



# **Russia & the WTO: New Opportunities for American Exporters**

**Russia's recent WTO accession and a business environment with, or without, PNTR:  
possible implications for business**

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# Potential for growth in an increasingly sophisticated market

- Projected annual GDP growth between 3-4% from 2012 to 2015.
- Russia joined the WTO in August 2012.
- Of U.S.' top 31 export markets, Russia was only *non-WTO* member.
- Of U.S.' top 30 sources of imports, Russia was the only *non-WTO* member.

# WTO Membership

Doesn't mean special benefits for Russia.

Rather, accession means Russia must play by the same rules as other major trade partners.

U.S. Companies are poised to gain via:

- Lower tariffs for numerous manufactured & agro products;
- More protections for service-providers, IP-rightholders;
- Better predictability & increased transparency in regulations;
- Ability to leverage the WTO's Dispute Settlement process.

# A Key Issue:

Congress needs to pass what is know as **Permanent Normal Trade Relations (“PNTR”)**, in order for the United States to receive full WTO benefits in Russia’s market.

# Opportunities & Challenges in Europe's Largest Market

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# Overview of U.S. Commercial Service Programs

- Commercial Service - Russia is on the ground in Moscow, St. Petersburg
- Russian staff of industry specialists writing original market research
- Practical advice on market entry and market planning
- Our main interest is your long-term success in the Russian market

# World's Largest Country



- Moscow – 12 million people; St. Petersburg – 4 million
- 9 other cities with a population over 1 million:  
Novosibirsk, Nizhny Novgorod, Yekaterinburg, Samara,  
Omsk, Kazan, Chelyabinsk, Rostov-Na-Don, and Ufa

# 2011 Economic Brief

- World's 7<sup>th</sup> largest economy (PPP)\*\*
- Highest per capita income of “BRIC” countries.
- World's 3<sup>rd</sup> largest foreign exchange reserves.
- Dramatic reduction in sovereign debt.
  
- Real GDP growth: 4% in 2011 (avg. +7% from '99-'08)
- Nominal GDP: \$1.885 Trillion
- Per capita GDP : \$13,236\* (vs. \$5,300 in '05)
- Inflation (CPI): 6.1% ^ (vs. 21% in 2000)
- Unemployment : 6.1% ^ (vs. U.S. 8.4% in '09)
- Population: 142 million \* (2010 census)



# Trade

## FOREIGN MERCHANDISE TRADE (U.S.\$ billions)

	2009	2010	2011
Russia Exports to World	233.9	348.5	310.1 <sup>+</sup>
Russia Imports from World	155.2	211.4	229.2 <sup>+</sup>
U.S. Exports to Russia	5.3	5.9	8.3
U.S. Imports from Russia	18.2	28.6	34.6

# Successful Market Entry = Substantial Rewards

- A foothold in Europe's largest market
- Enjoy robust growth rates & profit margins
- Position company for expansion throughout the CIS Region in Eurasia – Customs Union
- 700+ AmCham member companies prosper here
- Thousands of European firms also thrive

# MODERN RUSSIA – THE BUSINESS REALITY

- Significant progress over past 20 years.
- Impressive economic growth from 1999 – 2011.
- Rebounding well from the 2009 global financial crisis.
- Substantial structural, administrative, & economic reforms continue – WTO accession a reality.
- Strategic market with huge natural resource endowment:
  - Natural gas, oil, minerals, timber = solid revenue streams
  - Provides financing for government procurement
  - Provides financing for economic diversification
- Ebay/PayPal – in 2011, \$300 million in sales

# Shopping – Then and Now



# Opportunity Drivers

- Russian Government Modernization and Innovation Program

## **5 Priorities**

- Efficient energy production, transportation and use
- Civilian nuclear technology – electric power
- Information technology
- Ground & space Infrastructure – telecom networks
- Medical equipment & biotech

# Opportunity Drivers, cont.

- Massive infrastructure needs
  - Road building upgrade and expansion
  - Railroad upgrade and expansion
  - Information & communications
- Russia Hosted APEC 2012 in Vladivostok
- Sochi Winter Olympics 2014
- Soccer World Cup 2018 – 10+ Russian Cities

# Challenges

- Corruption
- Complex, non-transparent regulatory regime
- Finding qualified business partners
- IPR protection challenges
- Infrastructure (warehousing, transport, high real estate costs in major metro areas)
- Large state role in the economy

# Recent & upcoming Dept. of Commerce activities in Russia

- Establishing U.S. advanced road paving technology:
  - Technology, know how, project management, equipment
- Completed trade missions:
  - Aerospace Supply Chain – October 2010
  - Automotive Supply Chain – April 2012
  - Energy Efficiency – June 2012
- Proposed Trade Missions:
  - Healthcare/Medical Technology- Spring 2013



# Russia's WTO Accession



New access, and the challenge  
of establishing PNTR

# Russia's entry into the WTO

- Russia received invitation from WTO for admission in Dec.2011
- Officially a WTO Member as of August 22, 2012
- Key benefits of Russia's WTO membership:
  - Improved market access for U.S. goods & services;
  - Russia's implementation of established, enforceable, multilateral-agreed trade rules, with force of treaty.

# Tariff cuts & ceilings

- Russia's average bound tariff rate for industrial and consumer goods will decline from almost 10 percent to under 8 percent.
- WTO tariff rate bindings will provide for more predictability and stability, preventing Russia from arbitrarily raising tariff rates.
- Approximately 38 percent of Russia's tariff lines will have their final bound rates implemented upon accession and over 80 percent will have their final bound rates implemented within 3 years.
- Should Russia increase any tariff above its "bound" rate, WTO Members would be able to require that Russia reduce the tariff to the agreed level or else provide tariff cuts on other products as compensation for the increase.

# Tariffs: sector-specific highlights

- **IT & telecomm equipment:** Duty-free treatment within three years for products listed in the WTO's Information Technology Agreement.
- **Civil Aircraft:** Tariffs on wide-body aircraft will be cut from 20% to 7.5%.
- **Chemicals:** Tariffs to fall in-line with Chemical Tariff Harmonization Agreement → avg. bound rate of 5.3%, down from 6.7%.
- **Machinery:** tariffs will be bound at an average rate of 6.4%.
- **Plastics:** → avg. final bound rate of 6.2% (down from average of 10%).
- **Steel products:** → avg. final bound rate of 6% (down from 8.9%).
- **Combine harvesters & threshers:** → final bound tariff rate of 5% (vs.15%).
- **Wine:** → final bound tariff of 12.5 % within 4 years (vs. 20%).

# Tariffs: product-specific highlights

- **Chlorine:** → Final bound rate of 5.5 % (2017) vs. current 10%.
- **Hemoglobin, blood globulins and serum globulins:** → Final bound rate of 3% (2015) vs. current 10%.
- **Vaccines:**
  - Hepatitis form B: → final bound rate of 2% (2014) vs. current rate of 5%.
  - Human blood: → final bound rate of 6.5% (2015) vs. current rate of 10%.
- **Perfumes:** Final bound rate 6.5% (2016) vs. current rate 15%.
- **Shampoos:** Final bound rate 6.5% (2016) vs. current rate 15%.  
Many other cosmetic products will see similar cuts.
- **Explosives, pyrotechnic products, matches, pyrophoric alloys, etc.:**  
Final bound rates of 6.5% (2018) vs. current rates 20%
- **Film:** Most film → final bound rate of 6.5% (vs. current 10 - 20%).

# Product-specific tariff highlights (cont'd.)

- **Instantaneous water heaters:** Final bound rate 10% (2016); vs. current rate 15%.
- **Coffee or tea makers:** Final bound rate 8.5% (2015); vs. current rate 15%.
- **Line telephone sets with cordless handsets:** Final bound rate 0% (2015); vs. current rate 10%.
- **Telephone answering machines:** Final bound rate 0% (2015); vs. current rate 15%.

For full listing, see: <http://www.ustr.gov/node/7301>

# Sector Highlights: Non-tariff benefits

- **Financial Services:** Russia to allow 100% foreign ownership of commercially meaningful types of non-insurance financial services firms, including banks, broker dealers and investment companies.
- **Telecommunications:** Russia will allow foreign telecommunications companies to operate as 100% foreign-owned enterprises.
- **Pharmaceuticals and Distilled Spirits:** Russia is eliminating activity import licenses.

# General non-tariff benefits...

- “Most Favored Nation” and “National Treatment” commitments.
- Stronger protection & enforcement of IPR.
- Greater stability and predictability through transparency commitments; i.e. publication, notice and comment on regulations for most subject areas.
- Abide by WTO norms for customs valuation.



## ...Non-tariff benefits (cont'd.)

- Pledge to negotiate enhanced predictability in government procurements within 4 years of joining the WTO.
- Fees for customs clearance and standards related testing procedures will need be capped at cost of the service rendered.
- Russia lowering customs clearance fees by as much two-thirds.
- WTO's committees and its Dispute Settlement Body provide a forum to mitigate unfair trade practices.

**Key Question: Will U.S. companies be able to receive full WTO benefits in Russia?**

- 1974 “Jackson-Vanik” law prohibits Permanent Normal Trade Relations (“PNTR”).
- Russia currently has NTR on a conditional (non-permanent) basis.
- U.S. companies need Congress to end Jackson-Vanik’s application to Russia and establish PNTR for Russia in order for the U.S. to get full WTO benefits in Russia’s market.

# WTO benefits that may be at-risk

- Some benefits may be afforded to U.S. under the 1992 U.S.-Russian bilateral trade agreement. However, since then, a number of treaty protections have been developed to a higher standard under the WTO Agreements, including:
  - More liberal treatment for services exports and service providers.
  - Protection and enforcement of intellectual property rights (IPR).

# Benefits that may be at-risk (cont'd.)

- Recourse to dispute settlement;
- Ability to fully utilize WTO Committees to express discontent with Russia following through on WTO commitments.

*Foreign competitors do not face such uncertainty, and could gain advantages in the Russian market over American companies, absent PNTR.*

# Focus on securing benefits of accession

- U.S. Administration's efforts
- U.S. business community efforts
- Coalition for U.S.-Russia Trade

[http://www.usrussiatrade.org/coalition\\_members.php](http://www.usrussiatrade.org/coalition_members.php)

# Content Links:

## **Russia WTO accession sector opportunity reports:**

[http://www.trade.gov/mas/ian/tradeagreements/multilateral/wto/tg\\_ian\\_003531.asp](http://www.trade.gov/mas/ian/tradeagreements/multilateral/wto/tg_ian_003531.asp)

## **U.S. Trade Representative's Office**

### **Information on facts and opportunities regarding Russia's WTO accession:**

<http://www.ustr.gov/russia>

### **Factsheets for U.S. states:**

<http://www.ustr.gov/countries-regions/europe-middle-east/russia-and-eurasia/russia/economic-benefits-states-russia>

### **Factsheets for industry sectors:**

<http://www.ustr.gov/countries-regions/europe-middle-east/russia-and-eurasia/russia-0>

### **Goods & services schedules and commitments by Russia in its WTO accession:**

<http://www.ustr.gov/node/7301>

### **Russian customs tariff codes (now & future under WTO commitments)**

[http://www.ustr.gov/webfm\\_send/3222](http://www.ustr.gov/webfm_send/3222)

# Market Access & Compliance Unit

- “MAC” helps U.S. companies overcome foreign trade barriers, induced by foreign governments.
- We champion American businesses and workers by eliminating foreign barriers to trade, investment and business operations; enforcing trade agreements; and promoting global growth.
- We advance U.S. commercial interests by fostering an open global economic environment in which U.S. firms have an equal opportunity to compete and win.

# Market Entry & Access Questions?

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