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Russia in the WTO: Safer and Better for Foreign Investors

Russia gained admission to the World Trade Organization (WTO) on August 22nd 2012, almost nineteen years after the first tentative talks with the international trade body. The impetus to conclude the talks, from the Russian side, came as a result of the 2009 economic crisis. It then became clear that the economy's dependency on hydrocarbons and other extractive industries had become too dangerous and left the country's future uncertain and vulnerable to external price shocks. WTO membership was seen a critical step to add create greater diversity in the economy and to attract a much bigger volume of investment and partnerships with established multi-national companies.

Despite the disputes and rhetoric, Russia needs the WTO as a catalyst for reforms

It is fair to say that not everybody in Russia was, or is, in favour of the country joining the trade body. It is well understood that membership of the WTO will mean greater competition for Russian industry and, in many instances, that will mean inefficient companies or those not able to willing to meet the challenge, will fail. This is particularly the case in some of Russia's regions which are still dependent on one or few legacy industries from the Soviet-era. Twelve months after the country joined the WTO the political pressure and lobbying for greater protection against imports has greatly intensified. To a large extent this was expected at the time of joining although the current weak trend in the overall economy and the political uncertainty looking out to the 2016 Duma elections, adds to the intensity of the debate.

Russia's weighted-average tariff will fall from 12.4% to 6.5% after full implementation.

There is also some real controversy in that Russia, within weeks of formal admission, put in place a recycling levy on imported vehicles but not on domestic manufactured vehicles. This has added, on average, about $3,500 to the retail price of an imported vehicle and is clearly aimed at protecting the local manufacturers or persuading foreign companies to establish assembly plants inside the country. Both the EU and Japan have no formally complained against this levy. On the other side of the page, Russia continues to complain that some of its exports, in chemicals and metals, are still being blocked or subject to levies.

Structure of Russia's Imports and Exports, 2011

	Imports		Exports	
Food and Agriculture	13.8%	$44.7	2.4%	$12.5
Mineral Products	2.1%	$6.8	72.4%	$377.9
Chemicals	15.5%	$50.2	6.1%	$31.8
Wood and Pulp	2.3%	$7.4	2.2%	$11.5
Textiles	5.5%	$17.8	0.1%	$0.5
Metals	7.0%	$22.7	9.1%	$47.5
Machinery and Equipment	49.6%	$160.6	4.4%	$23.0
Other				
Total	100%	$324	100%	$522

Source: Federal Statistics Service

But, despite the political and industry lobbying inside Russia and the disputes over import levies and other disputed restrictions, by both sides, Russia is firmly committed to the WTO. The advantages of membership greatly out-weigh the negatives. The list includes;

- Inefficient domestic industries will be forced to become more competitive or risk being marginalized
- Russia may now be better able to attract efficient industries into the economy and this should force change from within
- Membership of the WTO has historically been a catalyst for increased FDI flows – something Russia desperately needs
- Foreign companies, previously nervous of Russia risk, now have an external arbitration option in the event that rules are ignored
- Greater import competition and cheaper import costs should have a positive effect on inflation as costs fall
- Historically WTO membership creates more jobs in the consumer services, agriculture and light manufacturing sectors. This usually also has a positive impact on wages
- The World Bank estimates the positive effect of membership as up to 11% of GDP over the first decade
- Moscow's New Economic School estimates the positive impact as equal to 0.5% annual GDP growth.

What industries are best placed?

Russia is today the world's fifth biggest consumer market in US dollar terms and is on course to overtake Germany in the next few years. Within the emerging economies, Russian consumers have the highest per capita spending power and while there is considerable debate over what exactly constitutes the middle-class and what is the size, it is anecdotally very clear that this is already a significant economic block.

Sberbank-CIB estimates that the total volume of consumer spending in Russia will rise from US$1.3 trillion annually to US$3 trillion by 2025.

The consumer market is already well represented with foreign brands but given the scale of the projected expansion in volume there is plenty of scope for new entrants and growth for those already there. Russia is already one of the top three markets for Pepsi, is the largest European market for Danone and annual vehicle sales lag only slightly behind those in Germany. The mobile phone penetration rate in Moscow and St. Petersburg is over 200% and nationally the rate is over 160%. US fast-food outlets are expanding fast across Russia with YUM! recently announcing plans to double its KFC outlets over the next five years. Russia will host the 2018 FIFA World Football tournament with fixtures scheduled for many Russian cities. Investment ahead of that tournament will also offer significant opportunities for companies in the consumer and service sectors.

US exports to Russia rose 29% in 2012 and were up 11% in Qtr 1 '13

Other sectors which are attractive to investors

Agriculture is a high priority recovery sector for the state. Industry output fell due to both a lack of investment and farmers migrating to cities and immigrating.

Food production. Russia used be a net food exporter but now depends on imports for about 40% of consumption. Partly associated with the decline in agriculture but also due to changing consumption habits and a preference for global branded goods. Russia wants to shift manufacturing to domestic producers and cut down on imports.

Pharmaceuticals. A similar story to food. The government sees the country's dependency on imported medicines as both an economic and strategic vulnerability. It is encouraging JVs between multi-nationals and domestic companies to shift production inside the country.

Machinery. Russia imports a lot of the machinery it needs because of mainly out-date and inefficient manufacturing processes in Soviet-era factories

Aviation & Aerospace. Over 50% of the country's approximate 3,000 aircraft needs to be replaced within the coming decade.

Shipbuilding. Russia has announced plans to greatly expand its merchant shipping fleet and is looking for a partner for state owned Sovcomflot.

Health Care /Education /Leisure. As the Russian middle class expands and has more disposable income the demands for better health care and education will be met with fee-paying service providers. Russians are also starting to spend more on leisure pursuits inside the country. Tourism, currently at a low level, should also grow as facilities improve and travel is made easier.

Financial Services. While foreign bank branches will remain excluded and the insurance industry has a nine year protection wrap, the broader financial services industry is much more open to foreign participants. Asset management is currently an under-developed industry in Russia, albeit mostly for the good reason that people still, prefer cash savings to mutual funds and the pensions industry is still state dominated. That will change over the coming decade allowing very significant growth opportunities in a country of 142 million people.

How to position in Russia?

Joint-Ventures. This is a mechanism favoured by the government within the so-called strategic industries. The advantage for Russia is that ownership does not entirely slip into foreign hands while the cross-over of expertise, technology and management clearly benefits the existing Russian operation. For the foreign JV partner the advantage is one of easier and quicker access to larger scale and a partner who can take care of all the local bureaucracy and licensing, etc. A good example is the JV between AvtoVaz and Renault-Nissan in the auto sector.

Assembly plants. Importing parts to be assembled inside Russia can often be a much easier way to access Russian customers than trying to navigate the finished product direct import route. An example in this area is how John Deere assembles tractors for sale in Russia having first manufactured, disassembled and packaged them in the US.

Partnerships. Apart from formal JVs, many foreign companies have concluded partnerships, such as in marketing or distribution, etc, and have successfully grown market share.

Own Operations. Foreign companies with branded operations and scale can easily establish their own operations in Russia. Here the issues are much the same as establishing a directly owned subsidiary in most emerging economies. It is a case of hiring the right people and acquiring the best local services and advice. Companies such as Danone and Nestle are well established in Russia having set up operations.

Franchise. In the consumer and retail space there have been many franchise deals announced. It is one way for an established international brand to make inroads into Russia's rural and regional territories. McDonalds, Subway and other fast-food outlets are now expanding beyond their directly owned operations with franchise deals.

Regional Base. Many of Russia's regional governments offer incentives and support to foreign companies setting up operations in their cities. Regions such as Samara and republics such as Tatarstan have a very strong track record working with foreign companies.

Acquisitions. Acquiring an established Russian operation is also an option open to direct investors. Pepsi considerably added to its scale in Russia with the acquisition of juice producer Wimm_Bill_ Dann several years ago. Outside of the energy sector there are few barriers to acquisitions by foreign buyers.

Russia Macro Data - 5 years

	2010	2011	2012	2013F	2014F
GDP, $ bln	1,478	1,849	2,013	2,100	2,180
Real GDP, y-o-y	4.5%	4.3%	3.4%	2.2%	2.2%
Industrial production, y-o-y	8.2%	4.7%	2.6%	1.0%	2.0%
Budget balance, % of GDP	-4.0%	0.8%	0.0%	-0.4%	-1.0%
CPI, end of year	8.8%	6.1%	6.6%	5.9%	5.5%
CPI, average	6.9%	8.6%	5.1%	6.2%	5.6%
Lending rate, average	10.8%	8.5%	9.1%	10.0%	9.0%
Deposit rate, average	6.0%	4.4%	5.5%	5.0%	4.5%
Unemployment	7.5%	6.6%	5.7%	5.2%	5.0%
Average monthly wages, R '000	21	24	27	29	31
Trade balance, $ bln	152	198	193	170	137
Current account, $ bln	70	99	75	55	25
FDI, $ bln	43	53	55	65	70
Monetary reserves, $ bln	444	454	487	487	487
Foreign public debt, $ bln	47	46	70	76	80
Foreign public debt, % of GDP	3.2%	2.5%	3.5%	3.6%	3.7%
Foreign private debt, $ bln	442	493	568	670	730
Total Foreign debt, % of GDP	33%	29%	32%	36%	37%
RUB/USD, aop	30.4	29.4	31.1	31.9	33.3
RUB/USD, eop	30.9	31.4	30.8	33.0	33.5
RUB/EUR, aop	40.3	40.9	39.9	41.6	42.6
RUB/EUR, eop	40.8	41.5	40.3	43.5	42.9
Urals, average, $/bbl	78	109	110	108	100

Historic data: State Statistics Service & Central Bank. Forecasts: Sberbank-CIB

WTO Effect on Industries

Agriculture

Russia used be a net food exporter in the Soviet-era but because of a lack of investment and neglect over the past two decades the industry has declined. In 2011 Russia had a deficit of $32 bln between imported and exported food products.

Since the severe agriculture crisis of 1999, the government has enacted legislation (early 2011) that will allow for the forced sale of 40 million hectares of previously arable which has been left idle for at least three years and has opened the way for foreign expert companies to gain access to the industry. Many of the items of legislation passed before the WTO deal was agreed relate to agriculture and are designed either to give protection to the fledgling industry or to incentivize investment. Essentially the government has created a separate development plan for the industry to run in parallel to the WTO timetable.

Russia used be a net food exporter but in 2011 it had an import deficit of $32 bln

Main Tariff Changes

- The average import tariff on food items will fall from 13.2% to 10.8% over an implementation period of up to eight years
- Dairy import tariffs will fall from 19.8% to 14.9%
- Grain import tariffs will fall from 15.1% to 10.0% over 3 years
- Imports on poultry have a concession period of eight years
- Wine imports will see the tariff cut from 20% to 12.5% within 4 years

Changes to the tariff structure and the way the state subsidized the agriculture sector has been one of the more contentious issues in the negotiations.

The government has agreed to replace the current subsidy scheme with a new support programme, starting from 2013. The main trust of the changes is to move away from a broadly based subsidy scheme to a scheme more targeted at areas for growth. For example:

- An end to discounted sale of fuel to farmers. Farmers have benefitted from a 30% discount on fuel costs which saved the industry approximately Rub 24 bln ($740 mln) in 2011.
- An end to fertilizer discount. These discounts totalled $117 mln in 2011.
- Milk subsidies will rise from Rub 10 bln ($300 mln) to Rub 12.5 bln ($380 mln) as part of the programme to raise standards in the dairy industry. Currently only 20% of milk output and 50% of butter production complies with EU standards according to the Agriculture ministry.

Russia is allowed subsidize the industry up to $9 bln in 2013 and to have this cut in half by 2018 to $4.4 bln. Of course at peak Russia only ever spent just less than $6.5 bln (in 2008) in subsidies so in actual fact the government has scope to raise spending for several years initially. The new subsidy scheme is forecast to cost Rub 1.5 trillion ($46 bln) from the federal Budget and Rub 770 bln $24 bln from regional budgets according to Finance Ministry data. The Agriculture Ministry had requested Rub 3 trillion ($92 bln).

Some subsidies are allowed. Subsidies also break down into two categories;

- Amber Box – which are trade distorting
- Green Box – which are not trade distorting

The limit on subsidies applies to the Amber Box category only. This is the category to which $9 bln can be applied in year one and which must drop to $4.4 bln annually by 2018. Green Box subsidies are unlimited and include public spending on infrastructure, R&D, training, pest control, inspection services, marketing and promotion, some targeted support for low income earners, etc. Basically anything that is not directly price distorting. The trend worldwide is for governments to shift more and more to these Green Box subsidy schemes.

The agriculture and food sectors are high investment priorities for Russia.

The other significant area of compromise is in the area of sanitary and phyto-sanitary. This has been a hugely contentious area of dispute between Russia and the US over the past two decades. Russia has now agreed to accept US DAFS certification for poultry and pork and to joint inspection for beef production facilities. This will greatly ease the export of US meat to Russia while raising competition for domestic producers.

It will also be cheaper and, in theory, easier to import agriculture machinery into Russia. The average tariff for imported machinery will fall to 5.2% upon entry. Some items of big machinery currently have an import tariff of 15%. This will fall to 5% day one. In practice the import procedures will remain subject to difficult bureaucracy so many international manufacturers will still follow the lead of companies manufacture machinery (e.g. tractors) in the US and then sends the dissembled product to Russia where it is re-assembled. In future we are more likely to JV's between international manufacturers and local producers similar to that seen in the auto sector.

Short-term impact

The short term impact on Russia's agriculture will be negative. Direct fertilizer and fuel subsidies will be cut and replaced with targeted subsidies in specific areas. It will be positive for dairy producers, which will benefit from the shift to specific industry subsidies, but hurt other producers as direct costs and competition increase. Several Russian producers have already said that they will delay investment plans until they can better access the impact of WTO membership.

Longer term impact

The efficiency of Russia's agriculture industry is only 50% that of the EU average and huge tracks of arable land remain idle. The ambition of the new directed subsidy scheme is to raise agriculture output by 20% over the next seven years. The aim of the programme is to boost domestic output across crops, grains, livestock and poultry and dairy and to make the product match the quality of imported goods. If successful then Russia will cut its food import bill significantly and agriculture-food production will rise as a % of GDP. It should also mean cheaper and better quality food products in Russian stores for the consumer.

Building out the infrastructure to support the sector will mean irrigation and access roads. Manufacturers of farm machinery will not get the same broad protection as the auto sector manufacturers but we should see more JVs between domestic producers and established international brand manufacturers.

Auto Manufacturing

The auto sector is another of the sensitive industries that the government is eager to protect and to grow. In mid-2009 when the recession hit Russia's so-called monogorods, or one industry cities, badly the workers in the car sector were the most politically active. The protests brought a very quick response from the government and a huge injection of financial aid. Part of the rescue effort was the strengthening of the JV between the country's biggest auto-manufacturer and a Renault-Nissan partnership.

Part of the protection put in place has been the introduction of a recycling fee on imported cars from September 2012. This fee has not been applied to domestic manufacturers. The issue has led to a dispute with the EU and Japan and is likely to be adjudicated by the WTO (see last page of this note).

The government has injected a huge volume of financial aid into the auto sector and is protecting domestic manufacturers with disputed measures.

New passenger sales reached almost 3.0million units in 2012 which made Russia the world's fifth biggest market and just behind Germany in volume. The market in 2013 is weaker with first half year sales off 8%. But, medium to longer term there is still considerable scope for further growth as;

- Disposable income grows
- People replace older models with new, more efficient, models
- A larger penetration of the population buys cars
- Greater access to financing options

At the end of 2011 there were 257 passenger vehicles per 1,000 people in Russia. That compares with an average of 450 in the EU. The average age of the existing fleet of 37 million passenger vehicles is 12 years.

As part of the WTO entry negotiations, Russia has been able to introduce a number of parallel measures that

a) aim to protest the domestic industry during the transition phase and
b) hope to better establish the industry to be competitive after the protective measures are removed.

Another part of the reason for the new parallel protective measures, i.e. specifically relating the domestic sourcing of parts, is to try and broaden the industry's footprint. If that works then there will also be much less incentive for manufacturers to import and to source domestically.

WTO Tariff Changes

As compensation for the tariff changes, Russia has introduced a rule that requires car producers to source 60% of the vehicle content locally in Russia for up to minimum volume of 300,000 vehicle production (for new producers) or 350,000 vehicle units (for already established producers). If that minimum requirement is not met, i.e. either the 60% content or minimum production volume, then the producer does not benefit from the new tariff regime for imports.

Vehicle Tariff Changes

	Existing Tariff	On Accession	Before 2018
Passenger vehicles, new	30-35%	25%	15%
Passenger vehicles, used	35%	25%	20%
LCV, new	25%	10%	0%
LCV, used	30%	10%	0%
HCV, new	25%	10%	5%
HCV, used	30%	15%	10%

Source: WTO

Russia wants manufacturing to be based inside the country

Short term impact

The greatest impact will be negative for the producers of Light Commercial Vehicles (LCVs) as the import tariff drops immediately from 25% to 15% for new LCVs and from 30% to only 10% for used LCVs.

Longer-term impact

Longer term the government's initiatives to force producers to source more of their parts domestically has a very good chance of creating firmer foundations for the auto manufacturing sector and for the supply and services sectors. The situation concerning the LCV and HCV sectors is less clear but some measures to also protect the industry and to incentivize domestic production is also expected.

Banks & Financial Services

Russia achieved one of its major concessions in the bank and financial services sectors. Branches of foreign banks will not be allowed while branches of foreign insurance companies will only be allowed after nine years from accession.

Russia has agreed to allow the market share controlled by foreign banks, operating with a license in the country, to increase from 15% to 50%. Similarly with the share of foreign insurance companies. That means that foreign banks-insurance companies, regulated by the Central Bank, will be able to open branches but no branches of foreign institutions not operating under the regulation of the Central Bank.

Financial institutions operating in Russia must be regulated by the Central Bank

Subsidiaries of foreign banks must be registered and regulated by the Central Bank and its capital requirement based on the regulations set by the Russian Central Bank rather than the regulator of its parent bank. The Central Bank argued that this is necessary to ensure banks are properly capitalized and to ensure the safety of depositors. Russia made it clear that this was one of the deal-breakers in the negotiations and eventually prevailed.

Russia has agreed to full access for other types of financial services, including brokers, and cross-border services such as financial leasing.

Oil & Gas, Energy

WTO membership has almost no impact on the oil and gas sector. Russia successfully avoided demands that it cut subsidized domestic gas prices and to further liberalize the gas industry. The gas industry will remain regulated and the 30% export tariff will stay in place. .In the area of oil field services Russia has agreed to improve market access, albeit only in the segment of consulting rather than field operations.

Almost no impact in the energy sector

There is no obvious impact on the Utilities sector other than companies will be able to import equipment with lower tariffs after full implementation of WTO entry terms.

Consumer Sectors

Theoretically there is easier access for imported consumer goods which should soon pressure domestic prices lower as domestic manufacturers need to adjust to compete. There should be very little impact on the listed food retailers as they will be able to keep their margins by adjusting the retail price to the lower input cost. The retailers benefit longer term from an expansion of the market, i.e. as more and better quality goods become available, and as consumer's spending power increases.

Entry barriers to consumer goods should be amongst the first to fall

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Entry barriers to consumer goods should be amongst the first to fall

World Bank studies also show that WTO entry can lead to a steady increase in wages as more foreign companies enter the market and compete for workers. That is also a boost for consumer spending. Longer term the hoped for benefit from WTO membership is that domestic sourcing of lower priced but higher quality products will increase. That will also be a major driver of the domestic and consumer economy over the longer-term.

Main Tariff Changes

Russia has agreed, on full implementation, to cut its average bound tariff from 11.7% to 7.8%. On a weighted average basis the cut is more significant, falling from 12.4% to 6.5% according to World Bank estimates. That greater fall applies more to goods which make up the bulk of imports today, i.e. processed foods in particular.

- For the consumer sector generally specifically the current tariff averages at 13.3% while, after accession, the average falls to 10.3%
- The tariff on imported appliances will fall from an average of 12.2% (some are up to 20%) to 9.8%
- The tariff on imported furniture will fall from an average of 13.2% (up to 15%) to 9.7%
- The tariff on leisure goods will fall from 10.7% (up to 20%)
- The tariff on textiles will fall from 10.9% to 7.9%
- The tariff on footwear will fall from (up to) 20% to 16%
- The tariff on cosmetics will from 13.5% (up to 15%) to 6.3%
- The tariff in computers and other electronics will fall from an average of 6.7% (up to 20%) to 4%

Short-term impact

The short term outlook for the consumer sector is still much more bound up with the trend in the country's macro-economic environment. But the immediate cut in some tariffs in the consumer sector may lead to a one-off boost in the sale of some items, i.e. as the price falls.

Longer-term impact

It has been shown that time and time again WTO entry helps sustain better growth in the consumer area as prices are lowered and wages rise. The basic macro backdrop will remain the dominant factor but the benefits from WTO entry will add to the growth long term.

Building & Construction Materials

After full implementation the import tariff on building products will fall from an existing range that is as high as 20% in some instances to an average of 9%, i.e. on a range of 0 to 15%. Tariffs on construction equipment will fall from a range that is up to 25% for some items to an average of 5.3%. As Russia gears up for big infrastructure projects, such as the Sochi Olympics and the 2018 World Cup, plus the clear need for a major construction spend increase, this is one of the more lucrative industry groups to benefit from WTO entry.

Chemicals

The sector is one of those that will show an immediate gain as currently high (in many instances) tariffs against Russian exports should be removed. For imports, Russia has agreed to lower its existing average tariff of 6.7%, albeit it can go as high as 20%, to an average of 5.3%. The country has also agreed to bind the tariff on just over 70% of chemical products at 5%.

Metals & Mining

The ferrous and non-ferrous metals sectors are, like chemicals, theoretically amongst the immediate winners from WTO entry as tariffs against the export of Russian metals will be removed. In practice the effect will be negligible at the start as most companies are not filing their existing quotas due to low demand. The slowdown in the EU economy, in particular, has affected demand in recent years and the positive tariff removal effect will not be seen until there is a broad economic recovery leading to higher steel usage.

Concerning copper and nickel, the existing export tariffs will range between $450 and $500 p/t this year and are due to be cancelled by 2017. Again, in theory, that will provide a big boost to Norilsk Nickel. In practice it is expected that the government will find an alternative route to collect the money, such as an increase in Mineral Extraction Tax. That is not regulated by the WTO. Against steel imports Russia currently applies an average 8.9% import tariff and this will be cut to an average of 6.0% after full implementation. For non-ferrous metals the current import tariff ranges up to 20%. After implementation of WTO commitments the average will fall to 8.5%.

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Pharmaceuticals

The pharmaceuticals industry is on the list of industries where the state has indicated that it intends providing strong financial and regulatory support to help the domestic producers to grow and to compete successfully. It is proposed that restrictions be placed on the import and sale of medicines from foreign companies that did not source a significant volume of product locally and which also did not locate technology and R&D in the country. Russia currently has an average tariff on pharmaceutical imports of 5.7% but on some items it goes as high as 15%. After full implementation the average tariff will be cut to 4.4%.

Telecoms

The existing maximum quota of 49% aggregate foreign ownership in the telecom sector is to be removed after 4 years. Russia has reportedly agreed to terminate the Rostelecom monopoly on long-distance fixed-line telephone services.

Transport Sector

Russia currently levies tariffs on shipping and transportation equipment up to 20% and with an average tariff of 8.3%. After full implementation the average tariff will be cut to 7.6% and will be bound at that level. This applies to a wide range of transport equipment such as containers and handling equipment. This should benefit companies operating ports and in other areas of the transport sector that imports equipment or where domestic equipment will have to be priced lower to compete with imports.

Aeroflot is another beneficiary because of the reduction in the import tariff on wide-bodied aircraft from 20% to 7.5% in the four years after accession. Aeroflot and other Russian airlines plan to acquire “hundreds” of new aircraft over the next decade both to replace the existing ageing fleet and to expand so the cut in tariff represents a substantial savings.

Progress and Problems Since Joining

Barely twelve months after Russia's admission to the WTO the terms of the deal have attracted many critics in Russia's business community while both the EU and Japan have brought formal charges against Russia for alleged violations of membership rules.

Some business lobby groups and parliamentarians have been calling for Russia to try and renegotiate the terms of entry, a proposal firmly rejected by the head of the WTO, while others have been calling for an exit. Thankfully the government appears not to be considering either option even though it has been applying its own interpretation to some of the rules.

The headline statements in August 2012 were that entry into the WTO would initially cost the federal budget around $14 billion in lost tariff revenue, over the first two years, and that some industries, e.g. the food and light industry manufacturers, would face more immediate import competition than others.

WTO membership provides a necessary time line for Russia to advance reforms and for domestic industry to become more competitive

It was also acknowledged that compiling with the terms of entry would provide a necessary catalyst for the broader business reform agenda. It was believed that the entry terms allowed enough time for domestic industries to become more competitive. The World Bank estimated that membership could add an additional 3.3 percent to overall GDP, or approximately $65 billion in the first three years, rising to an 11% benefit, or $220 billion, after eleven years. Moscow's New Economic School calculated the net membership benefit at a sustainable 0.5 percent addition to annual GDP growth. If you aggregate all those statements you get a well known and universally proven cliché "no pain, no gain". That was also widely acknowledged and accepted as a necessary trade-off at the time.

The caveat to all these positive statements was, and remains, "provided everybody plays by the agreed rules". And that's the rub right there. Within weeks of joining the WTO, the government imposed an import levy on foreign manufactured light vehicles, under the guise of a recycling fee which has not been applied to domestic manufacturers. It also sparked the investigation which has led to the formal complaints from the EU and Japan. Looking at it purely from a domestic standpoint we can see why the levy was imposed; the auto-manufacturing sector is one of the biggest employers in the country and contributes hugely to some regional economies which might otherwise suffer if the auto industry struggled.

In addition to the levy on imported vehicles Russia has also used technical interpretations of rules to, for example, restrict alleged dumping of commercial vehicles into Russia and has deployed "safeguard measures" to slow some farm machinery imports.

The best way for many foreign companies to gain entry to Russia is via JVs with local businesses or with regional government partnerships.

Of course the complaints are not all one way. In July the Russian Audit Chamber reported that some domestic exporters still face serious restrictions in foreign markets which are against WTO rules. In May Russia's chief WTO negotiator said that there were still one hundred and twenty violations of the rules by other countries against Russia. Separately, Moscow has threatened a formal complaint against the EU in relation to a dispute concerning the EU's Third Energy Package and the classification of the Nordstream gas pipeline. There are, therefore, plenty of examples, both from the Moscow government and those of other countries, where lobby groups continue to exert influence and force flexible rule interpretations which often lead to formal complaints.

While the trade disputes, lobbyist demands and bickering are annoying, what is much more important for the business community is that the government sticks with its core intention at the time of joining, which is that the WTO provides a clear time line for industries to become more competitive and for measures to be taken to improve the overall business and investment environment. There will undoubtedly be plenty more complaints about the occasional step sideways if overall positive momentum is maintained. This year's economic crimes amnesty and specific changes to cut business red tape planned for next year can be counted as positive, if modest, further steps. WTO membership also helps put the current US-Russia political spat into context; according to data from the US Trade Representative's Office US exports to Russia rose 29% last year and gained almost 11% in the first quarter of this year.

Summary of Changes: Winners and Losers

Note: see industry descriptions later for more detail

Economic Sector	Existing Import Tariffs	Changes on Accession	Effect after full Implementation	Positive For	Negative For	Longer term Impact
Summary	Average bound tariff = 11.7%	33% of tariff's change	another 25% of tariffs change after 3 years	Consumer	Light manufacturers	WTO provides the incentives for faster domestic reforms
			Up to nine years for longest concessions	Long-term reform booster	Inefficient producers	Membership usually boosts domestic consumption
			average tariff will fall to 7.8%			Companies that work with foreign JV partners usually fare best
			Foreign aircraft will qualify for same leasing benefits			
Agriculture-Food	Average 13.2%	Gradual Change	Average 10.8%	Consumers	Food Producers	Huge incentive for efficiency and quality gains
		different time scale applies	Dairy will fall from 19.8% to 14.9%			More spending on Infrastructure
			Grain tariffs will fall from 15.1% to 10.0%			More sales of Machinery
			Poultry has a concession period of the full 8 years			More fertilizer sales
Auto Manufacturers	New Cars - 30-35%	25%	15%	Consumers		Auto Manufacturers should become more efficient
	Used Cars - 35%	25%	20%			Metal suppliers will see rise in domestic demand
	New LCVs - 25%	10%	5%	Industry	LCV manufacturers	
	Used LCVs - 30%	15%	10%			
Aviation	20% on wide bodied aircraft	Change over 4 years	to a tariff of 7.5%	Aircraft operators	Efforts to sell new Russian aircraft	Cheaper purchasing costs for airlines
	20% on narrow bodied aircraft		to a tariff of 12.5%			Will increase the need for JV between UAC and foreign company
Banks	Foreign Branches Excluded		Cap on Foreign Bank share of market to be 50%			Banks are a generally beneficiary of improved economic performance
	Total foreign bank share = 15%					Better consumer market will boost financial services
Building Materials	Currently Import tariffs range up to 20%	Gradual Change	New Tariffs will be bound at 9% (range 0-15%)	Construction companies	Local construction material manufacturers	
Consumers	Average import tariffs = 13.3%	Gradual Change	New average will be 10.3%	Consumers	Domestic manufacturers in food and other goods	Neutral to positive for Retailers

Economic Sector	Existing Import Tariffs	Changes on Accession	Effect after full Implementation	Positive For	Negative For	Longer term impact
Construction Equipment	Tariffs on equipment can reach 25%	Gradual Change	to an average of 5.3%	Construction companies	Manufacturers	Construction companies benefit from low input costs
Construction Materials	Tariffs can reach 20% on materials	Gradual Change	New Tariffs will be bound at 9% (range 0-15%)	Construction companies	Manufacturers	Government may also benefit from lower infrastructure costs
Customs	High custom clearance cost	Fee will be cut by 2/3rds		Importers		Will cut end customer costs
Gas	Regulated domestic market	No Change	No Change			Agreed to move towards non-regulated market - no time frame
Food Retailers	High import costs	Gradual reduction in costs	Lower import tariffs will mean lower retail prices	Consumers	Domestic producers	Will also help lower inflation and push producers towards efficiency
Insurance	Foreign Branches Excluded	No Change	9 years to allow branches			
	Total foreign Ins Co Market share @ 15%	Gradual Change	Limit of foreign share to be raised to 50%	Consumers		Better choice and Service
Light Industry - Manufacturing	Existing tariff = 9.5%	Gradual	Eventually falling to 7.3%	Consumers	Light manufacturers	Will force efficiency gains and JVs with foreign partners
Metals	Russia exports face tariffs	Foreign country tariffs removed		Steel exporters		In practice exporters don't currently fill their quotas due to low demand
	Import tariffs average 8.9%	Gradual	Reduced to an average of 6.0%	Steel users	Marginal effect	
Oil Producers	No impact	No Change		Small positive from Ag. fuel sales		Subsidies to farmers ends
Oil Services	Restricted access	No Change	No major change	Oil service provid-ers		Foreign access limited
Pharmaceuticals	Current tariffs average 5.7% but up to 15%	Gradual	Will be bound at 4.4%			Government plans to aid local producers and encourage JVs
Railway costs	Different costs for domestic and Foreign	Equalised on ac-cession		Shippers of goods		Will also help reduce end user costs
Retailers	Higher product prices	Prices start to fall	Lower import and domestic prices	Consumers	Domestic manu-facturers	Lower prices, better access to quality goods = higher volumes
Services	Some restrictions	Full access	For retailers, wholesalers, fran-chise operators	Consumer	Inefficient existing operators	Better consumer choice helps boost consumer economy
Telecoms	Foreign cap at 49%	Gradual	To be removed after 4 years	Telecom users		Should held the industry expand
Transport	Tariff on equip-ment up to 20%	Gradual	Average at 7.6%	Transport opera-tors	Manufacturers	Ports and logis-tics should gain
Utilities	No impact	No Change	No Change			

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