style-type: none"> • Intergovernmental Agreements (Resource Access Agreements – Okhotsk, Bering Sea, Open Sea Fishing Moratoria (Doughnut and Peanut Hole, Border Agreements: Shewardnadze –Baker Agreement) • Regional collaborative arrangements (RFE - Alaska, Hokkaido, British Columbia, Korea, China border provinces) • US Federal Aid Programs <ul style="list-style-type: none"> – USAID – Eurasia Foundation – Department of Commerce – Department of State – EX-IM Bank • Multilateral Organizations' Aid Programs <ul style="list-style-type: none"> – The World Bank – IMF – EBRD – Other Programs • NGO's (Greenpeace, World Wildlife Fund, Pacific Environment, other) • Foreign Direct Investment • International Trade

The government-caused problems such as assistance must address include reducing the threat of nuclear pollution of seawaters and coasts, establishing partnerships in sound management and preventive measures to eliminate overexploitation of sea resources that frequently are of transboundary character, jointly combating illegal harvesting of fish and forest resources and their uncontrolled exports. Foreign assistance could play an important role in improving the state of Russian marine affairs, but in the past the United States and other Western countries have not effectively provided it to Russia.

V. PROBLEMS IN RUSSIA'S MARINE ECONOMY AFFECTING U.S. ECONOMIC INTERESTS

It should be noted that immediate possibilities for the U.S. private sector to take advantage of the changing political climate between the two countries are rather slim. The Russians have mismanaged their marine living resources, leaving

them severely depleted with environmental and economic impacts on the health and productivity of some stocks across the border in the U.S. waters. Russian marine sectors (shipping, fisheries, shipbuilding, ports and ocean research institutions) are undergoing continuing decline, growing unemployment, low productivity and the absence of available capital for the reconstruction of aging fleets and land infrastructures¹⁶ (Figure 4).¹⁷



Some Russian policy specialists are blaming the free market system as a major cause of the crisis and so are requesting further subsidies or other governmental interventions, including support of state-controlled enterprises.¹⁸ Unrealistic taxation policy and resource allocation, corruption, tensions between federal and provincial governments, and distorted private ownership relations (particularly company ownership) in these

sectors are compounding the situation and make any reform programs ineffective.¹⁹ As noted earlier, the crisis of the Russian marine economy is affecting U.S. interests because many U.S. companies have lost their earlier investments in the Far East, particularly long-term fishing vessel leases, equipment delivered on a credit basis, and supplies for the Russian fishing fleet. Many U.S. companies doing business in the Russian Far East announced bankruptcy as they lost their assets in Russia, reduced exports of marine technology and as the services of the U.S. shipyards and ports for Russian vessel owners practically ceased.²⁰

The U.S., Japanese and Korean imports of seafood from Russia inadvertently support pirate fishing and illegal exports operations in Russia's 200-

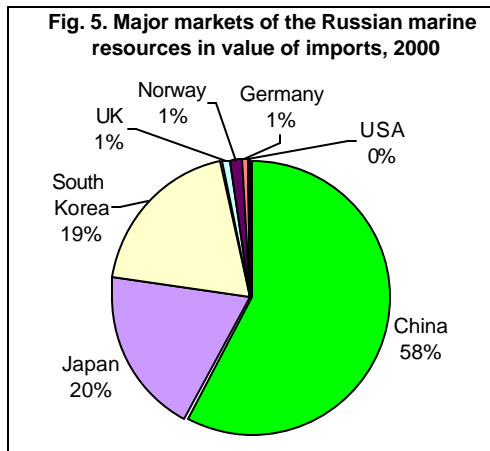
¹⁶ Anthony Allison, *The Crisis of the Russian Far East Fishing Industry: Sources, Prospects and the Role of Foreign Interests*, Seattle (2000).

¹⁷ K. Zgurovsky & V. Spiridonov, *Preserving Marine Biodiversity in the Russian Far East*, Presentation in the School of Marine Affairs, University of Washington, Nov. 25, 2002.

¹⁸ Vyacheslav K. Zilanov, *We should prepare fisheries policy* (in Russian), THE NORTH PACIFIC REGIONAL INFORMATION DIGEST, Nr. 1 (9)/2000, Petropavlovsk-Kamchatsky.

¹⁹ N. Trumbull, *Marine Policy in Northwest Russia: Economic Challenges, Ideological Convenience, and the Risk of Collusion between State and Private Interests*, JSIS Paper, University of Washington, Seattle, Nov. 2000.

²⁰ Vlad M. Kaczynski, *Reconstructing the Aging Fleet of the Russian Far East*, REECAS NEWSLETTER, University of Washington, Seattle, WA (2001).



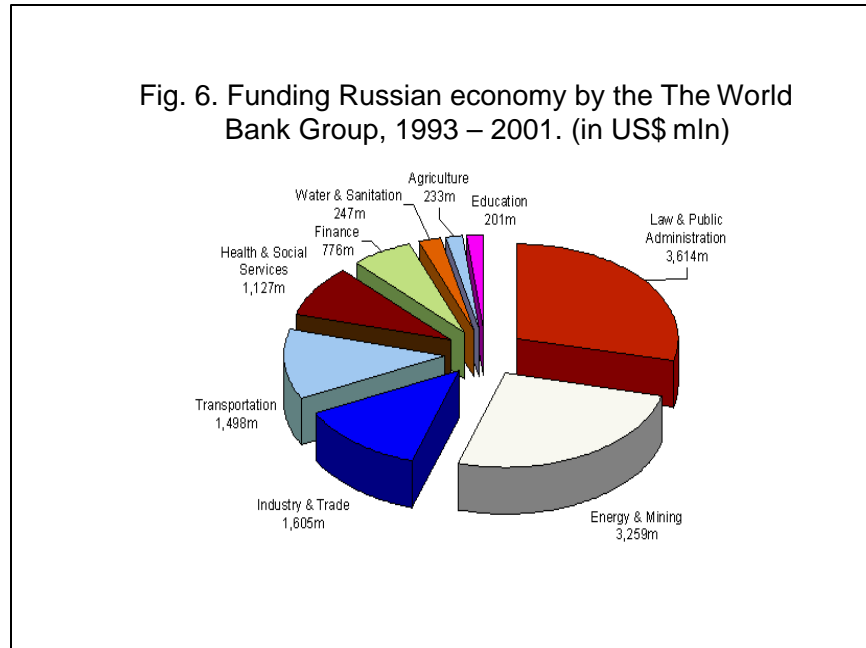
mile Exclusive Economic Zone (Fig. 5), resulting in the massive overexploitation of Pollock, crab and other valuable resources and the flight of Russian capital to overseas banks.²¹ With the exception of overseas oil companies in the Sakhalin Province, foreign banks and corporations are much more careful in financing any development projects in Russia because of the lack of proper financial laws and insufficient protection of foreign capital in that country.

These circumstances call for a serious reevaluation of U.S. policies toward maritime Russia. What is needed are high-level decisions and agreements between the U.S. and Russian governments that would lead to more energetic and comprehensive aid and marine collaboration programs addressing Russian socio-economic problems.

VI. MISSED OPPORTUNITIES IN THE INTERNATIONAL AID PROGRAMS

The U.S. Agency for International Development (USAID), Eurasia Foundation, the World Bank, the United Nations Development Program (UNDP) and UN Food and Agriculture Organization (FAO) have not shown any sustained interest in addressing the marine resources and the coastal economy of Russia and its problems. In 1998, in order to study pirate operations in the Russian seas and illegal exports of seafood and timber to industrialized country markets, which totals between U.S. \$ 2 to 5 billion per year, the World Bank offered a mere U.S. \$ 2,500 for international experts and engaged a couple of foreign graduate students to address these problems. The World Bank did not show any interest in funding marine environmental projects (see Fig. 6).

²¹ *Trawling in the Mist*, TRAFFIC NETWORK (2002), available at <http://www.traffic.org/beringsea/illegal.html> (last visited Feb. 20, 2004).



As a result it withdrew its funding from technical assistance in preparation of the Fisheries Development Strategy Project in Russia in 1997. The Russian Fisheries Development Strategy called "Ryba" (Fish), prepared in 1995 by Russian specialists, aimed to rebuild the Russian marine economy, in particular the Russian fleets.²² It contemplated a huge subsidization program that turned out to be a complete failure and is criticized today by Russian strategists.²³ The total budget of the United States Agency for International Development (USAID) for Russia in 2002 was equal to U.S. \$157.73 million of which U.S. \$6.8 million for "Effective Management of the Environment." For the year 2003 the USAID request to Congress was U.S. \$148 million with \$6.325 million for 'Effective Management of the Environment.'²⁴ No financial resources from USAID were used to address marine living resources or sector management problems in Russia (Figure 6).²⁵

The most recent U.S. technical assistance effort to support reforms in the Russian marine economy in the Far East was organized under the umbrella of

²² G. S. Shapovalova & A.N. Sipkin, *Federal Program "Ryba" on Development of the Fisheries Sector of the Russian Federation up to the Year 2000: Methods of its Implementation* (in Russian), FISHERIES ECONOMY J., Moscow (1996).

²³ I. Boiko, *Economic Reform in Russia: Regional Aspects* (in Russian), RUSSIAN FAR EAST J., Feb. 1997.

²⁴ USAID, *Budget Trends*, at <http://www.usaid.ru/> (last visited Feb. 20, 2004).

²⁵ Available at <http://www.worldbank.org.ru/eng/group/strategy>.

Winrock International, a non-profit agricultural development organization supported by USAID funds and utilizing the expert services of volunteers or retirees—an unrealistic undertaking, because the support of Russian marine institutions and initiatives must be based on the long-term, systematic effort of highly skilled specialists. The Eurasia Foundation and Foundation of Russian-American Economic Cooperation are showing a little interest in addressing marine living resource problems in Russia and grant allocation policies are unfortunately missing important challenges arising from marine environmental damage caused by the U.S. Exxon and Texaco companies investing in the North Sakhalin offshore oil and gas development project. On other hand, the United Nations Development Program, funded by the Global Environment Facility, established a project in Kamchatka Peninsula designed to improve the fate of ethnic population (Itelmen Nation in the southern part of Peninsula). This project was summarily rejected by the leaders of the local population.

Rather than help to dissipate the legacies of communism, U.S. aid has in some cases instead reinforced the legacies of central planning and political control over economic decisions.²⁶

During last ten years no one foreign donor organization has designed and carried out a project for improving marine resource conservation and management or built transparency in the allocation, use and marketing of the sea resources in Russia.

VII. CONCLUSIONS AND RECOMMENDATIONS

Examples of failed or missed opportunities to help Russians in dealing with marine affairs indicate a lack of interest and coordinated involvement in a comprehensive program of international donors' assistance to help maritime Russia in coping with challenges that the free market economy has offered to its post-communist economy. Sporadic international efforts to address Russian marine problems have been largely ineffective. Without serious reforms of the Russian marine policy in general and ocean and coastal resource management in particular, there will be reduced or negligible investment opportunities for Western companies, little trade with this country of rich natural resources, no jobs for the coastal populations, and no effective cooperation in conservation measures with the U.S. in order to assure sustainability of shared marine resources in the Bering Sea.

²⁶ J. R. Wedel, *U.S. Assistance for Market Reforms: Foreign Aid Failures in Russia and the Former Soviet Bloc*, 338 POLICY ANALYSIS, March 22 1999, available at <http://www.cato.org/pubs/pas/policyanalysis.html> (last visited Feb. 20, 2004).

In the North Pacific, the U.S., Canada and Russia's Asia-Pacific neighbors have a vital interest in a prosperous, free market-oriented maritime Russia and in the health of its forest and marine living resources particularly in the Russian Far East. As international donors have shown little interest and proved to be ineffective in supporting reforms in maritime Russia, the U.S. must take the initiative and design an aid program based primarily on the principle of partnership that could be negotiated directly between the two countries. These initiatives should not only consider vital U.S. interests, but they also should promote a developed and prosperous Russian marine economy and the wellbeing of citizens living in the coastal provinces, particularly in the Russian Far East regions.

Almost all transition economies, including Russia, are characterized by extreme uncertainty about the future and the lack of institutional arrangements that strengthen democracy, socio-economic stability, sustainable development policies that would create long-term incentives for growth of the private sector.

There is a need for a change in U.S. ocean policy toward Russia so that it will be better adjusted to address these challenges. This change should start from an assessment of what can and cannot be accomplished in support of the development of maritime Russia based on the free market principles and help to consolidate economic and political reforms. U.S. assistance to Russia should be used to bolster private sector development, remove impediments to development (such as corruption, bias against excessive taxation of the private sector, distorted marine resource-allocation and use policies), and to build a set of long-term measures promoting participation and expansion of the private sector. The U.S. should assume a leading role in an international effort to help Russia escape from distortions that arose in this country's transition process to a free market system. Failed governmental interventions lead to declining living standards in Russia and increased misuse of marine and coastal resources during the past 10 years.

In sum, the economic growth of Russia's marine sectors, sustainable use of sea resources and fair distribution of the benefits they generate among all groups of the Russian society should be vital components of U.S. foreign ocean policy toward Russia.

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