

WTO and Russia: Let the Trading Begin

By **Art Franczek**, President, the American Institute of Business and Economics, and Co-chair, the AmCham Customs and Transportation Committee

SINCE THE GORBACHEV era, Russia has aspired to be a member of the World Trade Organization (WTO, or formerly, GATT). In 1990, Russia achieved ‘observer’ status within the organization; and then it first formally applied in 1993. Predictions that had Russia’s accession pegged for 1998 were ultimately derailed by that year’s economic crisis. In 1999, accession hopes were again dashed by the NATO bombing of Serbia. The 2001 accession of China to WTO, together with Kyrgyzstan and other CIS countries, applied further pressure on Russia to become part of the club. In 2006, then-President Vladimir Putin was planning to showcase the U.S.-Russia accords (one of the final obstacles to WTO accession) at the G-8 Summit in St Petersburg. This effort was thwarted, however, when Russian meat inspectors discovered that U.S. meat workers didn’t wear slippers (*tapochky*) and blocked these imports into Russia. U.S. meat workers and farmers in their course turned out to be powerful lobbyists, in this case, against the U.S. backing Russia’s WTO accession. The issue was finally resolved, and in 2008, the press announced that this was Russia’s year for WTO accession; but plans changed when Russia and Georgia (a member of the WTO) fought a brief war. U.S. Senator John McCain led an effort to ban Russia from WTO and the G-8 as a result of the conflict. Accession plans were again delayed when Mr. Putin announced that Russia would enter WTO as part of a customs union that included Belarus and Kazakhstan.

But the final hurdles in negotiations were cleared this autumn, and on December 15, 2011, the deal was signed: by July 2012, Russia will officially become a member of WTO.

AmCham WTO Strategy

My first AmCham meeting on WTO occurred in early 1998, during which an AmCham WTO Working Group was established to support Russia’s accession process. The Working Group comprised members of the pharmaceutical, agricultural, IT, banking, and other industry sectors. For the next thirteen years, the AmCham committees worked closely with Russian government agencies to

with the WTO liaison from the U.S. Embassy on the new Customs Code, pre-shipment inspection issues, non-tariff barriers, and many other concerns. On becoming President of AmCham in 2000, Andrew Somers made WTO accession a top strategic objective for the Chamber and used many of AmCham’s regular ‘Door Knock’ visits to U.S. Congress to solicit support for Russia’s WTO accession process.

During this time, there was strong opposition to WTO among leading Russian industrialists. Oligarch Oleg Derispaska opposed accession because he considered his auto,

be limited. Russia also used sanitary and phyto-sanitary (SPS) regulations in order to limit meat and poultry imports, in addition to banning Georgian wine and water. In this context, joining WTO seemed likely to hurt less-competitive, domestic manufacturing industries that failed to remain competitive after the Soviet breakup, such as food processing, textiles, and construction materials. Additionally, many other companies receiving subsidies from the government would no longer receive them under WTO rules.

WTO Benefits

But WTO accession will benefit Russia in several ways. For example, discrimination against Russian companies is expected to become minimized. The Russian steel industry, for example, which loses \$2.5 billion annually due to anti-dumping cases, would gain access to WTO mechanisms for settling trade disputes. Meanwhile, WTO accession will provide external support for many internal reforms in the area of trade. Competitive pressures on local producers will encourage them to become more efficient and innovative. Moreover, evidence suggests that foreign direct investment (FDI) will increase significantly after WTO accession. In China’s first year after WTO accession, FDI increased 18 percent and China’s WTO membership greatly contributed to China’s near double-digit growth over the last decade.

Russia is the largest export market for U.S. poultry. For eighteen years, Russia’s arbitrary SPS rules have been used to ban or limit poultry imports from the U.S. Russian inspec-

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develop WTO-compliant legislation, such as a new customs code, legislation on intellectual property rights, technical regulations, amendments to the State Regulation of Foreign Trade, and many other legislative initiatives. During this time, my committee (the AmCham Customs and Transportation Committee, of which I’m a co-chair) worked closely

aluminum and airplane companies as infant industries that would be damaged by Russia’s accession. The Russian Chamber of Commerce also resisted WTO accession because 80 percent of Russia’s exports are natural resources that enjoyed easy access without WTO protection. Agricultural industries were concerned that WTO would cause subsidies to

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tors, for example, have claimed that American chickens that are cleaned with chlorine are unsafe. But Russia's WTO agreement requires that Russia now develop and apply international standards on SPS measures through membership and active participation in the Codex Alimentarius, the World Organization for Animal Health (OIE), and the International Plant Protection Convention. In other words, Russia will now be required to use scientific, rather than arbitrary methods, to determine the safety of imported meat and poultry.

One of the most contentious areas of tariff negotiations was regarding civil aircraft. Tariffs on wide-body aircraft will be reduced from 20 percent to 7.5 percent in the four years following accession. Russia plans to import 1,000 new commercial aircraft over the next two decades, so companies like Boeing should reap substantial benefits. Russia will also eliminate preferential tariffs for automakers making large investments in Russian-based production by July 1, 2018.

Proctor & Gamble, which has four plants and 4,000 employees in Russia, imports huge amounts of raw materials and ingredients and is enthusiastic about WTO accession. The company's Director of Global Affairs, Scott Miller, says that "market barriers will be substantially lower and the tariffs will come down and be more predictable."

IPR Issues

A central issue during the last eighteen years has been intellectual property rights (IPR) protection. AmCham has been supportive of Russia's progress regarding IPR, and on several AmCham-delegation visits with Congressmen, Microsoft Russia's leadership has given testimonials on Russia's significant progress regarding this issue. The WTO agreements now require that Russia fully apply WTO provisions on Trade-related Aspects of Intellectual Property Rights, including provisions for enforcement without recourse to any transition period.

Russia will be required to investigate and prosecute companies that illegally distribute copyrighted or related-rights objects over the internet. Russia has also agreed to join the Information Technology Agreement when it enters WTO.

The IT industry will significantly benefit from WTO accession, as Russia will remove restrictions on imported digital (cryptographic) equipment, and will also zero-out import duties on high tech goods. These provisions will help companies like Intel, Apple, and Motorola. Additionally, telecom companies will be able to own a majority interest in Russian telecommunications companies.

The foreign banking sector will be limited to 50 percent of the entire system in Russia, while banking branches will not be allowed. Insurance companies, however, will be able to establish branches nine years after accession. Russia will at the same time be obliged to reduce its average import duty from 10 percent to 7.8 percent, and this should be good for U.S. exporters.

Job Creation in the U.S.

While current U.S.-Russia trade is not high (and in fact involves a \$20-billion trade deficit for the U.S.), recent studies indicate that U.S.-Russia trade will double in the next five years and that this deficit may narrow because of the market access that WTO provides. This could mean thousands of jobs for U.S. workers.

There are several estimates of economic benefits for Russia after its accession to WTO. The most widely quoted is from a World Bank study that was commissioned by the Economic Development Ministry in 2007. The World Bank estimates that Russia would gain 3.3 percent in GDP in the short-term and 11 percent in the long term after the WTO benefits have been phased in. Sergei Guriev, President of the New Economic School in Moscow, has said that the short run benefits include static benefits due to trade op-

erations, while the long-run benefits are due to an improved investment climate and are therefore much larger. On the other hand, a recent study by Uralsib [please see page 14] claims that WTO accession will have a minimal impact on GDP simply because cost advantages like cheap energy and labor have long expired. The legendary Maxim Medvedkov, Russia's chief negotiator with the WTO, says that in a worst case scenario, Russia may lose 0.5 percent of GDP because of uncertainty over Gazprom's transport networks.

Another important component within the agreement would force Russia to publish pending legislation that would affect trade in goods, services or IPR, prior to its adoption, and would then require a reasonable period of time — no less than 30 days — for members to comment on the legislation. This is particularly important for AmCham members because the risks and opportunities of WTO are in the details.

It should also be noted that after Russia accedes to WTO, it plans to join the Organization for Economic Co-operation and Development (OECD) and work to fall into compliance with that organization's anti-corruption regulations. By working within the frameworks of WTO, the International Trade Administration, trade-related aspects of intellectual property rights (part of WTO), the OECD, and the International Energy Agency, Russia will be provided with many tools for improving the business climate in Russia.

The summer of 2012 will mark the beginning of a new business environment in Russia. It is also a major turning point for AmCham and AmCham-member companies. We can expect the new WTO rules-based procedures to be used fervently by both the Russian government and U.S. companies. As Vladimir Putin said, "The WTO is an instrument. Whoever knows how to make use of it will become stronger." ■



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