



RUSSIA'S ACCESSION TO THE WORLD TRADE ORGANIZATION: WHY ACCESSION BENEFITS THE U.S. ECONOMY

Key Points:

- Russia's membership in the WTO is not a gift to Russia, but a step that will benefit U.S. economic interests directly by integrating Russia into a system of fixed rules governing trade behavior and providing the means to enforce those rules and its market access commitments.
- The major benefits of Russia's membership in the WTO fall into two major categories: improved market access for U.S. exports of goods and services and Russia's implementation of established, enforceable, multilateral trade rules.
- Russia is undertaking enforceable market access commitments covering services sectors that are priorities for the United States, including audio-visual, telecommunications, financial services (including insurance, banking and securities) and energy services.
- Russia will be required to apply its trade regime consistent with WTO rules, including those on technical barriers to trade, subsidies, and sanitary and phytosanitary measures, thereby limiting its ability to engage in arbitrary actions that have hindered U.S. exports of goods and services.
- Other important commitments Russia is making include ensuring that certain state-owned or -controlled enterprises operate based on commercial considerations and provide U.S. companies market opportunities on a non-discriminatory basis, and cutting its maximum customs fee by about two-thirds.
- Upon accession, if Russia restricts market access or imposes discriminatory rules on services in ways not consistent with its scheduled commitments, a WTO Member will be able to use WTO mechanisms, including in appropriate cases dispute settlement, to challenge Russia's measures and how they are applied.

The United States and other WTO Members have been negotiating the terms of Russia's accession to the World Trade Organization (WTO) for 18 years. The terms of Russia's accession were adopted by the WTO Ministerial Council on December 16, and a formal invitation to join the WTO has been extended to Russia.

The key benefits of Russia's eventual WTO membership are clear, and fall into two major categories: improved market access for U.S. exports of goods and services; and Russia's implementation of established, enforceable, multilateral trade rules.

It is worth noting that, as a general matter, if Congress does not terminate Jackson-Vanik as it applies to Russia and authorize the President to extend permanent normal trade relations to Russian goods, U.S. manufacturers, farmers, ranchers, service providers, and workers will not enjoy the full benefits of Russia's WTO accession. Moreover, the United States will not have access to the dispute resolution provisions of the WTO.

Improved market access

Russia has negotiated bilateral market access agreements for goods and services with the United States and more than 50 other WTO Members. These commitments to reduce or eliminate tariffs, and provide for improved market access for U.S. services, will take effect only when Russia joins the WTO.

Tariffs on Goods¹

Russia can – as a country unconstrained by WTO rules – raise tariffs and other trade barriers in an arbitrary, non-transparent manner. Russia's membership in the WTO will limit Russia's ability to engage in arbitrary actions that are inconsistent with WTO trade rules.

For example, for all industrial, consumer, and agricultural goods, Russia will have maximum or "bound" tariff rates that will apply to all products. Should Russia increase any tariff above this "bound" rate, WTO Members would be able to demand that Russia reduce the tariff to the agreed level, or provide tariff cuts on other products as compensation for the increase.

For industrial and consumer goods, Russia's average bound tariff rate will decline from almost 10 percent to under 8 percent when all of Russia's tariff reductions are phased in after seven years. Russia will be making meaningful tariff commitments in important U.S. export sectors such as civil aircraft, agriculture equipment, automobiles and automobile parts, construction equipment, medical equipment, among others. Russia will also implement important WTO sectoral agreements such as the Information Technology Agreement, which calls for the elimination of tariffs on goods in this important sector. Russia will also bind its tariffs at levels consistent with the rates specified under the Chemical Tariff Harmonization Agreement. As a result chemical products along the processing chain will have their rates harmonized at 5.5 and 6.5 percent in accordance with the Agreement.

¹ The calculated average tariff rates reported in this paper reflect only the ad valorem duty rates negotiated by the United States in our 2006 bilateral market access agreement and as well as the rates contained in the Customs Union Common External Tariff. Because the bound rates contained in Russia's Protocol of Accession will reflect the lowest rate Russia agreed to in any one of its bilateral market access agreements negotiated with more than 50 other countries, the final average rates may vary slightly from the average rates calculated here.

Non-Tariff Barriers

Upon accession to the WTO, Russia will remove or amend a number of its rules and requirements on imports that have presented obstacles to U.S. exports. For example, Russia will eliminate activity licenses to import pharmaceuticals and distilled spirits. In addition, upon accession, Russia will cut its maximum customs fee and establish lower fixed fees for the customs clearance of goods using electronic format or other simplified filing method; it will also be required to provide “most favored nation” (MFN) treatment on taxes applied to imports of civil aircraft.

Services

Russia is undertaking enforceable market access commitments covering services sectors that are priorities for the United States, including audio-visual, telecommunications, financial services (including insurance, banking and securities) and energy services. In audio-visual services, for example, Russia’s commitments are broader than those of most countries who recently joined the WTO and provide access in, *inter alia*, motion picture distribution and projection services, as well as the sale of television and radio programs to television and radio stations. Russia also has made a comprehensive commitment to open its telecommunications services market, allowing, for example, foreign telecommunications companies to operate as 100 percent foreign-owned enterprises.

Increased access to Russia’s financial services sector was a particularly important objective for the U.S. negotiators. Russia has agreed to continue the current level of access to its financial services market and to offer further liberalization of its treatment of foreign bank subsidiaries, including allowing 100 percent foreign ownership of all commercially meaningful types of non-insurance financial services firms, including banks, broker dealers and investment companies. Russia has further agreed that foreign companies can own and trade the full range of securities (including state securities, bullion and new instruments once they are approved), manage Russian securities issuance, and participate in financing the privatization of government-owned enterprises. Russia has also agreed to allow important cross-border services, such as financial leasing, financial information and data processing, as well as credit cards and other types of payments.

Compliance with WTO Rules

When Russia joins the WTO, it must comply with all of the terms for its membership, starting with the current WTO “rule book”. Russia’s implementation of those rules will be subject to all WTO mechanisms, including dispute settlement in the event Russia fails to comply with its obligations.

In addition to applying basic principles, such as national treatment and most favored nation treatment, Russia will be required to apply its trade regime consistent with WTO agreements such as:

- Technical Barriers to Trade, which regulates procedures for preparation, adoption and application of mandatory and voluntary “standards” providing for notice and comment

from the public on proposed regulations, setting rules for conformity assessment, and encouraging use of international standards where appropriate. Implementation of this agreement can affect almost all goods.

- Customs Valuation, which, *inter alia*, establishes rules on methods used to determine the value of imports to calculate tariffs and, in some cases taxes. The Agreement increases certainty and predictability on this core trade issue.
- Trade-Related Intellectual Property Rights, which sets out minimum requirements for protecting and enforcing intellectual property rights. Full implementation of this agreement will benefit U.S. innovators, the creative community, and key exports.
- Import Licensing, which includes rules on what a WTO Member can require of applicants to obtain a license and procedures that need to be followed. Implementation of this agreement will benefit U.S. exports of, *inter alia*, pharmaceuticals, information technology products with encryption capability, and distilled spirits as well as a broader range of products subject to so-called “automatic” licensing.
- Subsidies and Countervailing Measures, which prohibits certain types of subsidies (*e.g.*, subsidies that promote exports or encourage replacement of imports) and authorizes the imposition of countervailing duties on subsidized imports from another Member that cause material injury, or threat of material injury, to the domestic producers of a Member. Russia’s implementation of this agreement will help ensure that U.S. goods compete on fair terms with Russia’s goods. If Russia seeks to impose these remedies on U.S. exports, it must comply with the requirements of this agreement.
- Anti-dumping, which establishes the conditions under which a Member may impose antidumping duties on imports from another Member that are being sold below “normal value” and are causing, or threaten to cause, material injury to the domestic industry. Russia’s implementation of this agreement will require that Russia’s investigations and measures comply with these rules.
- Safeguards, which establishes detailed rules on determining when a safeguard measure can be applied and how such measures are applied. Russia has used safeguard measures in the past to restrict imports of U.S. poultry and has investigated imports of other U.S. goods, such as agricultural machinery. After accession, Russia will be required to comply with the disciplines set out in the Safeguards Agreement if it seeks to investigate or impose safeguard measures.
- Sanitary and Phytosanitary Measures, which requires that measures imposed to protect human or animal (sanitary) or plant (phytosanitary) life and health be based on science, including risk assessments, and provides other disciplines on how such measures are adopted and applied. Russia’s implementation of this agreement will help address significant barriers to U.S. exports of agricultural goods, in particular meat and poultry.

As a WTO Member, Russia will also be required to live up to a number of distinct and more precise commitments contained in its Protocol of Accession and Working Party Report, which reflect the results of Russia's negotiations with the United States and other Members of the Working Party on Russia's accession. In many cases, the clarifications and commitments contained in the Working Party Report are aimed at ensuring a clear understanding of how Russia's trade regime will function in practice once Russia joins the WTO. These additional clarifications and commitments will provide a critical additional basis for holding Russia accountable as a rules-abiding participant in the multilateral trading system.

When Russia is a Member of the WTO, and if the United States has WTO relations with Russia (i.e., has terminated Jackson-Vanik and extended permanent normal trade relations to Russia), the United States will be able to draw on the tools of the WTO – including, most notably, its system of dispute settlement – to hold Russia accountable for its adherence to these rules. Currently, the available trade tools are ineffective and our leverage is limited because Russia has other markets for its oil, natural gas, and other resource exports. Russia's membership in the WTO would therefore provide the United States with leverage it currently lacks to resolve commercial problems with Russia.

Russia's Working Party Report is a lengthy document, with numerous detailed commitments. In addition to those described above, other important commitments that Russia will be undertaking as a WTO member include:

- Transparency: Russia will ensure that laws and regulations relevant to WTO-related matters will be published before they are enforced, with most subject to "notice and comment" procedures. Compliance with these rules will not only give interested persons (e.g., U.S. producers and exporters) an opportunity to provide input into the rules governing international trade, but will also ensure advance notice for any changes.
- State-owned-enterprises: Russia will ensure that its state-owned or -controlled enterprises as specified in its Working Party Report will operate based on commercial considerations and provide U.S. and other WTO Member companies market opportunities on a non-discriminatory basis.
- Customs fees: Russia will cut its maximum customs fee, paid to clear imported goods through customs, by about two-thirds.
- Government procurement: Within four years of becoming a WTO Member, Russia will commence negotiations to join the WTO's Government Procurement Agreement (GPA). Government purchases account for over twenty percent of world trade. The GPA subjects such purchases to a system of WTO rules aimed at leveling the playing field for foreign suppliers.
- Uniform Application: Russia must ensure that its sub-federal governments or other authorities comply with Russia's obligations and that WTO rules apply throughout the

country. Russia's federal government has agreed to investigate, upon receiving notice from the United States or another WTO Member, if the Member believes that WTO rules are not being applied in some part of Russia or are being applied inconsistently with Russia's obligations.