

BULLETIN

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Russia's Accession to the World Trade Organisation

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Russia is obliged to ratify the protocol of accession to the World Trade Organisation by 23 July in order to become a member after 18 years of negotiations. Despite the support of the president and government of Russia for accession to the WTO, the parliament has postponed the vote on the document, which shows that integration with the global economy remains a controversial issue in the country. For the EU, Russia's WTO accession will not necessarily bring an end to trade disputes, but is likely to advance the establishment of a free trade zone and the signing of a new cooperation agreement.

A constitutional complaint against the international agreement on Russia's accession to the World Trade Organisation, which the authorities have signed, the Russia State Duma has had to reschedule the ratification vote from 4 July to 10 July. Members of the opposition Communist Party as well as from the "A Just Russia" party say the protocol is unconstitutional because of procedural errors (a lack of an official translation into Russian of the protocol and a lack of review by federal bodies during the ratification procedure). According to the protocol, signed on 16 December 2011, ending 18 years of negotiations, the longest in WTO history, Russia should ratify the agreement not later than 220 days after signing and then become a full member in the subsequent 30 days. If Russia fails to do that by 23 July, the agreement will not enter into force.

Conditions for Russia's Accession. The negotiated protocol for accession describes the conditions in which Russia will become a WTO member. According to the arrangements, Russia's average import tariff ceiling will be reduced from 10% to 7.8%, including from 13.2% to 10.8% for agricultural products and from 9.5% to 7.3% for manufactured goods. The changes will to a high degree affect wood and paper products, information technology, cereals and dairy products, and to a lesser degree, chemicals and electrical machinery. About two-thirds of the changes will be implemented after several years of transition. The Russian authorities also agreed to lift quantitative restrictions that could not be justified under the WTO provisions and not to introduce country-specific customs procedures. Russia is also obliged to eliminate or modify all of its industrial subsidy programs and adapt sanitary and phytosanitary measures to WTO rules. Moreover, the Russian negotiators accepted in part opening the telecommunications and services sectors, and insurance companies will be allowed to establish branches nine years after accession and foreign banks may establish subsidiaries, but their overall share of the Russian market may not exceed 50%.

Russia will keep its current export tariffs on a number of products, mainly raw materials, and will retain the right to regulate gas prices on the domestic market. It has also obtained concessions aimed at protecting sectors particularly vulnerable to problems caused by foreign competition. Anti-import subsidies will be allowed for the automobile industry until 2018, and agricultural subsidies will be gradually eliminated (by 2018 they will have to be reduced to \$4.4 billion, which is half of the planned 2012 amount). During the implementation period, Russia also will be allowed to establish quotas for beef and pork.

Domestic Implications. WTO accession presents the opportunity to introduce significant changes to the Russian economy. The final shape of these changes will depend on the authorities' determination as well as the country's administrative capacities. The immediate result of membership will be the elimination of barriers for foreign companies (particularly in the services sector), which should increase competition in the Russian market. Furthermore, commitments to reduce import

tariffs on high-tech goods and to improve the protection of intellectual property rights are likely to help modernise the Russian economy. Observance of the WTO rules will bring about a significant rise in predictability in trade relations, enhanced by a disputes settlement system, which may result in improving the investment climate in the country.

According to the World Bank's forecasts, Russia's WTO membership will bring, in the medium- (two to three years) and long-term perspective, GDP growth of 3% and 11%, respectively, mainly by improving the quality of services and reducing prices on the domestic market. However, it is important to keep in mind that WTO membership will also bring serious threats, especially in the short term. According to the Russian Finance Ministry, WTO accession will cause a reduction in 2013 of incomes from import tariffs of about \$10 billion. For society, those employed by uncompetitive companies may see a rise in unemployment and significantly worse living conditions. Fears by this group are reflected in recent opinion polls by the Levada Centre, which reveals that WTO membership is supported by a mere 38% of Russian citizens—the lowest level of support in the last 10 years.

Although the subject of losses and benefits of WTO membership is barely present in day-to-day Russia, the business and political elites are divided between supporters and opponents of membership. Accession finds support amongst exporters, particularly the metallurgy and chemical industries, which will benefit from tariff reductions, as well as among small- and medium-sized entrepreneurs, who expect accession will improve access to cheaper loans and a wider choice of imported goods. Against accession are the business and political circles linked to agriculture and the automobile, aircraft and space industries. It is also worth noting that in June 2009 this issue revealed for a short time one of the few areas of difference between Dmitry Medvedev and Vladimir Putin, who then held different opinions about whether Russia should continue negotiations with the WTO.

International Implications. For the EU, Russia's WTO accession means lifting barriers for further trade liberalisation among the two entities, including the establishment of a free-trade area and signing a new cooperation agreement. However, it does not mean that the number of trade disputes will necessarily decrease. According to information provided by an annual European Commission report, Russian authorities, even after signing the accession protocol, have taken some decisions contrary to the agreement. If Russia completes full membership, these cases will likely end up in WTO dispute settlement bodies. For its part, Russia also plans to fully exercise rights it will be entitled to as a WTO member and has announced it will challenge such things as the EU Third Energy Packet's compliance with WTO provisions (even though WTO rules barely regulate the energy raw materials trade).

Russia's WTO entry may significantly influence its key relations with the United States. Thanks to membership, American exports to Russia, as well as mutual investments, are likely to increase. It is possible that the U.S. will decide to repeal the Jackson-Vanik amendment, which entitles Russia to limit the adoption of WTO provisions in relations with the U.S. However, some parts of the American political elite demand linking repeal of the amendment with tightening sanctions on Russian officials accused of human rights violations (such as those related to the Sergei Magnitsky case), which would lead to tensions and may push Russia to introduce retaliatory measures.

Implications for Poland. For Poland and other EU members, Russia's WTO membership brings wider access to the Russian market. In this context, for Poland, the important part of the accession agreement is Russia's obligation to facilitate access to its agriculture market and to gradually reduce agricultural subsidies. Also, trade with Russia may become de-politicised since Russia will lose the right to place embargoes ostensibly for safety reasons or to protect Russian customers' health, and possible trade disputes will be settled by arbitration. However, Russia's WTO membership should be just a beginning, not the end of its integration with the global economy. Thus, Poland, which has an interest in the proper functioning of the free market and rule of law according to European standards, should support Russia's efforts to enter other economic organisations (such as OECD), along with EU–Russia negotiations on a new cooperation agreement and a free-trade area. Although the European Commission having will take the lead on these matters, Poland, along with other EU members, could provide a detailed program for strengthening EU–Russia economic cooperation.