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

**Russia's recent WTO accession  
and business environment:  
Implications for business**

Joe Wereszynski  
February, 2013



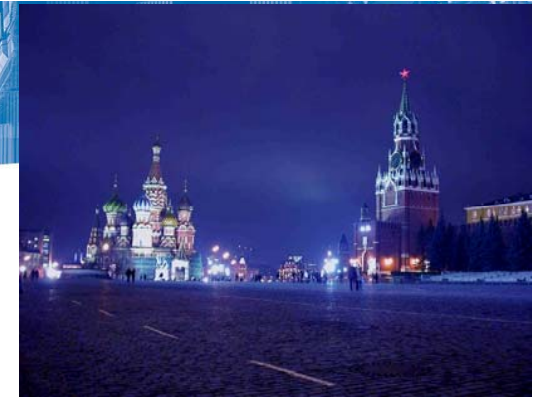
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# Today's Presentation

- Russian Economic Highlights
- Russia's WTO Accession-What it means for U.S. Companies
- ITA's Trade Agreements Compliance Program
- Questions & Answers



# Economic Brief



- World's 7<sup>th</sup> largest economy (PPP)
- Highest per capita income of “BRIC” countries.
- World's 5th largest foreign exchange reserves.
- Dramatic reduction in sovereign debt.

Real GDP growth:	<u>3.6%</u> in 2012	(avg. +7% from '99-'08)
Nominal GDP:	\$1.953 trillion	
Per capita GDP:	<u>\$13,377*</u>	(vs. \$5,300 in '05)
Inflation (CPI):	6.7% ^	(vs. 21% in 2000)
Unemployment:	6.0% ^	(vs. U.S. 8.0% in Dec 2012)
Population:	<u>141.9 million</u> ^	(vs. 142.4 million in 2011)



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# 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



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# **Successful Market Entry = Substantial Rewards**

- A foothold in one of Europe's largest markets
- Position company for expansion throughout the CIS Region in Eurasia – Customs Union
- Enjoy robust growth rates & profit margins
- 700+ AmCham member companies prosper

**Example: Ebay/PayPal – in 2011, \$300 million in sales**

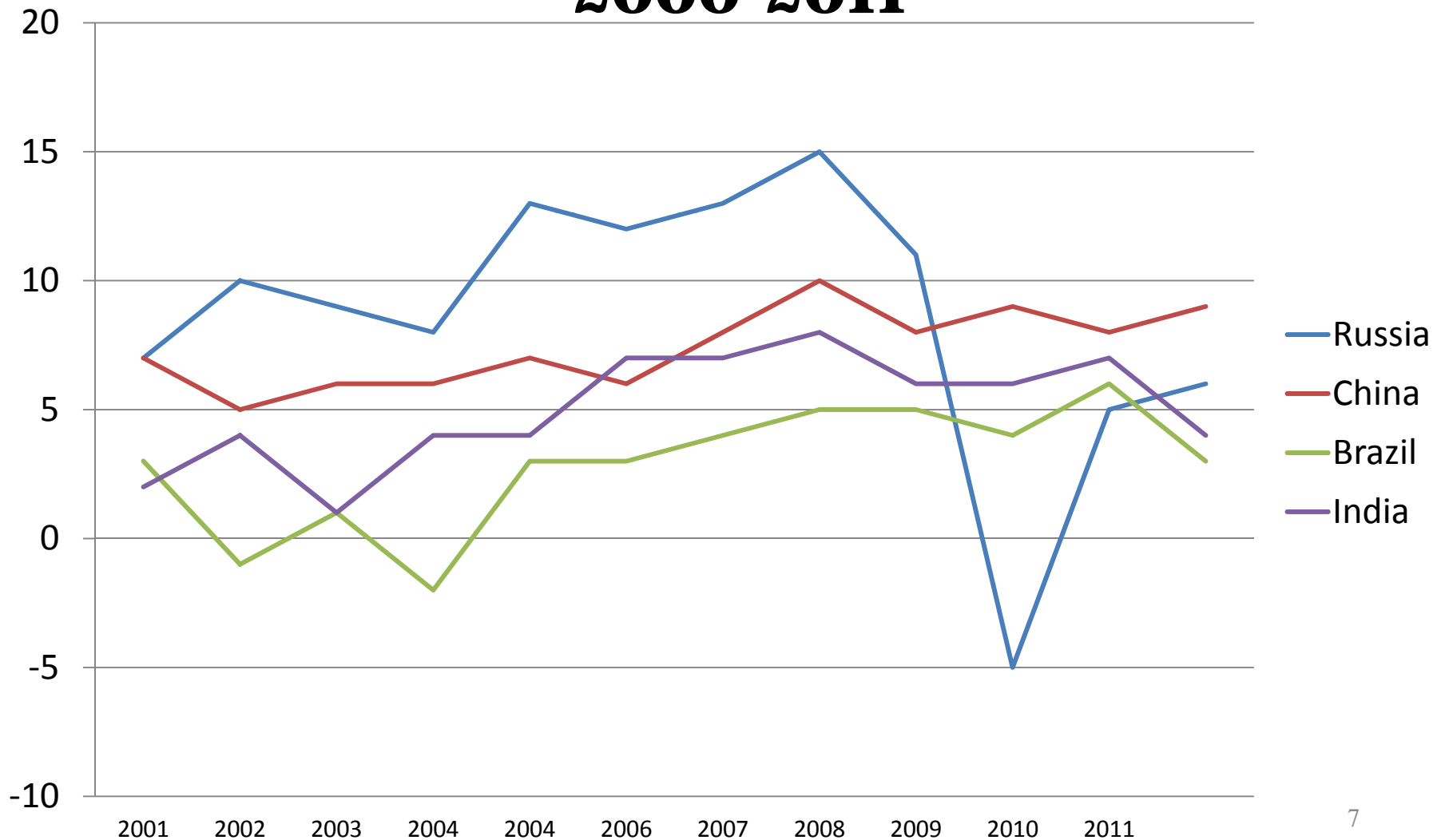


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# **Potential for growth in an increasingly sophisticated market**

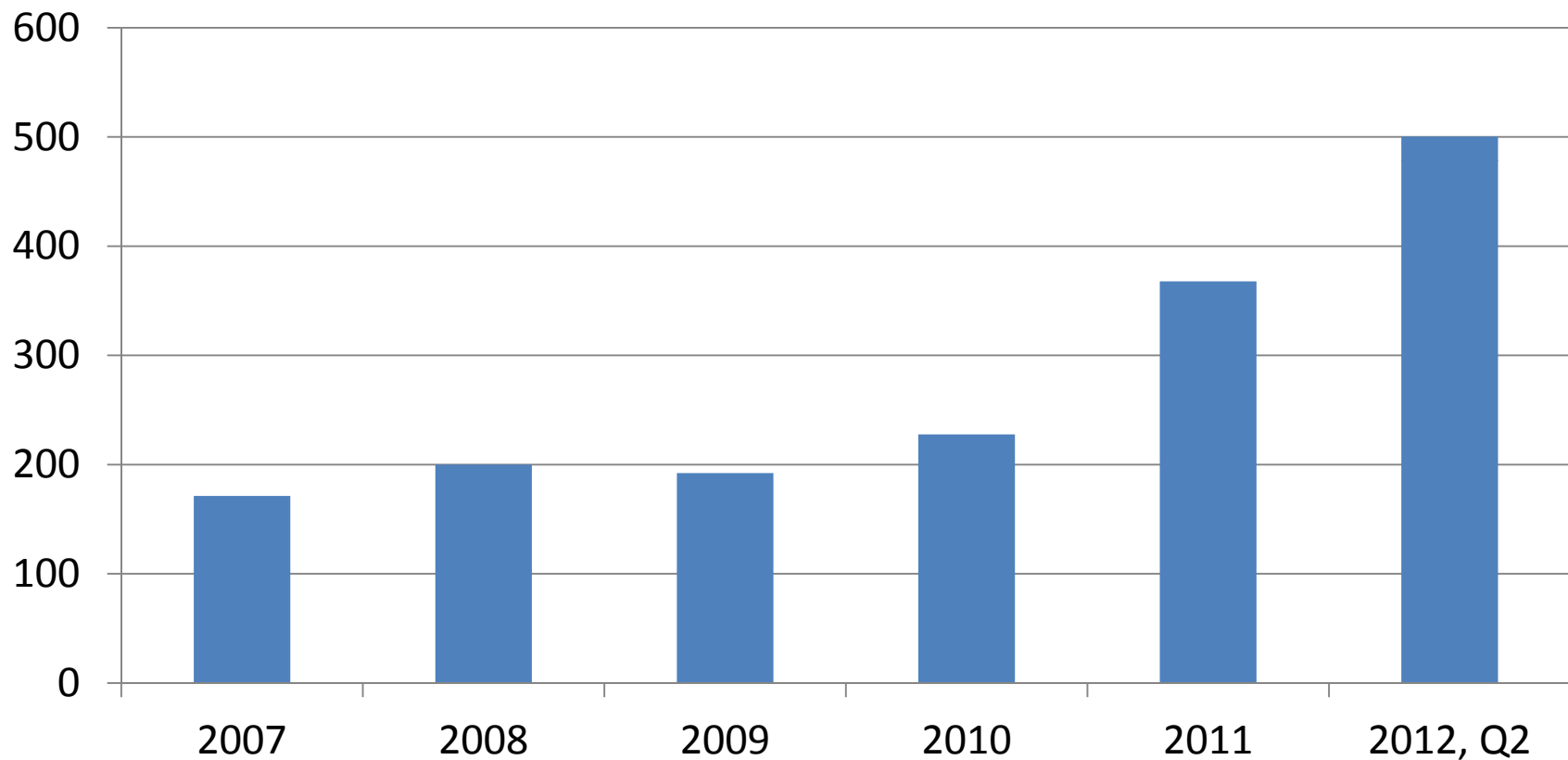
- Projected annual GDP growth between 3-4% from 2012 to 2015.
- Russia joined the WTO in August 2012.
- Impressive household consumption growth over a decade
- Impressive consumer credit growth

# Impressive growth in household consumption per capita vs. BRIC peers 2000-2011



# Russian Credit Card Market 2007 - 2012

Size of the Credit Card Market (billion rubles)





## **Trade**

### **Foreign Merchandise Trade**

#### **(US\$ Billions)**

	<b>2002</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Russia Exports to World	75.5	348.5	378.7	352.5
Russia Imports From World	40.8	211.4	278.7	290.4
U.S. Exports to Russia	2.4	5.9	8.3	10.7
U.S. Exports from Russia	6.9	28.6	34.6	29.3



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# Opportunity Drivers

## Russian Government's Modernization and Innovation Push

### 5 Priorities

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



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## **Opportunity Drivers, cont'd.**

- **Massive infrastructure needs**
  - Road building upgrade and expansion
  - Railroad upgrade and expansion
  - Information & communications
- **Russia Hosted APEC 2012 in Vladivostok**
- **Sochi Winter Olympics 2014**
- **FIFA World Cup 2018 – 11 Russian Cities**  
[www.rus-18.com](http://www.rus-18.com)



## **Recent & upcoming Department of Commerce activities in Russia**

- Completed trade missions:
  - Aerospace Supply Chain (October 2010)
  - Automotive Components (April 2012)
  - Energy Efficiency (June 2012)
- Scheduled Trade Missions:
  - Healthcare/Medical Technology (June 2013)

<http://export.gov/trademissions/russiahealthcare2013>

- U.S.-Russia Standards Engagement (May 2013)



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# Russia's WTO Accession



New access, and the challenge  
of establishing PNTR



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# 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.**



## Tariff cuts & ceilings

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



# 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 rate of 5% (vs.15%).
- **Wine:** → final bound tariff of 12.5 % within 4 years (vs. 20%).

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





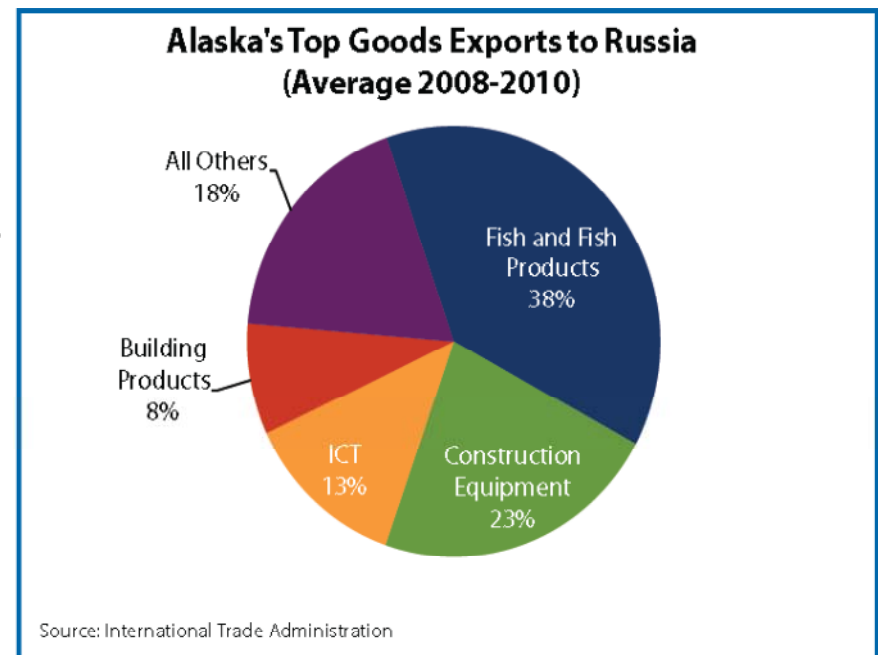
## Tariffs: product-specific highlights

- **Chlorine:** → Final bound rate of 5.5 % (2017) vs. previous 10%.
- **Hemoglobin, blood globulins and serum globulins:** → Final bound rate of 3% (2015) vs. previous 10%.
- **Vaccines:**
- **Hepatitis form B:** → final bound rate of 2% (2014) vs. previous rate of 5%.
- **Human blood:** → final bound rate of 6.5% (2015) vs. previous rate of 10%.
- **Perfumes:** Final bound rate 6.5% (2016) vs. previous rate 15%.
- **Shampoos:** Final bound rate 6.5% (2016) vs. previous 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. previous rates 20%**
- **Film:** Most film → final bound rate of 6.5% (vs. previous 10 - 20%).



# Alaska Trade and Russia

- **Fish and fish products:** bound average rate 8.3%, high end at 17%. Previously average 10.8% high end 20%
- **Construction equipment:** bound average rate 5.3%. Previously as high as 25%.
- **Climate similarities**
  - **Opportunities**
  - **Trade barriers?**





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## 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 telecom companies to operate as 100% foreign-owned enterprises.
- **Pharmaceuticals and Distilled Spirits:** Elimination of import licenses.



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## **General non-tariff benefits...**

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

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

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



# Challenges

- Corruption
- Complex, non-transparent regulatory regime
- Finding qualified business partners
- IPR protection challenges
- Large state role in the economy
- Import Substitution policies



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# **Market Access and Compliance (MAC) Mission:**

- “Identifies and works to eliminate or reduce foreign barriers to trade, investment and business operations; enforcing trade agreements; and promotes global growth.”
- Our experts work with foreign governments to resolve trade barriers by ensuring compliance with U.S. trade agreements.

[http://www.youtube.com/watch?v=B6E\\_LUYqyKA](http://www.youtube.com/watch?v=B6E_LUYqyKA)





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# What kinds of trade barriers do our clients face?

- Excessive tariff and customs barriers
- Discriminatory rules of origin, certificates of origin, or import licensing requirements
- Burdensome standards, testing, labeling, or certification requirements
- Lack of Intellectual Property Rights protection
- Non-transparent government procurement contracts



Are you facing unnecessary barriers to trade in foreign markets?



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# **U.S.-Russia Standards Cooperation Engagement Event**

U.S. and Russia to hold a best practices exchange event on technical barriers to trade and regulatory frameworks

Time Frame: May 2013

## Goals:

1. Better understand each country's standards and certification systems.
2. Eliminate or prevent unnecessary obstacles to trade.
3. Explore areas for potential cooperation for mutual economic growth.



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## **U.S.-Russia Standards Cooperation Engagement Event**

Please join us!

Help us identify key questions, issues, and problems in Russia market access.

Consider areas for U.S.-Russia standards-related cooperative activities.

Participate in future ITA-led U.S. industry roundtables with the Government of Russia





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## Practical advice:

- Proactively register & protect your intellectual property.
- Don't overlook regional markets.  
(13 cities with populations above 1 million)
- Utilize on-site U.S. government info & advice.
  - <http://www.buyusa.gov/russia/en/>
  - Offices in Moscow, & St. Petersburg



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# Content Links

**NIST: Notify US:** <https://tsapps.nist.gov/notifyus/data/index/index.cfm>

**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](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](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)



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# Market Entry & Access Questions?

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