



Insight

Revoking Russia's Most Favored Nation Trade Status

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Executive Summary

- On March 11, President Biden announced that the United States—along with the G7, the European Union, and NATO—will revoke Russia's Most Favored Nation (MFN) trade status.
- Congress has indicated it will quickly pass legislation to remove Russia's Permanent Normal Trade Relations (PNTR) status—the United States' specific legal designation of Russia's MFN trade status.
- Revoking Russia's PNTR status will allow the United States to increase and impose new [tariffs](#) on all Russian imports.
- This action will cause economic harm to Russia by damaging its ability to export to wealthier Western markets; it will also raise costs for Americans and our trading partners that may rely on affected Russian products.

Introduction

On March 11, President Biden [announced](#) that the United States—along with the G7, the European Union, and NATO—will revoke Russia's Most Favored Nation (MFN) trade status. Congress has indicated it will quickly pass legislation in a bipartisan manner to revoke Russia's Permanent Normal Trade Relations (PNTR) status, the specific U.S. legal designation of MFN. This action follows numerous other economic sanctions on Russia in response to its invasion of Ukraine.

The removal of Russia's MFN trade status follows the established Western response to the Ukraine invasion, reducing demand for and spending on Russian products. Whereas prior sanctions and restrictions targeted specific individuals or sectors of the Russian economy, the removal of Russia's MFN trade status allows the West to broadly target Russia's export-oriented economy as a whole.^[1] There will also be increased costs for Western economies; the United States itself is somewhat reliant on Russian commodities such as fertilizers and base metals. The actual impact of revoking Russia's MFN/PNTR status will ultimately depend on the specific import restrictions Western nations impose in the coming days and weeks, however.

Most Favored Nation/Permanent Normal Trade Relations

MFN is one of the central and founding principles of the World Trade Organization (WTO) to which all of its member adhere. Under MFN, "countries cannot normally discriminate between their trading partners. Grant someone a special favor (such as a lower customs duty rate for one of their products) and you have to do the same for all other WTO members."^[2] MFN can also be interpreted as not raising tariffs on imports from a specific country if you have not raised tariffs on the same imports from all the other countries. Permanent Normal Trade Relations (PNTR) is the United States' legal designation of MFN, or in other words, PNTR is how the United States meets its MFN obligation as a WTO member.

Economic Damage to Russia

By revoking Russia's MFN status, via revoking its PNTR in the United States, the acting Western nations will no longer adhere to MFN when conducting trade with Russia. This will allow the United States to impose higher import restrictions, such as tariffs, on Russian goods. Thus, affected Russian goods will increase in price, lose competitiveness, and ultimately sell less in the global economy. This will damage the Russian economy as it is export-driven and heavily relies on foreign demand for its products.[3] revoking Russia's PNTR status will either decrease or cut off the Russian economy's access to U.S. markets and demand.

Economic Damage to the United States

The United States economy will also be impacted by this action. As with the Russian economy, the extent of the impact on the U.S. economy will depend on the specific imports targeted and the level of the import restrictions set. Import restrictions such as tariffs ultimately lead to higher costs borne by U.S. producers and consumers. If the United States raises import restrictions on more heavily relied upon Russian goods, such as fertilizers and certain base metals, U.S. sectors such as agriculture, which is already undergoing inflation,[4] will feel the pinch—as will consumers.

Canada has announced that in removing its MFN status for Russia, it will set a 35 percent tariff rate on all imports from Russia. In 2021, the United States imported about \$29.7 billion in goods from Russia. If the United States were to set a similar tariff, the U.S. economy would have to pay about \$10.4 billion in additional cost burdens.

Again, the extent of the economic damage felt by all sides will ultimately depend on the specific decisions made in the coming days and weeks regarding the exact import restrictions imposed, and for how long they are in effect.

An excel file detailing the list of products the United States imported from Russia in 2021 can be found [here](#).

Based on 2021 import figures, Russia was the 18th largest trading partner of the United States. Thus, the economic impact of revoking Russia's MFN/PNTR status will be much less than it would be for much larger trading partners such as China. Below is a Table which contains the import levels in dollars of the top 20 countries the United States imported from in 2021.

Table 1: Top 20 Countries the United States Imported from in 2021

Country	2021 Import Levels, in Billions
China	\$500.9
Mexico	\$383.4
Canada	\$357.7
Japan	\$142.4
Germany	\$134.7
Vietnam	\$101.0
South Korea	\$95.0

Taiwan	\$76.8
India	\$73.9
Ireland	\$71.0
Switzerland	\$63.6
Italy	\$61.2
United Kingdom	\$56.6
Malaysia	\$55.3
France	\$51.3
Thailand	\$47.4
Brazil	\$31.7
<i>Russia</i>	<i>\$29.7</i>
Singapore	\$29.6
Netherlands	\$29.1

[1] <https://oec.world/en/profile/country/rus/>

[2] https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm

[3] Ibid

[4] <https://www.bls.gov/news.release/pdf/cpi.pdf>