

Russia's WTO Accession

Policy Brief



BACKGROUND

Russia initially applied for World Trade Organization (WTO) accession in 1993. After 19 years of negotiations, membership is expected to be finalized in June 2012. Completing Russia's WTO bid and establishing Permanent Normal Trade Relations (PNTR) status between the U.S and Russia are important steps to increase competitive market access for U.S companies doing business in Russia.

WHY IT MATTERS TO WA

Russia is one of Washington's fastest growing trading partners, with WA exports to Russia growing approximately 80% from 2010 to 2011.¹ Upon its WTO accession, Russia will reduce more than 1/3 of their tariffs immediately, and then include significant reductions over the next three years. In particular, Russia's WTO accession will lower tariffs and non-tariff market barriers for several of WA's key exports. Commercial airplane tariffs will be cut in half, while intellectual property protections for ICT products will increase significantly. WA's agricultural industry will benefit from both reduced tariffs as well as improved food safety standards. Finally, Russia's growing middle class and significant infrastructure needs will provide opportunities for a variety of WA's manufacturers, service providers and retailers.

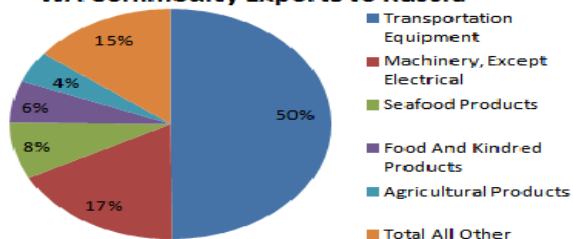
POLICY FAQs

- Why is PNTR for Russia necessary?** The United States will not benefit from Russia's WTO accession market reforms unless Congress passes legislation to graduate Russia from the Jackson-Vanik amendment and establishes Permanent Normal Trade Relations (PNTR). PNTR also gives the United States a powerful tool to ensure that Russia abides by those commitments through the binding WTO dispute settlement process.
- Isn't Russia only a minor U.S trading partner?** In 2010, Russia was only the nation's 37th largest export market, and Washington's 30th. However, Russia is the world's 11th largest economy and continued growth is expected as their middle class expands.² In fact, an annual average real growth rate of 4% from 2011 to 2015 is expected.³ We are beginning to see the results of this growth in Russian demand for U.S products; U.S exports to Russia grew 40% in 2011. Given the trends, Russia is a growing opportunity for WA companies. Economists estimate the PNTR will double or even triple U.S exports.²
- How does the PNTR differ from the U.S-Russia BTA?** The Bilateral Trade Agreement (BTA) between the U.S and Russia give Most Favored Nation status to U.S companies. However the BTA leaves out advantages such as: WTO dispute settlement tools, specific Intellectual Property Rights (IPR), Sanitary and Phytosanitary Standards (SPS), Trade Related Investment Measures (TRIMS), access to service markets, and many more specific and enforced regulations.

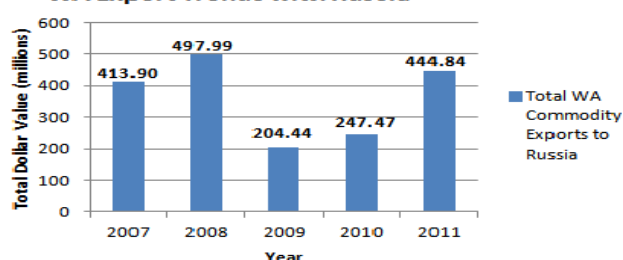
RUSSIAN ECONOMY³

- \$15,837 per capita GDP (PPP), the greatest GDP compared to other BRIC countries
- From 2005 to 2010, U.S exports to Russia grew 50%
- Russia was the U.S's 23rd largest two-way trade partner in 2010
- Russia purchased U.S goods worth \$11 billion on average annually from 2008 to 2010
- Washington exported \$316 million in goods to Russia on average from 2008 to 2010
- Russia agriculture imports doubled over the last 5 years

WA Commodity Exports to Russia¹



WA Export Trends with Russia¹



¹ WISER Trade 2011, includes pass-through products | ² Coalition for U.S-Russia Trade, "Washington and the Russian Market" 2012 | ³ ITA, Washington Opportunities from Russia's Accession to the WTO, 2011

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INDUSTRY PROFILES

TRANSPORTATION EQUIPMENT



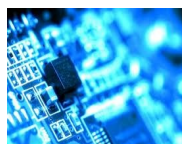
In 2011, WA transportation exports to Russia totaled \$221 million, a 509% increase from 2010.¹ Due to Russia's WTO accession, airplane tariffs will be cut in half from approximately 21% to between 7.5%-12.5% depending on the aircraft type.⁴ Russian airlines have purchased \$11.5 billion worth of Boeing aircraft over the past 5 years. The 30 year partnership between Boeing and Russia will continue as Boeing projects Russia and the Commonwealth of Independent States will need 1,080 new aircraft within 20 years.⁵ Sample companies with WA-Russia business: Boeing, PACCAR Inc, and Genie Industries.

AGRICULTURE



In 2011, Russia exported \$19.6 million of agriculture goods from WA.¹ Considering the U.S is the third largest supplier of agriculture products to Russia, there is ample opportunity for WA. Up to 2010, agriculture exports from WA to Russia have steadily increased over the past 5 years excluding 2008-2009.⁶ Upon accession, Russia will abide by WTO sanitary and phytosanitary (SPS) measures supporting U.S agriculture exports. Another benefit is that all agriculture tariffs will be reduced, including wine from 20% to 12.5% and apples from 0.06 to 0.03 euro per kg and from 0.2 to 0.06 euro per kg depending on the apple type.⁷ Sample companies with WA-Russia business: North Connection Corporation, SOGDA Limited, Icepak Inc, and International Fruits Company.

COMPUTER & ELECTRONICS



WA computer and electronic products exports to Russia in 2011 totaled \$19 million.¹ Information and communication technology (ICT) products are high in demand in Russia, and WA is a key provider as a hub for the industry. Russia is one of Microsoft's most profitable markets, and the company is the sole software provider for the 2014 Winter Olympic Games in Russia. The WTO accession will change the ICT tariff from an average 6.7% to 4%, and Russia will join the Information Technology Agreement (ITA) creating duty-free IT products. Another benefit is protected and enforced IPR by the TRIPS Agreement, a WTO policy. Russia will also allow telecommunication companies to operate as 100% foreign-owned enterprises.⁸ Sample companies with WA-Russia business: Microsoft Corporation, Stuart's Services, and Intel Corporation.

FOREST PRODUCTS



The Evergreen State exported \$7.5 million in wood products to Russia in 2011, which makes them the eighth largest export from WA to Russia.¹ On a national level, the U.S forestry sector exported an annual average of \$77 million to Russia from 2008 to 2010, supporting 1.3 million jobs in 2009. When Russian joins the WTO, tariffs will be reduced from an average 13.3% to 7.9%.⁹ Sample companies with WA-Russia business: Weyerhaeuser Company, Rainier Plywood Company.

SERVICES



Major areas of service in Russia include: financial, energy, insurance, audio-visual, ICT, distribution, and express delivery services. WA is a leader in exporting several of these service sectors to the world, which supported a net impact of 402,000 State jobs and a benchmark estimate of \$32.6 billion services export value.¹⁰ It is expected trade practices in 30 sub-sectors will improve upon Russia's WTO accession, allowing WA service companies in the Russian market and allowing 100% foreign ownership for many sectors.¹¹ Sample companies with WA-Russia business: Trans-Net, Deloitte, Ernst & Young, KPMG International, and World Vision.

RETAIL & APPAREL



In 2011, WA exported approximately \$342,623 of apparel and accessories to Russia.¹ Currently Russia is not a major trade partner for the WA industry but that could change once tariffs are lowered to an average fixed amount of 9.2%, depending on the type of product. This change is significant for local retailers Nordstrom, REI, and Eddie Bauer. Once Russia is a part of the WTO, U.S distributors will be able to deliver products following similar domestic regulations. In addition, Russia will cut its maximum customs fee by almost two-thirds according to the WTO Customs Valuation Agreement.¹²

4 ITA, Russia's Accession to the WTO, Opportunities for the U.S Aerospace Sector, 2011 | 5 Coalition for U.S-Russia Trade, "Opportunities for the U.S Aerospace Sector" 2012 | 6 WSDA, Washington Exports to the World, excludes pass-through products. Larger amount than other sources | 7 ITA, Russia's Accession to the WTO, U.S Agriculture Sector, 2011 | 8 ITA, Russia's Accession to the WTO, Opportunities for the ICT Sector, 2011 | 9 ITA, Russia's Accession to the WTO, Opportunities for the Forest Products Sector, 2011 | 10 WA Department of Commerce, October Trade Bulletin 2010 | 11 ITA, Russia's Accession to the WTO, Opportunities for the U.S Services Sector, 2011 | 12 ITA, Russia's Accession to the WTO, Opportunities for the U.S Textiles, Apparel, Footwear, and Travel Goods Sector, 2011