

RUSSIA'S ACCESSION TO THE WTO: MAJOR COMMITMENTS, POSSIBLE IMPLICATIONS

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The review of Russia's accession commitments, and possible implications for other members of the Customs Union (Belarus and Kazakhstan), will contribute to awareness and understanding of possible (business) implications of Russia's WTO Membership. The views expressed in the paper are under responsibility of Prof. Sergei Sutyryn, and his team, at the Saint-Petersburg University. While efforts have been made to verify the information contained in this document, the International Trade Centre (ITC) cannot accept responsibility for any errors that it may contain.

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Contents

Acknowledgements.....	1
Introduction.....	4
Terms of Russia's Accession to the WTO in Trade in Goods Area	5
General Review of Russia's Commitments in Trade in Goods:.....	5
Export Duties	6
Impact of Export and Import Duties on State Budget	6
Russian Automobile Industry: Problems and Perspectives for Development under WTO Accession Terms	7
Commitments of the Russian Federation in the Area of Trade in Agricultural Products	10
General Terms of Access to Agricultural Market.....	10
Domestic Agricultural Support Measures: Challenges and Perspectives.....	11
Perspectives of Export of Russian Agricultural Products.....	12
Consequences of Liberalization in Agriculture for National Meat Product Producers.....	13
Russia's Commitments in the Area of Trade in Services	15
General Overview of Financial Services Sector Development in Russia.....	15
Insurance Services Sector in the Light Of Russia's Accession to the WTO.....	17
Banking Services upon Russia's Accession to the WTO.....	17
Brokerage and other Intermediation Services upon Russia's Accession to the WTO.....	18
Reform of the National Economy in the Run-up to WTO Accession.....	19
Key Reforms in the Russian legislation Related to the WTO Accession	19
Reform of Russian Institutes in the Context Of WTO Accession.....	19
Implications of WTO Membership for Russian Internal Taxes.....	20
Implications of Russia's Accession to the WTO for National Energy Industry	22
Tariff Regulation of Energy Resources upon Accession to the WTO.....	22
Situation in the Russian Gas Industry in the Run-Up to WTO Accession: General Characteristics	22
WTO Factor in Gas Industry Development.....	23
Russia's accession to the WTO and the integration of the former Soviet Union.....	26
WTO and Customs Union: that before?	26
Conclusion.....	29

Introduction

On December 16th, 2011, the Eight Ministerial conference of the WTO (which is the highest body of the WTO) formally approved through unanimous voting the accession package of the Russian Federation to the WTO. The process, which at some of its stages seemed to be hopeless and never ending, had been completed.

Formally, Russia has been negotiating with GATT/WTO members over 18 years. None of the members of the WTO needed such a long period of time before acceding to the WTO. Another record set by Russia is the number of member states (over 60) which participated in the Working Party of Russia's accession negotiations. The goal of Russian negotiators was to ensure accession terms appropriate for the country.

The aim of this article is to consider general terms of Russia's accession to the WTO in the area of trade in goods and services, with a particular focus on specific sectors (automobile manufacturing, production of meat and meat products, financial services, and energy services).

Terms of Russia's Accession to the WTO in Trade in Goods Area

General Review of Russia's Commitments in Trade in Goods:

Within the framework of bilateral negotiations on goods, 57 bilateral agreements on market access of goods were completed. Thus, a question arises: what will import duties applied by the Russian Federation likely be upon its accession to the WTO?

The negotiating parties agreed on binding the tariff¹ for all non-agricultural products at the rate of 7,3%² (comparing with 9,5% rate effective in 2011)³. On the one hand, such an arrangement can be considered as a failure of Russian negotiators as it is lower than the bound levels initially proposed by Russia. On the other hand, the levels of tariff protection are higher than the those existing in many developed countries.⁴

At present, Russia attempts to position itself as a powerful economic empire within the global arena. Reduction of duties may also be considered from the viewpoint that prices will decrease for a number of investment goods thus having positive effect on the development of the Russian economy.

At the same time, it would be a mistake to consider that decrease of duties for a specific number of percentage points will automatically lead to the fall of a price for a product in the same amount. It is logical to assume that an importer of goods may consider the difference between the old and new price as some kind of margin, a part of which he would like to retain. Therefore, we may expect some decrease of prices for a specific number of goods, yet not in the amount that can be secured by the duty.

A variety of flexibilities were negotiated by the Russian Federation, including different transition periods for reduction of customs duties. The final binding rate shall enter into force immediately after accession with respect to about one third of tariff lines. For instance, for electrical signaling for railways and tramways, the bound rate is 5% and becomes effective as of the accession date. For a number of goods (about 5,600 tariff lines) duties will be reduced in stages: initial and final bound rates and term of the transition period have been established. With respect to a number of commodity positions (indicator panels incorporating liquid crystal devices, spectrometers, and etc.), the duty by the end of the transition period will amount to zero. With respect to other goods (for instance for endoscopes from 5% down to 3% by 2013) the duty will only be decreased. The schedule of duties for other goods implies gradual liberalization during several years. The import duty on ethylene glycol at the date of accession is set at 10%. It will then be reduced to 9,3% in 2013, 8,5% in 2014, 7,8% in 2015, 7,% in 2016, 6,3% in 2017, and after 2018, shall be set at the rate of 5,5%. Import duty on cars shall be bound immediately upon accession at 25%; the next decrease (until 23%) is scheduled only in 2016. In 2017, the duty will amount to 20%. In 2018, 17%; and in 2019, it shall be set at the rate of 15%.⁵ In general, the longest transition period (7 years) for reduction of import duties on non-agricultural products has been established for cars, helicopters, and civil aviation equipment. It is assumed that local companies will beneficially use the time provided by focusing their efforts on modernization of manufacturing process and improving the quality of products.

¹ During the last several years alongside with negotiations on Russia's accession to the WTO, the formation of the Customs Union among Russia, Belarus, and Kazakhstan has been taking place even at much higher pace. As a result, under the framework of commitments undertaken by our country as a member of the World Trade Organization, rates established by the Common External Tariff of the Customs Union shall be applied for the purpose of calculation of import customs duties, if otherwise is stipulated in the Customs Code and/or international treaties of member countries of the Customs Union.

² The major bulk of duties applied by the Russian Federation, are ad valorem duties. Alternative calculation method shall be applied only in a small number of cases. For instance, the rate of duty on motor caravans shall be 25% upon accession, but not less than EUR 1.2 per cm³ of volume of engine.

³ http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm

⁴ Average rate of binding for non-agricultural products is 3,9% in EU, 2,5% in Japan, and 3,3% in the U.S. "Trade Profiles 2011." WTO. Geneva. 2011. P.63, 92, 179.

⁵ Working Party on the Accession of the Russian Federation to the World Trade Organization. Commitments on Goods. *Schedule CLXV - THE RUSSIAN FEDERATION. PART I-MOST-FAVORED-NATION TARIFF. SECTION II - Other Products* http://docsonline.wto.org/imrd/gen_searchResult.asp?RN=0&searchtype=browse&q1=%28+%40meta%5FSymbol+WT%FCACC%FCRUS%FC%2A%29+&language=1

Export Duties

One of the distinguishing features of foreign trade policy of the Russian Federation compared with many other parties of international trade is active application of **export customs duties**. The latter was first introduced by virtue of the Government Resolution No. 91 of December 31, 1991, "On introducing export tariff for certain goods exported from the territory of the Russian Federation." Today goods that form the basis of the Russian export, notably, raw mineral material, fertilizers, and metals are subject to export customs duties.

Pursuant to the documents on Russia's accession to the WTO, export duties shall be applied to about 700 tariff lines. Goods subject to this type of state regulation are quite diverse: starting from crude oil and metals and ending with parquet flooring and fish. Reduction of export duties with a transition period ranging from one year (mustard seeds) to five years (leather) is stipulated for a number of goods. In some cases upon completion of the transition period, export duty shall amount to zero (crabs), yet in other cases, the duty rate will only be reduced (a number of metals).⁶ Depending on the type of goods *ad valorem*, specific and alternative methods of duties calculation shall be applied. For some types of goods, primarily, hydrocarbons (crude oil and gas condensate), the formula, the main element of which shall be the world price for crude oil, will be applied. The mechanism for calculation of export duties for oil and gas is discussed in detail in Section 5.1. It is deemed that the right reserved by Russia to apply export duties will allow it solving its fiscal objectives and pursue industrial policy aimed at modernization of the economy.

Impact of Export and Import Duties on State Budget

Customs duties play an important role in formation of the budget of the Russian Federation. The share of revenues in the federal budget in 2008 crisis year reached almost 35%. The extent of impact of duties on the revenues of the budget and role thereof in the country's GDP is demonstrated in table 1 below.

Table 1

Role of Customs Duties in Formation of the Federal Budget of the Russian Federation

Year	Customs Duties		Import Duties		Export Duties	
	Share in Revenues of the Federal Budget	Share in GDP	Share in Revenues of the Federal Budget	Share in GDP	Share in Revenues of the Federal Budget	Share in GDP
2004	19,4	3,5	6,6	1,2	12,8	2,3
2005	26,1	4,6	7,5	1,3	18,6	3,3
2006	31,9	6,6	6,2	1,3	25,7	5,3
2007	34,4	7,7	5,7	1,3	28,7	6,4
2008	34,9	6,7	7,7	1,5	27,2	5,2
2009	30,9	5,8	8,1	1,5	22,8	4,3
2010	28,7	5,2	8,6	1,6	20,1	3,6

Source: Compiled based on federal laws on federal budget of the Russian Federation for the corresponding period

http://www1.minfin.ru/budget/federal_budget

It is a well-known fact that import duties in Russia make a modest contribution to the "basket" of public revenues comparing with the export duties. The prevailing majority of all revenues from export duties in Russia are export customs duties for crude oil and natural gas. This fact once again gets us back to the

⁶ Working Party on the Accession of the Russian Federation - Report of the Working Party on the Accession of the Russian Federation to the World Trade Organization. Commitments on Goods. PART V - Export Duties
http://docsonline.wto.org/imrd/gen_searchResult.asp?RN=0&searchtype=browse&q1=%28+%40meta%5FSymbol+WT%FCACC%FCRUS%FC%2A%29+&language=1

understanding that refusal from such duties upon accession to the WTO would have been undesirable. Nevertheless, a situation when the share of revenues flow to the budget through channels of customs service comprising about one third is not characteristic for countries with developed economy. At the same time, it should be noted that Russia acceded the WTO holding the status of a developed state.

Assessing possible consequences of changes in tariff regulation for the Russian economy, it should be noted that commitments undertaken by Russia set only the upper thresholds of corresponding indicators. It is at the discretion of our country to which extent we will approach the established thresholds. Regarding other aspects such as introduction of safeguard and anti-dumping duties, the WTO does not obligate its members to apply these tools of trade policy. The agreements only provide for specific opportunities, the extent of exercise of which depends on skills and will of members of the organization.

Russian Automobile Industry: Problems and Perspectives for Development under WTO Accession Terms

For Russia, the automobile industry is an important element of the machinery building and processing industry.

Pursuant to official data of the Ministry of Industry and Trade, as of today, the automobile industry of the Russian Federation comprises about 1% of GDP providing about 400.000 work places in companies — manufacturers of automobiles and component parts. Moreover, the industry creates about 1mln. work places in affiliated and dealer companies⁷.

The Russian Federation manufactures cars, commercial motor vehicles, trucks and buses, trailers, special and military motor vehicles, as well as motor vehicle components (engines, transmissions, chassis, motor-tractor electric equipment, and motor electronics, etc. At present, about 400 enterprises and organizations⁸ operate in the automobile industry.

Automotive equipment is manufactured in close cooperation with enterprises operating in electric and technical, metallurgic, chemical, electronic, consumer goods manufacturing and other industries. The multiplying effect of automobile manufacturing ensures additional employment of about 4,5 mln. individuals in the related sectors.⁹

If one compares the value of automobile industry in Russia with that in other countries, it should be noted that the aforementioned indicator of the industry's share in local GDP (about 1%) is much less than the similar indicators in the leading manufacturing countries. In the countries of European Union where such industry is quite developed, the share thereof in GDP amounts to 2-3%¹⁰. The local automobile industry is significantly lagging behind the developed countries in term of labor intensity and productivity. Russian automobile industry, comparing with the U.S., manufactures goods almost 6.5 times less in natural terms (1,7 mln. of motor vehicles in Russia vs. about 11 mln. motor vehicles in the U.S.). In our country, production capacity per one worker is about 4,4 motor vehicles per year, whereas in the U.S., such indicator comprises about 12 motor vehicles per year (in Russia about 400.000 people are engaged in automobile industry whereas in the U.S. this figure amounts to about 800.000)¹¹.

It should be noted that Russian automobile industry and local car market turned out to be the most vulnerable in the times of the world economic crisis. Substantial fall in the volume of sales and, consequently, volumes of production was observed. *AvtoVAZ* OJSC incurred the highest damages. The company started experiencing losses in 2008. Net loss of *AvtoVAZ* pursuant to ISFR following the results of 2008 amounted to RUB 24,7bln. comparing with the profit in the amount of RUB 3,7bln. in 2007, although proceeds of the company during this

⁷ http://www.minpromtorg.gov.ru/reposit/minprom/ministry/strategic/sectoral/10/Strategiya_Avto_dlya_sajta.doc

⁸ <http://protown.ru/information/hidden/6144.html>

⁹ *Ibid.*

¹⁰ http://www.acea.be/index.php/country_profiles/detail/germany

¹¹ *Ibid.* Please also refer to <http://www.aae-press.ru/0050/art004.htm>

year increased by 2,4%, *i.e.* up to RUB 192,1 bln.¹² In 2008 *AvtoVAZ* sold 640.000 cars of *Lada* brand in the internal market. The following year, the sales proceeds of the largest Russian manufacturer of motor vehicles decreased by 47% comparing with 2008, having comprised RUB 84,2 bln. pursuant to RAS [Russian Accounting Standards], whereas sales of motor vehicles went down to 354.000.¹³ Yet the company plays the role of local economic mainstay, provides tenth thousands of work places and ensures stability of the whole region. Besides, over 79% of inhabitants of Tolyatti City work for *AvtoVAZ*. No less than half of the municipal budget and 20% of the regional budget depend on the company.¹⁴

An extremely important role of *AvtoVAZ* makes the Government of the Russian Federation apply complex measures aimed at supporting local motor vehicle manufacturers. In particular, the company receives direct financial support from the budget which only in 2009 comprised USD 833 mln. according to the data published in *Za Rulem* journal¹⁵. Moreover, *AvtoVAZ* amongst other Russian automobile companies, enjoyed additional measures of support for national automobile manufacturers. Introduction of high 35% import customs duties on motor vehicles older than three years helped *AvtoVAZ* in its competition with cheap but old foreign cars. The program of utilization of cars older than 10 years also helped, primarily to this automobile giant from Tolyatti. Preferential crediting program played an important role as well. Dozens of billion roubles were spent from the budget for support of the two aforementioned programs¹⁶.

Growth of world prices for oil and other traditional goods of the Russian export during 2010-2011 increased consumer capacity of the Russian population, which had a positive impact on the demand in automobile industry products. For the Russian car market, the year 2011 was the most successful after the crisis. The volume of sales increased by 40%, which is in quantitative terms 2,5 mln. new cars. Proceeds of the automobile manufacturers jumped up by 70% and comprised USD 58,9 bln.¹⁷ *AvtoVAZ* succeeded in improving its position against the overall improvement of the situation in the market. Following the results of 2011, the company sold about 74.000 cars and car sets; of them, about 575.000 were sold in the internal market. This is the highest volume of sales of *AvtoVAZ* in Russia during the last three years¹⁸. Overall, under the utilization program, 52% of *VAZ* motor vehicles were sold only in January 2011.

Russia's accession to the WTO will have inevitable impact on the development of local automobile industry and automobile market. The most serious changes are expected in the area of customs regulation. The rate of import customs duty will be reduced from the existing 25% down to 15%. Such a decrease will take place during a seven-year transition period.¹⁹ The major reduction of the tariff will take place during the last year of the aforementioned transition period. Thus, the level of protection of the local market will be at a quite high level sufficiently long. However, it should not be anticipated that due to reduction of the customs duty, all imported cars will become cheap at once.

Moreover, import customs duty rates for motor vehicles of three to seven years of age are planned to be reduced from the present 35% down to pre-crisis 25%. Specific element of the customs duty will also be reduced from EUR 1,2 to 2,8 per each cm³ of volume of engine down to EUR 0,7 to 1,6. This raises serious concerns. According to Viktor Khristenko, the Minister of Industry and Trade until recently, named local automobile industry alongside with the agriculture as the "major victims" of accession to the WTO.²⁰

As if confirming the above forecast, the largest local automobile manufacturer had to reduce its volumes of sales in Russia. During the first month of 2012, the volumes of sales decreased at once by 21,4% comparing with the same period in 2011 and comprised 29,034 cars as was announced by the press service of the company. Decrease of sales volume is caused by the reduction in production of the outdated and the

¹² <http://ria.ru/economy/20090924/186316412.html>

¹³ <http://ria.ru/economy/20090924/186316412.html>

¹⁴ <http://www.lada-largus.com/avtovaz/future-autovaz.html>

¹⁵ <http://www.zr.ru/a/314309/>

¹⁶ <http://protown.ru/information/hide/6144.html>

¹⁷ <http://www.autonews.ru/autobusiness/news.shtml?2012/02/24/1721770>

¹⁸ <http://www.lada-auto.ru/topnews.xml>

¹⁹ http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm

²⁰ http://old.autostat.ru/news_Eng.asp?t=1&n=11082

cheapest family of *Lada 2107* and the completion of the utilization program, which during the last year had substantial impact on the whole automobile market.

Changes in the procedure of execution of agreements on industrial assembly regime should also be expected as they are inconsistent with WTO TRIMS in terms of limitation of rights of foreign investors, *i.e.* imposing on them a specific level of localization. At the same time, it would not be possible to reduce or abolish duties or taxes for imported spare parts and assemblies for such enterprises. The validity term of the earlier executed agreements on industrial assembly regime will also be reduced by 2020.

Companies operating in Russia perceive challenges related to WTO accession in different way. For instance, *AvtoVAZ* is seriously considering prohibiting all its workers to come to work by cars of third party brands.²¹ Besides, since this year, the company for the first time during the 20-year period ceased purchasing locally-produced steel sheet for manufacturing its cars. This way, *AvtoVAZ* tries to save money but deprives *Novolipetsky Metallurgic Factory* and *Magnitogorsky Metallurgic Factory* of their shares in the market.

Manufacturers operating in the Russian market pin their main hopes on the market capacity. Average age of cars in Russia is 11,8 years. At the same time, average age of foreign cars is substantially lower, namely, 8,4 years, whereas the fleet of local cars is almost twice older, namely 14,8 years. Almost one-third (32,2%) of cars manufactured in Russia is over 20 years of age, whereas amongst foreign cars this indicator amounts to only 11,4%.²²

Moreover, the average number of cars per capita is far from the world indicators. For instance, in our country, one car is registered per four individuals; and in Germany, per two individuals. In the U.S., the largest automobile empire in the world, 765 cars are registered per 1,000 individuals.²³

Given the above, perspectives of growth are obvious. Despite possible decrease of Russia's attractiveness in terms of re-allocating industrial assembly factories thereto, the Russian market capacity is still sufficiently appealing.

²¹ <http://auto.mail.ru/article.html?id=36446>

²² http://www.autonews.ru/automarket_news/index.shtml?2012/02/17/1721051

²³ <http://www.ft.com/cms/s/0/85230a82-063c-11e1-a079-00144feabdc0.html#axzz1oDXIGAoF>

Commitments of the Russian Federation in the Area of Trade in Agricultural Products

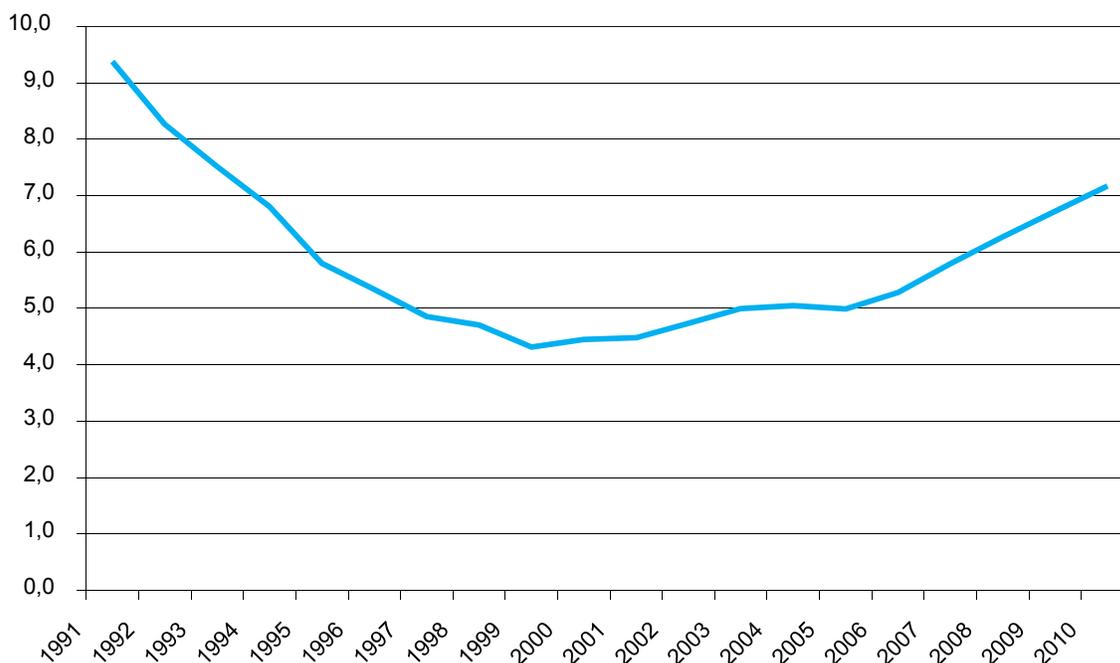
General Terms of Access to Agricultural Market

Negotiations on agricultural market access resulted in agreement pursuant to which upon completion of the transition period, the average rate of import duty shall be 10,8% comparing with the current 13,2%.²⁴ It should also be noted that Russia reserved a possibility to apply tariff quotas in agricultural products trade. These will cover trade in pork, beef, poultry, and some types of cultured milk products.

The most sensitive goods, the local production of which may suffer the most from liberalization of trade rules under the WTO accession, are meat and meat products, milk products with long shelf-life (cheese, dry milk and etc.), rice, sugar, and seasonal vegetables. Prior to accession to the WTO, these goods enjoyed the highest protection through tariff customs regulation. For example, a fairly high level of protection for producers of meat allowed overcoming the decline in domestic production, observed since the collapse of the Soviet Union and the peak of the crisis which was 1998 - 1999 years.

Currently, the production of meat and meat products in Russia has exceeded the level of the early 90's and was 7.5 million tons in 2011. The import in the same year amounted to 2.7 million tons.

Figure 1. Production of livestock and poultry (dressed weight), 1991-2010 years. (farms of all categories, millions of tons)



Source: constructed from data http://www.gks.ru/bgd/regl/b11_38/lssWWW.exe/Stg/05-06.htm

²⁴ http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm

Now, Russia's food market will be substantially open for inexpensive cheese competing with local ones (price threshold upon which the duty on cheese shall not be applicable has been reduced virtually twice); duties for dry milk will be reduced from 25% to 15 %.

Nevertheless there are still issues which remain open for representatives of the milk industry. These issues relate to quality control and technical regulations. Russia practices stricter requirements to microbiology, antibiotics content and a number of similar positions comparing with many foreign countries. WTO members in a number of cases can consider them excessive and may attempt to dispute them.

The situation with the future of rice growing also raises serious concerns. The duty protecting the industry must be reduced almost three times (from EUR 120 per ton down to EUR 45). As a result, the Russian market may be flooded with cheap and relatively low-quality rice. This may cause significant negative consequences and a need in solving social problems of habitants of territories and regions, who live and work on lands suitable exclusively for growing this type of crop. Table 2 shows a sharp increase in imports of agricultural products.

The growth of imports of agricultural products during the period from 2001 to 2010.

	The growth of imports in 2001-2010. Once	Imports in 2010, bln.USD
All products	5,9	248,7
Agricultural products	3,9	33,8
Live animals	18,2	0,3
Oil seeds and oleaginous fruits	11,8	1,0
Vegetables	11,2	2,3
Trees and flowers	10,0	0,8
Fish	9,6	2,0
Fruits and nuts	8,0	5,5
Flour	5,5	0,7
Dairy products and eggs	5,2	2,1
Cacao	4,9	1,3
Poop	4,5	1,0
Beverages and alcohol	4,1	2,2

Source: compiled from the database of foreign trade statistics of the World Trade Center (Intracen). www.trademap.org

Domestic Agricultural Support Measures: Challenges and Perspectives

The issue of domestic agricultural support has been a priority issue in Russia. Ultimate outcome of the negotiation process characterizing the value of maximally allowable level of state support of agriculture²⁵ can be presented as follows: USD 9 bln. during 2012-2013 with further decrease down to USD 4,4 bln. in 2018.

²⁵ The effective WTO rules impose restrictions only on those types of state support which distort "normal course of trade". Under the WTO classification, these types of state subsidies refer to measures under "amber box". The allowable volume is fixed per each member of the organization in the form of aggregate measurement of support ("AMS").

These funds may be spent for state compensation of some costs of agricultural producers for fuel materials, support of high procurement prices and low rates of “agrarian” loans, etc.

In fact, Russia's commitments to reduce AMS to USD 4,4 bln. correspond to the rate of the basic period of 2006-2008. Immediately upon accession, the state may increase the level of such support. Such a non-standard approach was linked by WTO members with the fact that Russia guarantees to preserve the existing correlation of various types of support during the transition period. In particular, the share of product specific support (*i.e.* bound on a specific good) and the share of non-specific product support will not exceed 30%.²⁶ According to specialists, the concentration of support has never exceeded 15% to 16%. This level, in general, corresponds to the average indicator of such correlation stipulated in the draft state program “Development of agriculture and regulation of agricultural products/markets, raw materials, and food products for 2013-2020.”²⁷

It should be noted that to determine the maximum level of support in the amount of USD 9 bln., Russia relied on indicators for 1993-1995 in its calculations. It was this period when debts of agricultural producers were written-off on the eve of 1996 elections which was then included into the summary value of support. Dmitry Rylko, director of the Institute for Agricultural Market Studies, notes that the only risk arising from arrangements with respect to volumes of support lies in possible budget limitations.²⁸ In other words the issue is whether the state would be able within the coming years to increase funding of “amber” box measures to the agreed level of support.

WTO accession will contribute to changes in the structure of state support on the Russian agriculture. Significant opportunities are provided by the “green box” measures as the value thereof in the WTO is not set. Tools of such support may be applied actively and in flexible manner: subsidies for land processing, seeds procurement, construction of new facilities, installation of energy saving equipment, development of logistics, as well as of production and social infrastructure facilities in rural areas. These measures serve as an incentive for improvement of production efficiency in agriculture, provide a possibility to work for long-term perspectives, whereas direct subsidies only keep the farms afloat and are applied as emergency measures. Transformation of the structure of state support to the Russian agriculture will allow Russia to refuse the destructive practice of subsidizing interest rates under loans, and prevent a possibility to take loans for fictitious business plans. It will also give an impulse to the production development.²⁹

Perspectives of Export of Russian Agricultural Products

Some experts forecast that upon accession to the WTO, Russia will cooperate more closely with the so-called Cairns group uniting the largest exporters of food products (Australia, Canada, Argentina, Brazil, New Zealand, and others). Russia has all grounds to actively position itself in this area.

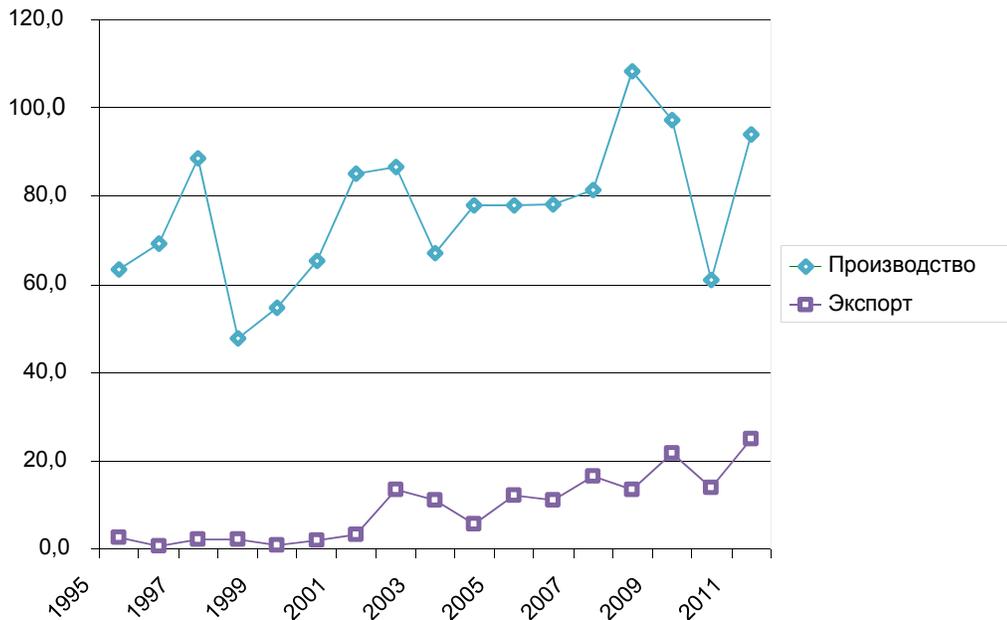
²⁶ Brazil, one of the largest exporters of meat in the world, insisted on this issue being concerned that Russia will concentrate on support of this particular livestock breeding sector.

²⁷ Documents of the Ministry for Economic Development of the Russian Federation, “On Russia's Commitments on Market Access for Goods”, <http://www.tpprf.ru/ru/wto/>

²⁸ [All “flags” will visit us, Business Journal (Moscow)] Business Journal (Moscow) Issue No. 12, 2011 <http://www.ibusiness.ru/blogs/15971>

²⁹ [Russian newspaper, Economy, Agrarian-Industrial Complex] Issue No. 5479 (103)

Figure2. Production and export of grain in Russia, 1995-2011, mln.tons



Source:http://www.gks.ru/free_doc/doc_2012/rus12.pdf, http://www.gks.ru/bgd/regl/b11_38/lssWWW.exe/Stg/09-02.htm

Figure 2 shows, in particular, growth in exports of wheat from the Russian Federation. Accordingly, further facilitating access to markets will contribute to strengthening the position of Russian producers. In the current agricultural year, supplies of Russian grain to the world market are forecasted to be 25 mln. tons. According to some preliminary forecasts, WTO membership will allow Russia to increase its export by 15% to 17% during the next year.³⁰

Consequences of Liberalization in Agriculture for National Meat Product Producers

An important achievement of Russia during negotiations is retaining the same volume of quotas for poultry and beef. Russia will control import of poultry and beef during indefinite period of time and import of pork until 2020. According to the WTO accession terms, the following size of duties shall be established: 15% for beef within the TRQ and 55% outside the TRQ. Upon abolishment of the quota, the flat tariff rate of 27,5% shall be applied. For poultry, the rate shall be 25% within the TRQ and 80% outside the TRQ. Upon abolishment of the quota, the common customs tariff rate of 37,5% shall apply. Duty on pork within the TRQ shall be subject to decrease from 75% to 65%. Starting from 2020 after abolishment of quota, the common customs duty in the amount of 25% shall be applied. The duty shall be reduced from 25% to 15% for import of meat products (salted pork fat, sub-products, etc.). It should be especially noted that there is a sharp reduction of the duty rates on live pigs imported into Russia from 40% to 5%, *i.e.* eight times, from the date of Russia's accession to the WTO.

Consequences of WTO membership for producers of meat and meat products are ambiguous. A favorable situation is observed in the poultry market as it has good protection and the share of import may comprise not higher than 10%. According to the majority of experts, under the current conditions, further development of the most rapidly growing industry, *i.e.* pig breeding, may be threatened. The market participants forecast that with the decrease of duty for import of live pigs into Russia, a record number of animals, over 1,000,000 heads, will

³⁰ [Sufficiently Strong for WTO] [Dostatochno silny dlya VTO], Expert Issue No. 46 (779), November 21, 2011)

be slaughtered. As a result, the volume of pork jointly with the supplied sub-products may constitute 1mln. tons.³¹

The volumes of import of meat products remain the same (the level of 2010-2011) but at significantly lower prices. Return of the size of customs duties for pork sub-products from 25% to 15%, as was mentioned earlier, is another unfavorable term for the industry. At present, about 500,000 tons are imported under these commodity positions and this volume is comparable with the volume of import of pork subject to quota. Increase of production volume of local pork also means increase of the production volume of local pork fat, which will lead to oversupply of the market, and may damage the industry.³²

Access of the so called "high-quality" (*marbled*) beef to the Russian market may entail serious negative consequences.³³ Before, the beef was imported at out-of-quota rate, but was subject to 15% in-quota duty. Now "high-quality" beef does not fall under the regime of tariff quotas and is imported at the rate of import duty of 15%. Several years ago, the minimum price for such beef was increased from EUR 3 to 8 per kg, which had been the greatest victory of the meat industry. Now, it will not be allowed to apply this measure for beef imported from US, Canada, and Argentina. It may be anticipated that such a decision will also extend to other countries. Exporters acting in bad faith will have a possibility to import into Russia regular beef cuts and even trimming³⁴ as "high-quality" beef at dumping prices.

Given the above, it may be said that comparing scales of state support for meat production in Russia and abroad, WTO accession terms are accompanied by serious threats to Russian producers of meat products. It is also obvious that small and medium-sized enterprises will experience the biggest difficulties in adapting to new conditions. Large agri-holding companies and modernized enterprises thus have more opportunities in this regard.

³¹ «Коммерсант» [Kommersant] http://www.rgwto.com/reference.asp?doc_id=57948

³² WTO: Каких изменений нам ждать? [WTO: What changes should we expect?] [VTO: Kakih izmeneniy nam zhdat'?] <http://www.myaso-portal.ru/stati-Itervju/vto-kakikh-izmeneniy-nam-zhdat/>

³³ A beef shall considered to be of high quality is produced from animals not older than 30 months, of which they have received balanced food during 100 years. Such category will include meat designated as "choice" and "prime". For instance meat with choice or prime designation assigned by the U.S. Department of Agriculture or Canada A, Canada AA, Canada AAA or Canada Prime from corresponding certificate authorities Canada..

³⁴ Mechanical boning, pressed, frozen.

Russia's Commitments in the Area of Trade in Services

Russia's commitments in services cover 116 sectors. The depth of commitments varies by sector and mode of supply. In some sectors, transition periods are established; exclusions from the non-discrimination regime are also stipulated in a number of areas. Yet in some cases, additional commitments (for instance in such maritime transport services as pilotage, ice-breaking services, towing, tug assistance, etc.) have been undertaken. Representatives of foreign companies are not allowed to carry out any commercial activity, including supply of services.

Russia has also reserved a possibility to provide subsidies to service suppliers, only legal entities of the Russian Federation. This is stipulated in horizontal commitments of the country. Commitments in terms of subsidies and other forms of state support related to research and developments and services supplied to the state sector have not been undertaken. Commercial presence through participation in privatization can be limited. Foreign ownership of agricultural lands and lands of bordering territories is prohibited (lease of land plots for the period up to 49 years is allowed).

In the area of telecommunications, guaranteed subscription of users shall be ensured on non-discrimination terms. Commercial presence is allowed only in the form of a legal entity of the Russian Federation. Total share of foreign participation in the charter capital of traditional operators should not exceed 49% during the period which should not exceed four years from the date of Russia's accession to the WTO. Certain limitations to national treatment and most-favored nation treatment have been established. For instance, with respect to cross-border trade transition periods to liberalization are established with respect to fixed satellite communication services.

In the area of audiovisual services, commitments have not been undertaken with respect to the third and fourth modes of supply on sale of television and radio programs to television and radio stations. In wholesale trade under the first mode of supply, the state reserved the possibility to introduce non-discriminatory state monopoly over ethyl alcohol, alcoholic and alcohol-containing products. Russian services suppliers in higher education area are well protected: the state has not undertaken a commitment of liberalization under commercial presence mode of supply.

General Overview of Financial Services Sector Development in Russia

Financial services sector in modern Russia is comparatively young in terms of its development, as the range thereof in the USSR had been extremely narrow and such services had been provided by state companies — monopolists (for instance, Savings Bank of USSR in the area of retail banking services, *Gosstrakh* [State Insurance] of the USSR in the area of property insurance, etc.). Instability, crises, and economic decline in 1990s as well as negative consequences of radical market reforms resulted in mistrust toward banking, insurance, and other financial institutes formed during this decade. As a result, such institutes have become widely developed only in 2000s.

However, the growth of the Russian financial sector in 2000-2008 was interrupted by sharp collapse of stock-exchange value of securities, and reduction of the financial services market during the second half of 2008 until the first quarter of 2009. Total capitalization of Russian companies for the period from May 2008 until March 2009 reduced by over three-fourths (PCT index fell from its peak values of May, 2008 to the level of mid-March, 2009 and comprised approximately 80%).³⁵ Outflow of funds from the banking system was reasonably deterred only by introducing a system of state guarantees for deposits. Collapse of the market of inter-banking crediting was overcome by interference of the Central Bank and granting liquidity through the three leading state banks (*Sberbank Rossii* [Savings Bank of Russia], *VT,B* and *Gazprombank*). These and

³⁵<http://quote.rbc.ru/exchanges/online/rusindex.0/RTSI/intraday?show=intra>, last visited on April 5, 2012.

other measures of Russian financial regulators, as well as general improvement of the situation in the world economy in 2010-2011, allowed the financial services sector to restore its activity with minimum losses.

Given the above, the Russian sector of financial services may be characterized as being at the initial period of development. National companies — suppliers of services — have not reached the level comparable to the scale of the economy, whereas the truly large actors are organizations that inherited substantial assets during privatization, or fully or partially owned by the state (for instance Savings Bank OJSC with bifurcated infrastructure of retail banking services, *Rosgostrakh* Company, and others).

Such a conclusion acquires a special role in the light of Russia's accession to the WTO. Negotiations on the financial services sector under the WTO typically are not an easy exercise. This relates primarily to the special role of financial sector in the economy (in particular, its special value for the national economic security). Therefore, preservation of many national limitations have been maintained with respect to foreign suppliers of such services is characteristics for the world market of financial services. The total number of limitations to the market access and national treatment existing in the world trade in financial services in mid 1990s, prior to adoption of arrangements on liberalization of financial services under GATS, exceeded 11,000. Of them, over 8,000 or over 70% were in the area of banking and related services.³⁶

Apart from the above, in the world market of financial services, the level of trade liberalization by the end of 1980s varied for specific groups of states. In the industrially-developed countries, trade limitations were almost abolished. Therefore, for them, the measures stipulated in GATS meant mainly fixation of the then existing comparatively high level of liberalization.

According to the classification adopted in the WTO, financial services are divided into five major types:

1. Insurance services;
2. Re-insurance and other types of insurance services;
3. Banking services;
4. Brokerage services;
5. Other intermediation services related to securities transactions and other stock-exchange transactions (consulting, clearing operations and organizing issue of securities).

It is commonly known that various types of such kind of services have different values for a national economy (Russian economy in the case under consideration). For instance, insurance and re-insurance services, especially those relating to entities engaged in foreign economic activity have "infrastructure" value to a lesser extent and thus are of lesser priority for the regulators comparing with the "system-forming" banking services.

The share of foreign suppliers of services in various sectors of this industry also differs. In the banking sector, the role of Russian banks is high, especially corporate banking. Whereas in retail crediting, the share of Russian and foreign banks is about 60% comparing with 40% of non-residents. In other segments, including credit servicing of legal entities, the local bank structures occupy up to 80% of the market³⁷. "Natural" advantages of the Russian banks with the state participation (reputation, broad branch network, access to cheap funding provided by the Central Bank) play a huge role in this.

In general, the Russian negotiators in the course of accession to the WTO succeeded in retaining the set of protection measures that existed since 1990s for this no less important sector of Russia's economy for the aforementioned five segments of financial services sector. Nevertheless, for various types of services under

³⁶ Khandruev A.A., *Иностранный капитал в банковской системе Российской Федерации: тенденции и перспективы* [Foreign capital in the banking system of the Russia Federation: Tendencies and Perspectives] [Innostrannyi kapital v bankovskoi systeme Rossyiskoi Federatsii: tendentsii i perspektivy], Portfolio Investor, Issue No. 6, 2008.

³⁷ Rachenkov Ilya. *Россия на пороге ВТО, «Российская газета»* [Russia is on the door-step of the WTO] [Rossia na poroge VTO] [Rossyiskaya gazeta] <http://www.rg.ru/2011/11/02/vto.html>, last visited on April 5, 2012.

consideration effect of new terms arising during accession to such an authoritative international organization varies. This is confirmed by the opinions of industry experts.

Insurance Services Sector in the Light Of Russia's Accession to the WTO

The insurance sector is one of the less developed segments of financial services industry in Russia. The average size of insurance premium (about USD 100, much lower than the one in the developed countries) and the range of widely-used insurance products are relatively small. The most popular is liability insurance, primarily MTPL, the introduction of which, in the opinion of the regulators, served as a stimulus for development of national suppliers of insurance services in the 2000s. Insurance of property is developing relatively actively which is to a large extent caused by the existence of such type of insurance services during the Soviet period. At the same time, personal insurance is less developed (only medical and pension insurance received impulse for development, thanks to the efforts of the state), insurance of financial risks, title insurance, insurance of agricultural risks. Poor institutional capacity of Russian insurers often relying in their marketing policy on "gray" schemes of work of insurance agents and brokers, especially when working with corporate clients, should be especially noted.

Given the above, the anticipated expansion of a number of the market participants represented by foreign insurance companies related to WTO accession is justified. Possible improvement of the quality of such services due to improvements of marketing and internal management of companies operating in this sector is worth noting. A decision not to liberalize a number of sub-industries is also a correct one. For instance, state procurement insurance will enjoy protection even upon expiry of the transition period of nine years stipulated in the Protocol on the Accession of Russia to the WTO. The process of improvement of the role of foreign insurers may, in the opinion of the Minister of Finance of Russia, Anton Siluanov,³⁸ lead to substantial decrease of the cost of insurance services.

The effect of WTO accession on re-insurance can be assessed in the same way. This type of services initially non-developed in the Russian market will only benefit from expansion of the foreign players in the market, having not only required competences in this area, but also a possibility to work with large financial resources. It could be added that development of re-insurance is of benefit primarily for Russian companies operating in financial services sector. With respect to insurance consulting and actuary services, restrictions to the market access are justifiably absent.

Banking Services upon Russia's Accession to the WTO

The area of banking services in Russia, as is mentioned above, has specific structure whereby large banks with state participation dominate. Yet large private banks derive significant part of its revenues from servicing financial flows of state and semi-state structures. This fact explains the close relations of the top management and owners of large banks and the state, thus defining the power of the banking lobby existing in Russia. In all fairness, it is noted that large banks in the majority countries of the world have the same lobbyist capacities. This circumstance as well as infrastructure value of the banking system for the national economy was the reason for active protection of national suppliers of banking services during the WTO accession negotiations. At the same time, it should be once again noted that large Russian banks with state participation have a number of important competitive advantages both before small private banks and foreign participants of the local banking services market.

Russia's accession terms to the WTO stipulate for restriction on participation of foreign capital in the national banking system at the level of 50% and extend regime of regulation of the local banking sector to foreign entities operating in the sector, which is rather strict in the opinion of the market experts and managers of large credit organizations. In this regard, no cardinal changes of the landscape of the banking system of the

³⁸ Fomchenkov T.A. Без страха: Вступление в ВТО удешевит страхование [Without Fear: Accession to the WTO will Make Insurance Cheaper] [Bez strakha: Vstuplenie v VTO udeshevit strakhovanie], Rossiyskaya gazeta (Stolichnyi vypusk), Issue No. 5664 of December 22, 2011, <http://www.rg.ru/2011/12/22/vto.html>, last visited April 4, 2012.

Russian Federation are anticipated (for instance, in the area of retail banking services, the position of foreign players is sufficiently strong) although in a number of segments, the competition will inevitably increase.

One of such segments is investment banking. Despite the fact that managers of the Russian investment banks evaluate competitiveness of financial companies thereof at the level of "higher the average in the banking industry,"³⁹ this segment of financial services has not been developed yet largely due to insufficient capacities of other organizations of the financial sector (primarily insurers and non-state pension funds) to accumulate the required volumes of large financial resources. In this regard, expansion of participation of foreign players in the given segment, especially considering our existing experience, may change the alignment of forces in the area of investment banking in Russia.

Brokerage and other Intermediation Services upon Russia's Accession to the WTO

The last type of financial services discussed in this article covers brokerage and other services related to transactions at the trading floors and assets management, sale, and purchase of securities. This segment is the most inclusive into the global system of financial transactions; the level of globalization here is the highest among sub-industries of the financial services sector as the majority of transactions are of trans-boundary nature. Liberal operations mode of this type of services is its endemic/natural feature, therefore its regulatory rules; including WTO rules that do not play an important role. Nevertheless, insufficient level of development of local suppliers of relevant financial services, as well as the importance of this industry for financial sovereignty of the country contributed to aspiration to restrict participation of foreign owners in the capital of the companies, professional participants of the securities market by maximum 25% rate. This is also applicable to companies operating stock exchanges. Overall, participants of this market expect increase of competition from foreign actors.

At the same time companies working in this segment will likely to benefit from WTO accession due to increase of demand in such type of financial services. Expansion of participation of the foreign capital in the Russian economy will inevitably result in growth of total capitalization of securities market and will cause increase of earnings of the companies acting as financial mediators.

Given the above, the following conclusion can be made: accession of Russia to the WTO will not lead to cardinal changes in financial services area due to various reasons. Nevertheless, at the levels of certain segments of this industry, specific important changes related to expansion of participation of foreign companies in the local market are possible. The undertaken review demonstrates that in general, such changes will likely to have positive rather than negative impact on this services sector.

³⁹ The information has been received during the interview conducted by the author with KIT Vice President Finans IB, Virko I.Yu. on March 15, 2012.

Reform of the National Economy in the Run-up to WTO Accession

Key Reforms in the Russian legislation Related to the WTO Accession

Implementation of reforms in connection with Russia's accession to the WTO can be conditionally divided into two major groups:

1. Improvement of the national legislation; bringing thereof into compliance with the norms and rules of the WTO;
2. Reforms required for successful participation of Russia in the WTO as a full-fledged member.

The first group of reforms was implemented at the stage of active negotiation process and included development or improvement of a number of laws in various areas of economic activity. Discussions and ratification of a number of important legislative acts took place during this period. These acts include in particular:

- FL No. 165 "On Safeguards, Antidumping and Countervailing Measures Applied to Import of Products" dated December 8, 2003;
- FL No. 173 "On Currency Regulation and Currency Control" dated December 10, 2003;
- FL No. 164 "On the Fundamental Principles of State Regulation of Foreign Trade Activity" dated December 8, 2003;
- FL No. 126 "On Communication" dated July 7, 2003;
- FL No. 144 "On introducing Changes to the Law of the Russian Federation on Customs Tariff" dated November 8, 2005;

Adoption of Part IV of the Civil Code covering the issue of protection of intellectual property rights means of individualization, etc. The majority of these documents were adopted in 2003. Only Part IV of the Civil Code was adopted in 2008 impeding to a certain extent the country's accession to the WTO⁴⁰.

Reform of Russian Institutes in the Context Of WTO Accession

The second group of reforms relates to the formation of institutes allowing the country firstly to use efficiently its membership in the WTO in standing for its interests and secondly to minimize possible negative consequences of the accession and collisions, which may arise in connection with intentional or non-intentional violation of the WTO rules. The process of formation of these institutes did not end with the signing of documents on Russia's accession to the WTO.

These measures must be directly aimed at establishing bodies, which through public-private partnership could represent interests of the Russian business in the WTO. This in particular relates to application of trade dispute resolution mechanism under the WTO. It is unlikely that Russia will exercise the mechanism at once. Yet improvement of such institutes, identification of the scope of activities thereof, their methods of interaction with representatives of national industries will, if required, substantially decrease costs of WTO dispute resolution mechanism.

⁴⁰ By the time of adoption of Part IV of the Civil Code, Russia had legislation aimed at protection of intellectual property, which was consistent with the WTO requirements. New initiatives, as was anticipated, caused many questions from member countries of the Working Party on Russia's Accession to the WTO. Review of the new law for compliance with the WTO rules took about 1.5 years.

The Government must propose various schemes of interaction with businesses in terms of protection of interests of a number of industries that would be stipulated in WTO rules. Under the framework thereof, meetings with entrepreneurs are held where corresponding mechanisms are developed. We are of the opinion that these meetings are not of systematic nature, held occasionally and do not relate to implementation of a clear schedule of activities aimed at preparing the country to participate in the activities of the WTO.

On a separate note, it should be noted that starting from the moment of filing application with GATT, in 1993 the Inter-state Commission under GATT was formed in Russia, which was then restructured into the Inter-agency Commission of the Government of the Russian Federation on the issues of World Trade Organization.⁴¹ Following the intentions of the founders of the Commission, its goal was to develop activities and coordinate work of federal executive authorities on the participation of the country in WTO activities, development of proposals on introducing changes and clarifications into the mechanism of foreign economic relations of the Russian Federation, laws of the country, etc.⁴² However its real work is criticized by the experts. Insufficient involvement of the Commission into systematic consultations with local producers is stated to be a serious deficiency in the Commission's work,⁴³ which may result in significant errors during the trade policy development.

A concept paper was developed stipulating measures and tasks, which need be solved in connection to WTO membership in order to enjoy all benefits of Russia's participation in the WTO work. Areas which, pursuant to the concept paper, should be focused on include, *inter alia*, the following:

- Improved access of Russian goods and services to the external markets through assistance to Russian export under the norms and rules of the WTO.
- Participation in drafting new rules of international trade at multi-lateral trade negotiations;
- Implementation of the country's interests in protecting intellectual property rights;
- Use of the work of the Trade Policy Review Body in the interests of the country;
- Exercise of WTO membership in research and development and training of specialists.

Implications of WTO Membership for Russian Internal Taxes

Pursuing the goals of liberalization of international trade, GATT/WTO system, especially at the initial stages of its functioning, consistently focused on reduction of import duties. As tangible success has been achieved in solving this task, more attention is given to those tools of economic policy which may be used for artificial decrease of competitiveness of foreign products as long as they have crossed the customs border.

A prominent role among such tools of economic policy belongs to internal taxes. It should be especially noted that the states traditionally attempt to preserve what is called tax sovereignty. Nothing resembling the import tariff binding can be discussed in this case. At the same time, WTO rules stipulate for specific restrictions in this area. In particular, this issue is covered by Article III of GATT, National Treatment of Internal Taxation and Regulation.

It is important to bear in mind that the second of the two regimes, alongside with MFN, ensuring compliance of the key principle of the WTO system, notably, the principle of non-discrimination, which is national treatment (NT), does not prohibit granting various types of preferences to the imported products. As is known, the local practice demonstrates such kind of measures in the mid 1990s.

⁴¹ Resolution of the Government of the Russian Federation No. 17 as of January 12, 1996.

⁴² Regulation on Inter-Agency Commission on WTO Issues, Article 1 (as amended on January 12, 1996).

⁴³ Portansky A., Россия и ГАТТ/ВТО: от послевоенного разрыва к стратегии участия в XXI веке [Russia and GATT/WTO: From Post-War Break to Strategy of Participation in 20th Century] [Rossia i GATT/VTO: ot poslevoennogo razryva k strategii uchastia v XXI veke]. LAP Lambert Academic publishing, 2011.

WTO norms and rules are related not only to indirect but also to direct taxes. This is explained by the fact that under specific circumstances, application of direct taxes may result in the same economic consequences as use of tariff measures of trade regulation and a number of non-tariff measures. WTO Agreements directly covering the issues of direct taxation include Agreement on Subsidies and Countervailing Measures, Agreement on Agriculture, Agreement on Trade-Related Investment Measures (TRIMs) and General Agreement on Trade in Services (GATS). We will consider in detail some of them.

As is known, forms of financial aid by various levels of state authorities for their economic entities are quite diverse. Many of them are interpreted by international trade rules as subsidies. Apart from direct remittances in the form of donations and loans, this category includes also tax preferences.⁴⁴ In this case, the Government refuses from all or part of its revenues in favor of a taxpayer. Agreement on Subsidies and Countervailing Measures establishes sufficiently strict rules distinguishing prohibited subsidies, "giving grounds for adoption of measures"⁴⁵ and "not giving grounds for adoption of measures".⁴⁶

The former include export subsidies in the form of "full or partial exemption, decrease or delay in payment of direct taxes". The term "direct taxes" means wage tax, profit tax, tax on interest rates, rent fees, royalty and other forms of income, as well as real estate tax".⁴⁷ All this should be taken into account especially given the fact that use of taxes as efficient tool of industrial policy in our country traditionally finds a large number of supporters from various groups of the society.

Agreement on Trade-Related Investment Measures found its place in the WTO package of documents in a logical way. At first instance, it has no relation to the tax area. However, among other prohibited measures, the Agreement names voluntary and formal steps undertaken by economic entities on trade restrictions, "observance of which is required for receiving preferences",⁴⁸ including tax preferences.

With respect to GATS in the context of the issue under consideration, the third and fourth modes of services supplies to the international trade channels are of interest. In fact, in both of the cases, service supplier renders services being in the country of residence of a consumer and in the majority cases it acts as a tax payer. Although the concept of "national treatment" stipulated in GATS does not have universal nature as in GATT, the problem of compliance with non-discrimination principle not only with respect to the origin of the service but also its supplier does exist. Such non-discrimination should generally cover taxation area as well.

⁴⁴ This case implies not only direct, but also indirect taxes.

⁴⁵ "Measures" in this case means "countervailing duties" aimed at elimination of negative consequences of illegitimate subsidizing.

⁴⁶ In other words, state support of economic entities is not fully prohibited as is suggested by some. The state support is rather subject to a specific discipline.

⁴⁷ Results of Uruguay round of multilateral trade negotiations..." P. 259.

⁴⁸ Results of Uruguay round of multilateral trade negotiations..." P. 146.

Implications of Russia's Accession to the WTO for National Energy Industry

Tariff Regulation of Energy Resources upon Accession to the WTO

The agreement on Russia's accession to the WTO states clearly that accession to the WTO will not deprive Russia of the right to regulate tariff for gas and other energy products for the population, as well as set game rules in the services market.⁴⁹ The only restriction in tariffs for energy products agreed by Russia during WTO negotiations is a requirement that gas sales in the internal market for industrial consumers must bring profits. However, the country has been moving toward this goal in the past several years, therefore such a requirement has not been a surprise. As far as individual consumers are concerned, under conditions of accession to the WTO, the right to regulate tariff at its own discretion has been specifically discussed.

Moreover, as correctly states the Minister of Energy of the RF, S. Shmatko the Russian regions will retain the right to establish their own regional tariffs. The market of energy generation in the Russian Federation is liberalized. The federal center (Federal Service for Tariffs) establishes tariffs for federal sales company, whereas the regions have the right to establish tariffs for regional and municipal sales companies.⁵⁰

The regime of trade in energy products is not, or is poorly, covered under WTO. When GATT had been drafted, this issue was not a priority therefore GATT and lately WTO do not regulate the energy sector as a special sector.

Given the fact that the GATT 1947 provisions covered only trade in goods, electric energy was referred under the commodity category which had been afterwards reproduced in the WTO documents. Under the existing nomenclature, the electric energy was assigned 2716 code.⁵¹ Therefore, electric energy under WTO is defined as goods. The same provisions can be found in the European Energy Charter and the EU laws.

Situation in the Russian Gas Industry in the Run-Up to WTO Accession: General Characteristics

The world economic crisis had a deep impact on the Russian economy. According to specialists, the Russian economy suffered the most comparing with the economies of other BRIC countries.⁵² This in part relates to the fact that its status largely depends on export of energy resources, demand in which in the majority of traditional countries-importers substantially decreased during the economic decline period. It also depends on decrease of prices. Capitalization of Russian energy companies has also substantially reduced. In 2008, A. Miller stated in *The Financial Times* that within a short period of time, *Gazprom* will become the largest energy company in the world with capitalization at the level of USD 1 trln.⁵³ and prices for oil will reach USD 250 per barrel. However, capitalization of *Gazprom* significantly decreased whereas prices for oil are far from the record numbers of summer 2008.⁵⁴

⁴⁹ Please refer to Section, Pricing of energy: Producers and distributors of natural gas in the Russian Federation would operate on the basis of normal commercial considerations, based on recovery of costs and profit. The Russian Federation would continue to regulate price supplies to households and other non-commercial users, based on domestic social policy considerations. WTO: 2011 NEWS ITEMS. 10 November 2011.

⁵⁰ A number of developed countries, such as Canada, also establish tariffs for electrical energy. The National Energy Board, acting as independent federal agency, approves tariffs, including for electrical energy.

⁵¹ Please refer to The Harmonized System (HS) Nomenclature and the Convention on the Harmonized Commodity Description and Coding System.

⁵² On the impact of the crisis on the energy sector, please refer to Mankoff, Jeffrey. The Russian Economic Crisis. Council Special Report No.53. April 2010. Council on Foreign Relations, New York, 2010; Aslund, Anders. *Gazprom: Challenged Giant in Need of Reform*. In: Russia After the Global Economic Crises. Washington, D.C., 2010, p.152-166

⁵³ Crooks Ed, Hoyos, Carola. *Gazprom* chief sets out world vision. *The Financial Times*. June 26 2008.

⁵⁴ Belton, Catherine. *Gazprom* resists contract renegotiation. *The Financial Times*. June 10 2010

It seems that indicators for 2010-2011 provide no grounds for pessimism: upon the decline of the level of natural gas production in 2009, the gas industry virtually returned to its pre-crisis indicators. Gas production amounted to 650 bln. cubic meters, primarily due to increase of gas consumption within Russia as well as CIS countries. There are no doubts that putting into full operation a factory on the production of liquefied natural gas under *Sakhalin-2* project played an important role in this.

Nevertheless, the period from fall 2008 until 2010 raised many doubts regarding perspectives of the industry's development. Several significant challenges accompanied extremely unfavorable external market, which put *Gazprom* in a very difficult situation of uncertainty, which would be difficult to overcome in the opinion of representatives of the Russian Government (in particular, of line ministers). In spring 2010 one of the former managers of the energy complex of Russia, Y. Shafranik, complained that despite myriads of strategies on energy development, there is no complex program on the industry development in the country. Almost all its segments solve their problems at corporate (often operational and tactics) level; their approaches are not related to each other; the companies often solve tasks that need assistance from the state, etc.⁵⁵

Even more difficult problems relate to the issue of creation of transportation system, and construction of processing and chemical enterprises. It is obvious that such projects must be implemented at the level higher than the corporate one. Thus there was an urgent need to adopt a general scheme of location of oil and gas industries facilities in close connection with the development of enterprises from other industries. Taking into account the traditional rigidity of the management of the gas monopolist who is oriented toward long-term contracts and comprehensive support of the state, it is clear why analysis of the situation in this sector of the economy is so pressing given completion of negotiations on Russia's accession to the WTO.

WTO Factor in Gas Industry Development

Possible consequences for the energy (gas) sector of the Russian Federation upon accession to the WTO may be considered narrowly with respect to the following areas:

- a. the role of liberalization of energy products import;
- b. the role of liberalization of energy products export;
- c. reduction of import duties on equipment for energy companies;
- d. transport of energy issues

Each of the above is discussed in detail below:

a) The role of liberalization of energy products import

Acting as the largest exporter of energy resources (especially natural gas) and having excessive resource capacity of hydrocarbon raw materials, it is unlikely that the Russian Federation will, in the nearest future, import energy and fuel, except perhaps regions bordering on Kazakhstan. Current commitments of the Russian Federation on gas import from Turkmenistan are of bilateral nature.

b) The role of liberalization of energy products export

The main change in this case relates to export duties. Pursuant to the documents on Russia's accession to the WTO, export duties will be applied with respect to about 700 tariff lines. For hydrocarbons (crude oil and gas condensate) the formula based on the world price for crude oil shall be used. For instance, if the price is established at the level lower or equal to USD 109,5 per ton, the export duty shall not be applicable. However if the price exceeds USD 109,5 per ton, the following options of the formula may be used:

⁵⁵ Shafranik Yu. Место рождения. О путях эффективного развития российского ТЭК размышляет председатель Совета Союза нефтегазопромышленников России. [Place of Birth. Chairman of the Council of the Union of Oil & Gas Manufacturers of Russia contemplate about areas of efficient development of Russian HPC] [Mesto rozhdenia. O putyakh effektivnogo razvitia rossyiskogo TEL razmyshlyayet predsdatel Soveta Soyuza neftegazopromyshlennikov Rossii] Rosyiskaya gazeta, March 24, 2010.

Table 3

Formula for Export Duties on Oil

Wp – World Price, USD per Ton	Xd – Export Duty, USD per Ton	Formula Option
109,5 < Wp ≤ 146	$Xd = 0,35(Wp - 109,5)$	(1)
146 < Wp ≤ 182,5	$Xd = 12,78 + 0,45(Wp - 146)$	(2)
Wp > 182,5	$Xd = 29,2 + 0,65(Wp - 182,5)$	(3)

Source: Working Party on the Accession of the Russian Federation – Report of the Working Party on the Accession of the Russian Federation to the World Trade Organization. Commitments on Goods. PART V - Export Duties
http://docsonline.wto.org/imrd/gen_searchResult.asp?RN=0&searchtype=browse&q1=%28+%40meta%5FSymbol+WT%FCACC%FCRUS%FC%2A%29+&language=1

Export duty of 21%, *i.e.* not more than 40 EUR per ton, is established for natural gas (HS code: 2711 11 000 0); export duty on gas (HS code: 2711 21 000 0) is 30%. For about 50 tariff lines such as mazut, white spirit, aviation spirit, etc., the following formula will be applied:

$Xd = C * Xdco$, where (4)

Xdco – export duty on crude oil (calculated based on formulas 1 to 3)

C – coefficient

Xd – export duty on the given products

Depending on the type of goods 0, 0,66 and 1 shall be used as coefficient C. Various coefficients are established for the period from October 1, 2011 until December 31, 2014, and from January 1, 2015. It is worth noting that coefficient 1 shall be applied to some goods from this group starting from the beginning of 2015. Thus, upon completion of the transition period, the size of the export duty on these products will increase and coincide with the value of duty on crude oil.

The size of export duty on the 12 positions of hydrocarbon (natural gas for heating, ethylene, propylene, butylenes, butadiene, etc.) will depend on the average LPG⁵⁶ price at Brest DAF (Delivered At Frontier)⁵⁷ (Plpg).

Table 4

Formula for Export Duty On Liquefied Petroleum Gas

Price for Liquefied Petroleum Gas (Plpg), USD per Ton	Export Duty, USD per Ton	Coefficient	Formula
490 ≤ Plpg	$Xd = C1 * 490$	0	(5)
490 < Plpg ≤ 640	$Xd = C2 * (Plpg - 490)$	0,5	(6)
640 < Plpg ≤ 740	$Xd = 75 + C3(Plpg - 640)$	0,6	(7)
Plpg > 740	$Xd = 135 + C4(Plpg - 740)$	0,7	(8)

Source: Working Party on the Accession of the Russian Federation – Report of the Working Party on the Accession of the Russian Federation to the World Trade Organization. Commitments on Goods. PART V – Export Duties
http://docsonline.wto.org/imrd/gen_searchResult.asp?RN=0&searchtype=browse&q1=%28+%40meta%5FSymbol+WT%FCACC%FCRUS%FC%2A%29+&language=1

⁵⁶ LPG - liquified petroleum gas.

⁵⁷ "Delivery at Frontier term means that a seller supplied the goods when it delivered unloaded good passed through the customs clearance for export, but not for import on the arrived transportation vehicles into the disposal of the buyer in the designated point or place at the border prior to delivery of the goods to the customs border with the neighboring country. The term "frontier" shall mean any border, including border of the country of export. <http://www.tamognia.ru/incoterms/d/daf/>

As is shown in Table 4, if the price of liquefied petroleum gas is below USD 490, the export duty will not be applicable. The prevailing majority of all revenues from export duties in Russia fall on export customs duty for crude oil and natural gas. This circumstance makes us get back to the understanding that refusal of the country from such duties during its accession to the WTO would have been undesirable.

According to the official representative of *Gazprom*, S. Kupriyanov *Gazprom* will not feel direct effect from the expected accession of Russia to the WTO. "Today prices for gas are set by the state; in future, the prices will be set by the following price formula. The average price of gas supplies last year amounted to USD 308 per thousand cubic meters. Thirty percent of export duty and USD 15-20 transportation costs should be deducted from the aforementioned amount and we will receive the price which we will have in case of equal return," explained S. Kupriyanov. He further noted that the increase of domestic tariffs is unavoidable. "When the price increases, it makes you feel uncomfortable, yet it is unavoidable. We start working on more difficult deposits, more difficult areas for gas production, thus the price will go up. This is an objective statement: either gas will be more expensive or there will be lack of it", goes on Kupriyanov. "In the domestic market, the price for individual consumer will depend on the area and the pricing area. The price shall vary within the range up to USD 100 per thousand cubic meters. Tariffs for industrial enterprises will increase by 15%". According to Kupriyanov, Kamchatka will pay for gas twice less as "economically justified price turned to be very high and the state made a decision to reduce it".⁵⁸

Therefore, accession to the WTO should not entail serious implications for the business of *Gazprom*. State regulation of gas tariffs in Russia will be preserved even upon accession of Russia to the WTO (entry to equal return prices are not planned earlier than in 2015), whereas relations between *Gazprom* and Russian consumers will be arranged in the form of "standard commercial contracts" as it has been before. Export contracts of *Gazprom*, which give the monopolist about 50% of its proceeds, will not be affected as well. No special commitments on abolishment of export duties on pipeline gas are stipulated in the Agreement on WTO Accession. The desire of the WTO to limit the export duty on LPG from Russia (21%, but not more than EUR 40 per ton) is no longer urgent as at present export duties on *Gazprom* LPG from Sakhalin are not applied (instead, product-sharing agreement is used). For the future project, *Yamal* LPG the Government has already made a decision to establish zero export duty.⁵⁹ During visit to Russia, head of the International Monetary Fund (IMF), Ch. Lagarde also noted that no principal changes (including positive ones) for the economy of Russia, "which exports raw materials, i.e. oil and gas and imports finished products", are foreseen. The main controversy between *Gazprom* and European Union (EU), notably, entry into force of the Third Energy Package in the EU which differentiates businesses by production, transportation, and sale of gas, has no relation to the WTO.

However, Russia's membership in the WTO may have negative impact on the plans of *Gazprom* on the creation of clusters in gas chemistry. At the meeting of the 55th Council of the Russian Union of Chemists and Commission of RSPP [Russian Union of Industrialists and Entrepreneurs] on chemical industry, which was held on March 13, 2012 and devoted to "minimization of risks of chemical industry upon accession of Russia to the WTO", it was noted that accession to the WTO will seriously affect the sector of consumer chemistry. The main threat to the industry is seen to be the increase of prices for natural gas. With the transition to the principle of equal return in price-setting for supplies of natural gas to domestic and foreign markets, costs of oil and chemical enterprises for electric energy will increase by 40%; for fuel gas, up to 100%.

Thus, under insufficient competitiveness of local chemical complex, liberalization of foreign trade regime upon Russia's accession to the WTO will weaken positions of the majority of producers of chemical and petrochemical products. The highest negative effect should be expected in small business area, in particular, in the production areas of plastic goods, paint and lacquer materials, rubber and industrial rubber articles, and household products. Tough competition with China should also be considered in assessing the situation. China is actively penetrating the Russian market of chemical and petrochemical products, as a result since 2009 credit deficit has been observed in the foreign trade with this country in the area of chemistry and petro-

⁵⁸ "Газпром" не ждет прямого эффекта от вступления РФ в ВТО [Gazprom is not expecting direct effect from the RF' accession to the WTO] [Gazprom ne zhdet pryamogo effekta ot vstupleniya RF v VTO]. December 30, 2010.

<http://www.warandpeace.ru/ru/news/view/54177/>

⁵⁹ <http://www.kommersant.ru/qboxtexts/vto6.swf>

chemistry. Moreover, foreign trade deficit is increasing: from USD 0,92 bln. in 2010, it increased to USD 2,0 bln. in 2011.⁶⁰

c) Reduction of import duties on equipment for energy companies

Gradual revision of customs duties will be important for development perspectives of the energy equipment market. During WTO accession negotiations, the Russian delegation based its position with respect to power plant engineering on balance of interests of producers and a need of electric energy sector in re-equipping with highly efficient modern equipment. The level of tariff protection will be virtually unchanged with respect to those items where the local production has achieved the requisite level of efficiency. Duties on other types of equipment will be subject to reduction by three to four percentage points within a three- to four-year period.

Reduction will mainly relate to component parts and equipment which is not produced in Russia. Such policy corresponds to the interests of *Gazprom*. In general, electric energy is oriented toward domestic consumption within the Unified Energy System. Thus, WTO accession will have weak impact on it. *Inter RAO CES* is virtually a monopolist of electric energy export. The company's tariffs for foreign consumers do not have signs of subsidies or dumping; therefore, if the company will be protected from a possibility to introduce blocking duties on electric energy supplied, it will only benefit from it.

Abolishment of the anti-crisis tariff support of Russian companies producing pipelines may have some significance for *Gazprom*. Firstly, with the introduction of general regime, the average import duties may decrease in July, 2012 from the current 15-20% to 5-10% (such rates were effective in 2007). Secondly, Ukraine may manage to check Russian anti-dumping duties (18.9-19.9% for Ukrainian pipelines supplied out of quota free from duty in the amount of 300,000 tons).⁶¹

For capital-intensive companies (including *FSK [Federal Grid Company]*, *MRSK [IDGC]* and a number of generating enterprises) membership of Russia in the WTO may mean specific savings in investments due to reduction of duty on imported equipment (turbines, transformers, etc.). Moreover, pace of increase of tariff on electric energy (under condition of a more rapid increase of domestic tariffs to the parity with export prices for gas) may increase, which would have positive effects for generating companies, especially for *RusGidro*, *OGK-4* and *OGK-5*.⁶²

In general, WTO accession seems not to be the important factor influencing on the situation in the Russian energy sector, including its "export" industries. For oil and gas industry, the situation with the growth of share of liquefied and shale gas, development of renewable sources of energy in countries-importers, and political factors will have much more importance. However, WTO membership changes attitude to the country and is perceived as a proof of reliability of a partner which is important for *Gazprom*.

Russia's accession to the WTO and the integration of the former Soviet Union

WTO and Customs Union: that before?

Russia's Accession to the WTO and formation of the Customs Union with Belarus and Kazakhstan ("CU RBK") have never been separate and exclusive projects. Nevertheless, at certain stages, the priority was given either to the first or to the second. When negotiations on Russia's accession to the WTO were delayed, and relations with the West got more tense as a result of "color revolutions" in Georgia and Ukraine, the

⁶⁰ Chemists calculated risks from accession to the WTO. <http://plastinfo.ru/information/articles/379/>

⁶¹ Accession of Russia to the WTO: detailed analysis of implications for local industries, November 16, 2011 <http://www.vtb.ru/we/press-center/expert/151183/>

⁶² *Ibid.*

Russian leadership focused on strengthening and institutionalizing relations with its neighboring partners, Belarus and Kazakhstan.

The Customs Union project of the three countries is advantageously distinguishable from all preceding integration initiatives in the post-Soviet area by a serious and consistent approach, as well as by its implementation capacity. Success of this regional project and clear leadership commitment of Russia to complete its WTO accession negotiations, urged the negotiation partners to step up their concessions in the Customs Union project. Thus, the creation of the CU RBK has not only slowed down, but also speeded up the process of accession of the Russian Federation to the WTO.

A contradiction between the CU formation and unilateral WTO negotiations cannot be ignored. It is known that the Customs Union as a form of integration union implies coordination and even unification of trade policy of its members with respect to third parties. Participants of the Customs Union agreed on common external tariff; thus, it would have been logical to conduct WTO negotiations on behalf of the CU. Such statement was made by V. Putin on May 2009 on behalf of prime ministers of the three countries. However, the WTO partners managed to persuade the Russian party to continue negotiations on its own, having pointed to technical difficulties, lack of precedents, and unavoidable loss of pace, should Russia refuse from the achieved results.

The ratio of the Common Customs Tariff and the Report of the Working Party on Russia's accession to the WTO

Formation of the CU and its supra-national institutes also affected the course and results of negotiations. Final **Report of the Working Party on accession of the Russian Federation to the World Trade Organization** contains hundreds of references to the CU RBK documents and governing bodies thereof (the CU is mentioned in the table of contents of the report 11 times). During the process of drafting documents on the CU, it has been repeatedly noted that they were drafted based on WTO provisions and rules to avoid potential conflicts during accession of the CU members to the WTO. The same situation is observed with respect to a set of agreements on Common Economical Space which are currently under development.

All the above does not mean that WTO agreements and agreements of the CU are identical and have equal impact on the economies of member countries of the CU RBK. This, in particular and primarily refers to the level of customs protection. The Common External Tariff (the "CET") agreed under the CU RBK is not identical with the bound rates of import duties agreed by Russia with WTO. Average rate of import duties under CET is 10.29%, whereas average rate thereof under WTO agreement of the Russian Federation is 7,15%. The difference is about three percentage points or over 30% of average rate of duties under CET.

Why was CET not agreed at the anticipated WTO rate at once? The answer to this question is clear: this would have meant unilateral tariff concessions not compensated by any benefits and capable to entail additional requirements from the WTO member states — participants of the Working Party on accession of the Russian Federation. Moreover, at that time, accession of Russia to the WTO was not yet guaranteed. Upon introduction of CET, 74% tariff lines remained unchanged for Belarus, 82% for Russia, and 43% for Kazakhstan. In general, Kazakhstan had to make many concessions, having approximated its import duties to the level of Russia and Belarus. Prices for automobiles, home appliances, apparel, and shoes made in China, Turkey, and West Europe significantly increased upon entry of CET into force.

Disparities between CET and tariff concessions anticipated upon accession to the WTO made countries of the CU identify a priority. The priority was given to WTO, which was decided in the **Treaty on the functioning of the Customs Union in the framework of the Multilateral Trading System**, executed by the leaders of Russia, Belarus, and Kazakhstan on May 19, 2011 in Minsk City. The agreement was ratified by all parties in fall the same year and, pursuant to the resolution of the Eurasian Council dated December 19, 2011, it will enter into force from the date of accession of the Russian Federation to the World Trade Organization.

According to the aforementioned agreement, if any of the three countries accedes the WTO before the others, arrangements related to the Customs Union will be adjusted to comply with the agreed accession terms. WTO provisions regulating the Customs Union become a part of its legal system. WTO commitments of the country will prevail over its commitments under the framework of the Customs Union.

In practice, it means decrease of the CET rate to the level not exceeding the bound rate agreed between Russia and the WTO. For Kazakhstan it means that it will get back to the level of customs barriers of 2007 (Table 5). For Belarus, on the contrary, it means continuation of tendency toward reduction of barriers to trade with third countries (in 2007 according to the WTO the average applied rate of import duties in this country amounted to 11,3%).

Table 5

Import Duties: Average Applied Tariff

Country	Prior to CU (2007):	Prior to CU (2009):	Under the CU (2012)	Upon Accession of the RF to the WTO, upon Expiry of the Transition Period
Russia	11,0	10,5	10,3	7,15
Belarus	11,3	10,6	10,3	7,15
Kazakhstan	7,8	5,9	10,3	7,15

Sources: WTO. Tariff profiles (2009, 2011). <http://ria.ru/spravka/20111114/488396697.html>

Following Russia, Kazakhstan will join the WTO in the nearest future. It has already agreed on higher concessions on customs tariffs than Russia. Pursuant to the aforementioned agreement, this may entail further liberalization of foreign trade links of the whole Customs Union, reduction of CET to the level agreed with Kazakhstan. At the same time, it is written there that "Each Party newly acceded to the WTO must strive to form such scope of commitments which would maximally correspond to the commitments of the CU member country, the first acceded the WTO. Principal deviations from such commitments must be discussed and agreed among the Parties".⁶³ These approvals will be taking place within the coming year. However, the result is not clear yet.

⁶³ <http://www.kommersant.ru/doc/1863003/print>

Conclusion

As laid down in Russia's Accession Package for WTO Accession, formally approved in December 2011, it seems that the conditions that were agreed upon by Russian negotiators from member countries of the working group are generally quite acceptable for the country and its businesses.

Thus, despite the fact that the final level of binding to a number of goods is established on the day of accession, transitional periods were negotiated for the "sensitive" products, which are designed to enable producers to adapt to new conditions of operation.

Equally, customs procedures and calculation mechanisms for customs duties payable will become more transparent and predictable. For some goods, duty rates are now clearly stated. For others, prescribed formulas still remain that take into account fluctuations in world prices.

The effects of tariff liberalization are associated with the potential threat of losses in the state budget of the Russian Federation. However, increased business activity in the area of foreign trade as a likely result of WTO Membership, will equally contribute to enhanced revenues income through the collection of customs duties.

In spite of significant transition period for the liberalization of market access for cars and even a fairly significant (15%) rate of duty having been negotiated, a number of domestic automobile manufacturers are afraid of the serious problems associated with increasing competition. In addition, the government will not be able to apply a number of grants similar to the recycling program, which existed in Russia during the economic crisis. However, the non-participation of countries in the agreement on Government Procurement provides additional opportunities to support domestic automakers. It is also assumed that a high level of market protection in the transitional period will further scale-up assembly plants of foreign companies in Russia.

In the area of agriculture, significant periods of transition were equally negotiated for a number of "sensitive" products. For some products, tariff quotas will apply. Export subsidies for agricultural Russia are not allowed, which, in general, is consistent with the overall trend. As part of the Doha Development Round of trade negotiations, countries using export subsidies have in principle agreed to bind or eliminate them. With regard to domestic support measures, the Russian Government takes very serious "homework" related to its redistribution in "baskets" so as not to be in contradiction with its WTO commitments. It is assumed that in the case of competent management in the agricultural sector and to facilitate access to foreign markets of domestic producers, the positive effects of joining the WTO will have offset the possible negative effects of opening the domestic market.

After joining the WTO, Russia will retain the possibility to regulate the tariffs for **electricity and gas**, intended for the population. With regard to industrial enterprises, the sale of energy they need to be profitable for the suppliers, which is quite logical. The potential negative consequences for the sector may have about the prospects for a petrochemical cluster in Russia, as growing competition from foreign products will contribute to oust from the market a number of domestic producers.

In **services**, Russia has committed in 116 sub-sectors. In many of these, exemptions are provided, either from national treatment (NT), or from the most favored nation treatment (MFN). In a very narrow number of sectors of Russia took on additional responsibilities. It is assumed that WTO accession will not bring serious negative consequences for local service providers.

During the negotiation process for accession to the WTO in Russia, serious internal reforms were implemented, in order to bring domestic legislation into conformity with the rules and regulations of the organization. Domestic reforms will require continued attention and implementation, as well as the

establishment and strengthening of institutions that will be required to harvest the positive effects of Russia's membership in the WTO.

WTO accession commitments of Russia, as any other country, are complicated and diverse. Accession has both advantages and disadvantages for Russia's economic entities. Maximization of the advantages and minimization of the disadvantages can be achieved through well-thought economic policy, and formation of proper institutional structures, allowing businessmen, public entities and wider society to deal with the new challenges.

For its part, entities must act on a "Hope for the state, but those who help themselves."

