The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Plenty of WTO Snags 8 Months On

By Vladimir Tchikine

April 07, 2013



It has been eight months since Russia gained membership into the World Trade Organization, yet it has not been a smooth transition. The move has drawn strong resentment from some sectors of the Russian economy who feel that the government has betrayed them and failed to protect domestic interests.

Unfortunately, the situation has already become so antagonistic that the entire agreement may fall apart, something that European Union Commissioner for Trade Karel De Gucht recently hinted.

De Gucht believes Russia is not meeting the WTO agreement on reducing tariffs on foreign goods, while Russia says everything possible is being done. Like any disagreement, the truth lies somewhere in between these two stances.

The struggling manufacturing industry, in particular, has been up in arms over the lowering of import tariffs, particularly in the automotive and food sectors. Their lobbying efforts eventually paid off. The government claimed the WTO provided the legal framework

to defend domestic manufacturers in certain cases, namely by introducing safeguard and anti-dumping measures.

Authorities then imposed a tariff or "recycling fee" on foreign cars sold in Russia, which inflated their prices in showrooms across the country and made them uncompetitive compared to domestic suppliers. This was shortsighted given the reaction it received from exporters and the European Commission.

It looked as if this recycling fee would be levied on all cars sold in Russia to appease the WTO, thus leveling the playing field between foreign and domestic manufacturers and appeasing car exporters worldwide who are keen on selling to Russia's growing middle class.

But a draft decree on the fee from the Russian government released on March 29 shows it wants the status quo to remain. The fee will not be abolished nor extended to domestic manufacturers, which will undoubtedly enrage the WTO and European Commission further.

The issue will need to be resolved soon if Russia is to retain its WTO membership. Usually, no legal action is taken against WTO members within the first three years of their accession, but Russia may be an exception.

Although economists have long predicted that Russia's accession to the WTO will have a negative short-term effect on the country's international trade, accession will certainly bring a range of long-term dividends. It will improve Russia's competition, demand and international investment as well as drive innovation among the country's manufacturers.

Clearly, many of Russia's WTO obligations have proved a hard pill to swallow, particularly the removal of tariffs on imported manufactured goods. The WTO and the international community need to do more in helping Russia implement its commitments.

Eventually, this will allow Russia to move beyond focusing on tariffs to harmonizing non-tariff measures, such as standard, testing and certification requirements on goods and services, in line with other major economies.

Russia should not try to protect its own industries through tariffs in the misguided belief this will help its economy to weather the global recession. This would be a step in the wrong direction. Opening up trade will help the economy grow and ensure its long-term prosperity. Russia is eager to provide its expanding range of consumer goods to the potential 500 million consumers within the WTO, while Europe relies on Russia for about a quarter of its natural gas needs.

Like a family, Russia's strength is in working together as a unit, while making sure all members know where they stand and what is expected of them.

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Original url: https://www.themoscowtimes.com/2013/04/07/plenty-of-wto-snags-8-months-on-a23059