Prístup Ruska k WTO: nová posila pre udržateľný ekonomický rozvoj EÚ

Russia's wto accession: a new driver for sustainable economic development of EU

Vasily Erokhin, Anna Ivolga

Abstract

World Trade Organization (WTO) is currently the leading international organization regulating the issues of liberalization of international trade. In October 2011 the long process of Russia-WTO negotiations had been completed. Russia had been negotiating to join the global trade body since 1993, making it the largest economy and only G-20 nation still outside the WTO. Its accession is a significant development for the organisation, with the potential to have important ramifications for trade and production both domestically and internationally, including in the agricultural sector. As a major player in both economic and political terms, Russia's entry into the multilateral trading system has both symbolic and immediate practical significance. Apart from the specific implications for particular products and markets, it is a move which has systemic importance as the country commits to engaging with its trading partners under a global framework of rules and processes, as well as to shaping the future evolution of this framework as an active member of the organization.

Keywords

Sustainable economic development, business, World Trade Organization, international trade, support, subsidies, trade integration.

Abstrakt

Svetová obchodná organizácia (WTO) je v súčasnosti poprednou medzinárodnou organizáciou upravujúcou otázky liberalizácie medzinárodného obchodu. V októbri 2011 bol završený dlhodobý proces rokovaní medzi Ruskom a WTO. Rusko rokovalo o pripojení k celosvetovej obchodnej organizácii už od roku 1993, ako najväčšia ekonomika a člen G-20 stálo stále mimo WTO. Jeho pristúpenie je významným rozvojovým krokom pre organizáciu v zmysle potenciálu mať dôležité dosahy na obchod a produkciu v tuzemsku i zahraničí, vrátane poľnohospodárskeho sektora. Ako hlavný aktér z ekonomického i politického hľadiska, vstup Ruska do multilaterálneho obchodného systému má symbolický a bezprostredne praktický význam. Oddelene od špecifických dôsledkov na osobitné produkty a trhy, je to krok, ktorý má systémový význam v tom, že krajina sa zaväzuje k prepojeniu sa s obchodnými partnermi v zmysle globálneho rámca pravidiel a postupov, rovnako ako i k formovaniu budúceho vývoja tohto rámca, ako aktívny člen organizácie.

Kľúčové slová

udržateľný ekonomický rozvoj, podnikanie, Svetová obchodná organizácia, medzinárodný obchod, podpora, dotácie, obchodná integrácia

Introduction

The problem is that the Russian accession into WTO is more related to the general unification of Russian trade policy, not to the effective development of agricultural production. Russian agricultural producers are still against the integration into the global trade system in the frameworks of WTO. National agricultural production will not be able to compete effectively with foreign producers in the conditions of free market. The complex of supportive measures for Russian agribusiness is extremely needed from the national government, but the situation is worsened by the global financial crisis and lack of budget resources. The paper includes the overview of the WTO principles in agriculture and possible support measures for the Russian agriculture in the conditions of trade integration.

Membership in WTO will obviously limit the opportunities in independent regulation of the external economic activity. Particularly, the binding of the import custom tariffs will limit the maneuverability and flexibility of the state regulation of the custom and tariff measures. The economic conditions of the majority of plant and animal production branches will get worsened because of the low competitiveness of Russian production based on the low level of provision with qualitative production factors, as well as on the weak interaction between agriculture and the rest of industries and services. It will become harder and more difficult for the state to protect national producers, the access for the foreign food products to the internal market will become easier because of the lower import custom tariffs. This may lead to the decrease in the national production.

The above-mentioned problems are especially actual for the Russian agri-industrial complex and development of rural territories. Russian experts anticipate the decrease of the share of the local agricultural producers on the internal market which, in turn, will effect on the employment in the related industries. Food processing industries, especially meat and dairy, are expected to be the most attackable. After the WTO accession the problems may arise in the sphere of application of veterinary, sanitary and phytosanitary measures, treated as protective ones. Once entering WTO the country has to implement the sanitary and phytosanitary measures or restrictions in accordance with the WTO Agreement on Sanitary and Phytosanitary Measures – and only based on the scientifically proven principles of phytosanitary risk. The growing flow of cheap import products may bring new quarantine objects and diseases to the country.

Discussion

Since 1999, Russia’s agricultural production has been growing quite rapidly. The average growth rate of gross agricultural production for 1999-2010 amounted to 2.4 percent per year. In absolute terms, Russia’s average annual gross agricultural production reached USD 86.4 billion in 2008-2010.

Russia’s growing agricultural and food markets are attractive both for domestic producers and to suppliers from abroad. Considering their competitive advantages and the competitiveness of domestic production, Russia’s producers are likely to increase production of oilseeds, vegetable oils and grains. The shares of domestic producers in the markets of animal products (meat and milk) will grow only if investment in livestock production goes up, and if there is also a high level of protection against imports. Protection will also be an important factor in increasing Russia’s domestic producers’ share of the sugar market.

However, Russia remains a net importer of agricultural and food products. Growth in agricultural production has occurred alongside an increase in agro-food imports. The products that are most sensitive to competition from imports are meat, dairy products and raw sugar. Agro-food imports originating in the CIS countries accounted for about 10 percent of all such imports in 2008-2010, and the share of non-CIS countries was about 90 percent. Today, the majority of Russian agricultural industries cannot equally compete with foreign producers.

The dependence on import deliveries is critically high. Local agricultural and food products cannot find their customer neither on foreign nor even on local Russian markets.

The "secret" of success of foreign farmers on the Russian market is not only in the unique high quality of their production. Agriculture in global economics is one of the most protected and "closed" branches. The main method of protection is to give a huge volume of subsidies to the agricultural producers. Annual expenses of WTO member countries for agriculture reach dozens of millions US dollars. Half of "agricultural" expenses of WTO member countries are the measures distorting trade and production which has a negative influence on the global agricultural market, leading to the excess production and fall of prices for agricultural and food products.

Currently almost all-global volume of agricultural support is distributed between EU producers (39%), USA (36%) and Japan (15%). These countries provide more than 90% of total volume of subsidies worldwide. The share of state support in GDP of agriculture is 36% in EU, 37% in Japan and 39% in USA. Herewith USA and a range of other developed countries remain the net exporters of food products and save the high level of food sovereignty. USA and France are fully independent and provide themselves with agricultural and food products on 100%, Germany – on 93%, Italy – on 78%, Japan (which almost has no land resources) – on 40%.

According to the results of agricultural negotiations, completed by Russia in autumn 2011, our country had agreed with the position when the total volume of agricultural support, preventing fair trade, could not exceed $9 bln. in 2012 and had to be gradually decreased to $4.4 bln. by 2018. Starting from the accession moment to December 31st, 2017, for the avoidance of excessive support of individual products, annual agricultural support of the specific products should not exceed 30% of agricultural support spent on the non-specific products.

Russia had announced the volume of $9.9 bln. as the maximum level of support for domestic agriculture in 2012 with its gradual reduction to $4.4 to 2018. However, the problem is the country does not spend even more than $4.5 bln for its agriculture now and increase of this level is not foreseeable. This means lower competitiveness of Russian agricultural and food products comparing to USA and EU producers – and this may cause serious problems for domestic farmers when Russian market is open for foreign agricultural production. The main question is how to ensure the sustainable development of the national agricultural production and agribusiness in the conditions of the growing openness of the market and its liberalization taking into account the incomparably low financial possibilities for support.

At the first stage of accession negotiations Russia declared the initial level of AMS the annual volume of state support of agriculture in 1989-1991 – $89 bln. (with the existing rate of exchange). In 1998 this volume was recalculated and AMS was decreased to $36 bln., later – to $16 bln. Final level of support agreed between Russia and WTO is $9 bln. (to be decreased to $4.4 bln. until 2018). However, the real annual support of agriculture in Russia currently does not exceed $4 bln.

During negotiations, the applying country chooses one of the possible variants of obligations to decrease the AMS. Agreement on Agriculture recommends, for example, to cut down anyhow the domestic support in comparison with the basis level during six years after WTO accession. Another option is to cut the support down to the 5% level from the total volume of agricultural production.

Unfortunately, WTO rules do not consider the significant differences between natural and economic conditions of agricultural production in various countries. Meanwhile, the volume of support of agricultural production in Russia had decreased almost twice while the total volume of domestic support of agriculture had decreased in 10 times. The support had decreased till $35 per 1 ha of arable land while USA support domestic farmers with average

$340 per 1 ha, EU countries – $1053 per 1 ha. The AMS for USA is $19 bln., but practically the country spends only $15 bln. for state support. In other words, USA has a reserve to increase its support for agriculture – extra $4 bln. The margin of safety is even high for Canada: having the permitted level of support $4.7 bln. the country spends for the support of the domestic agriculture only $0.8 bln.

Russia facing almost double decrease of the domestic agricultural production in 1990s was forced to open its domestic market for imported food. In practice, the country had one of the most liberal trade regimes worldwide. Average weighted custom tariff on agricultural and food production was 12-14%. According to the undertaken WTO obligations this tariff has to be cut down to less than 10%. This means full liberalization of the domestic market for the entrance of imported products from the leading international corporations and separate states. It is necessary to take into account that many of the food exporting countries save their subsidizations of domestic agriculture on a high level. Through this import products in the conditions of low custom tariffs will have the doubtless competitive advantages in comparison with domestic products.

How EU countries and Russia's neighboring CIS countries can benefit from the Russia's accession to the WTO? Its fulfillment of multilateral commitments in domestic support, market access, sanitary and phytosanitary measures, and technical regulation will stimulate increased transparency in foreign trade regulation, improve the access of imports to Russia's market, and restrict Russia's possibilities for supporting its agricultural producers and imposing unjustified measures that impede trade. EU countries that export agricultural and food commodities to Russia will see the following benefits:

- reduction of Russia's custom duties;
- trade facilitation
- predictability of Russia's regulation of foreign trade;
- unification and transparency of Russia's nontariff measures of trade regulation.

Russia's accession to the WTO and its commitments in domestic support, market access and export competition do not directly affect trade with Belarus and Kazakhstan. The rules of trade between Russia and these two countries are determined by the treaties and agreements of the Customs Union. Russia also has free trade agreements with all other CIS countries (Ukraine, Armenia, Kyrgyzstan, Moldova and Tajikistan) besides Azerbaijan, Turkmenistan and Uzbekistan, governing many aspects of its trade with these countries.

Liberalization of Russia's trade with EU countries, as a result of the WTO accession, will contribute to replacing certain agricultural and food suppliers in CIS countries with exporters in EU countries. Commodities from nonCIS countries, including those from developing countries, may become more competitive in the Customs Union market.

We assume that the system of state support of agriculture in Russia, according to the study of foreign experience, should be established particularly on the basis of the Green Box. We consider the following measures of support of Russian farmers and food processing companies as the most perspective tools of support and defense:

1. Direct payment to the producers unrelated to the price or production volumes. For example, farmers in the USA get support calculated on the certain formula without any relation to the current production volume. Payment mechanisms are specified in the separate law once per six years. Thus, the land plot of 100 ha with the fixed productivity of corn 7 t/ha in the basis period gives the right to get $6.5 thousand as an annual subsidy.

2. Implementation of sanitary and phytosanitary measures as the limiting barriers to protect the domestic market. This is officially forbidden, however EU countries use "high" sanitary standards to limit the access of import products. For example, to limit the pork import EU countries implement the total prohibition of the growth factor ractopamine – the drug that is used as a feed additive to promote leanness in pigs raised for their meat. Obligations on

sanitary, veterinary and phytosanitary regulation are interconnected with agricultural obligations undertaken by the accessing country. They are directed on provision of correspondence between the systems of sanitary, veterinary and phytosanitary regulations and WTO rules of technical regulations. Implemented sanitary, veterinary and phytosanitary measures have to be based on the international standards, supported by the sufficient scientific ground and risk assessment. Russia will save its right to introduce more strict requirements comparing to the recommended by the international organizations when it is required by the level of protection set in Russia. Herewith Russia will actively participate in the activities of the related international organizations during the development of standards and recommendations. The transparence of the procedure should be provided when the importer can appeal the stoppage, annulment or refusal of import permission for his goods and to get the letter of reply explaining the reasons of the certain decision and measures that should be undertaken by him in order to get the permission. The Federal Service for Veterinary and Phytosanitary Surveillance committed to provide the possibility for the exporting country to undertake the certain correction measures before the final decision on import stoppage. The given obligation is not spread on the cases associated with the severe risks for health of people and animals.

3. Combination of tariff quotas, sanitary and phytosanitary measures. In the USA and EU such practice results in the not complete fulfillment of the set quotas. In that case tariff quotas act as the extra control element as also serve as a tool of redistribution of exclusive import volumes.

According the accession into WTO Russia will ensure the necessary level of transparency of its legislation and practice of international trade regulation. All general legally enforceable enactments regulating trade will have to be published in the official sources and will not come into action until their official publication. Besides, at the development of the normative acts Russia will provide to all involved parties the possibility to present their comments and suggestions during the reasonable period of time to the drafts of such acts until their final approval. This will ensure the certain level of predictability of the legal environment in the country.

Obviously, the accession into WTO can not have synonymous consequences for the certain country. Such assessment becomes even more complex when one starts to investigate the consequences for the separate braches of economics. Despite of the more negative than positive expert forecasts related to the domestic agriculture after accession into WTO, there are the certain range of opportunities either to protect the domestic market or to support domestic agricultural producers. Right and consistent implementation of the available measures can become the key factor of successive and sustainable development of Russian agricultural production and growth of its competitiveness on the global market.

Conclusion

In general, Russia’s removal of restrictions (both tariffs and non-tariff measures) on access to its agricultural and food market when implementing its WTO commitments will inevitably lead to the reduction of the customs duties. As a result, EU countries will see improvements not only in access to Russia’s market but also in access to the Belarus and Kazakhstan markets. Furthermore, in terms of export duties the difference between Russia’s commitments in the WTO and the Customs Tariff of the Customs Union implies a need to bring them in line with each other when completing the formal accession process or shortly thereafter. In addition, given that Kazakhstan is a Member of the Customs Union and is at an advanced stage of the WTO accession, it must unify its commitments with those of Russia. This applies to approximately 30 percent of Kazakhstan’s customs duties.

Thus, Russia's membership in the WTO will provide significant trade benefits for developing countries. In the case of violation of Russia's obligations, they can use the WTO dispute settlement system to seek redress, an avenue that was not open before Russia acceded to the WTO.

References

1. Erokhin, V. (2010) Russian accession into WTO: new challenges for agriculture. *Russian entrepreneurship*, 12(1), 11–16.
2. Erokhin, V. & Ivolga, A. (2011) Russian accession into WTO: integration perspectives of agri-industrial complex. *Social and economic reforms in the context of integration choice of Ukraine*, Vol. 1, 9–11.
3. Erokhin, V. & Ivolga, A. (2011) WTO: how the trade integration may effect on business. *Quality of entrepreneurship environment*, 24–29. Nitra: Slovak University of Agriculture.
4. Erokhin, V. & Ivolga, A. (2011) Entrepreneurship in agriculture: new challenges of international trade integration. *Contemporary Agriculture: the Serbian Journal of Agricultural Sciences*. 3–4, Vol. 60, 398–402.
5. Kiselev, S. & Romashkin, R. (2012) Possible Effects of Russia's WTO Accession on Agricultural Trade and Production. *International Centre for Trade and Sustainable Development (ICTSD). ICTSD Programme on Agricultural Trade and Sustainable Development.*
6. Shevnina, A. (in press) WTO is worse to come. *Russian newspaper*. *Economics of North-West.*

Authors:

Vasily Erokhin
(PhD, Faculty of Master Business Administration, Moscow University of Finance and Law MFUA),
address: 8 build. 1, Presnenskaya Embankment, Moscow, Russian Federation.
☎: +7-499-995-19-63, e-mail: basilic@list.ru,

Anna Ivolga
(PhD, Faculty of Economics, Stavropol State Agrarian University),
address: 12, Zootekhnichesky Pereulok, Stavropol, Russian Federation.
☎: +7-8652-355980, e-mail: annya_iv@mail.ru,

Oponent: doc. JUDr. Eleonóra Marišová, PhD.