

Russia is finalising negotiations with the WTO

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Eighteen years since the Russian Federation's initial application to join the World Trade Organisation (WTO), it now finally stands a chance of being accepted. This would mean Russia is covered by the legally binding rules governing international trade, which the European Union and the United States are particularly interested in. On 21 October, the EU Trade Commissioner Karel de Gucht announced an agreement between Moscow and Brussels on the final economic issues under dispute concerning the conditions of Russian membership. The decision to include Russia could be taken at the WTO Ministerial Conference on 15-17 December, although the consent of Georgia is necessary for any such motion to come to a vote. Tbilisi is blocking the Russian negotiations, demanding the introduction of either their own or international customs control on the Abkhazian and South Ossetian stretch of the Russian-Georgian border. Previous negotiations between Moscow and Tbilisi have brought no results. It seems that any resolution to the dispute will depend on how the US and EU's offer to Georgia is worded.

Russia's accession negotiations

Russia has been seeking to join the WTO since 1993, but the accession negotiations only gained momentum during the presidency of Vladimir Putin. The process of adjusting Russian law to the requirements of the WTO was accelerated, and the bilateral negotiations were also completed. Furthermore, work on the final report on the principles of Russia's accession to the WTO has also started. The West has given strong support to the Russian negotiations. However, as of 2007 a stiffening of the Russian negotiating position was observed, as well as a limitation of access for foreign entities to the Russian Federation's market, despite the obligations already adopted (e.g. Russia introduced export duties on timber). Moscow's decision in 2009 to establish a customs union with Belarus and Kazakhstan led to the suspension of the WTO negotiations for several months; it then became necessary to make a mutual adjustment between Russia's accession commitments and the regulations applying within the customs union.

The process of Russia's accession to the WTO accelerated in 2011. In October negotiations were concluded on the final contentious issues relating to the following matters: the principles of protecting investments (Russia has managed to retain a partial preference for its automotive industry), sanitary and phytosanitary measures (SPS, Russia will introduce these at its accession; moreover, Moscow is committed to adjusting the rules in the customs union with Belarus and Kazakhstan to meet these commitments), the size and methods for allocating quotas for meat exports to Russia; and export duties on Russian

timber (which Russia has agreed to reduce). The European Union has also managed to convince Russia to reduce *Trans-Siberian* overflight *charges* (this issue is not formally associated with WTO membership, but Moscow should sign this document before joining).

Georgia's veto is the only obstacle in Russia's path to the WTO

Currently, the only obstacle to Russia's WTO membership is the position taken by Georgia. As a member of the WTO Working Group, which brings together over 60 countries which are most interested in trade with Russia, Tbilisi officially vetoed Russia's accession negotiations in 2006. Underlying this decision was a sharp deterioration in Russian-Georgian relations (including a Russian embargo on imports of Georgian wine and mineral water). As a consequence of this veto, Russia's negotiations were conducted informally (no working group was formally convened). However, the completion of the final report on the conditions for Russia's membership requires the convening of a formal meeting of a working group, which requires the Georgian veto to be lifted. Only a formally approved document can be voted on (which requires a two-thirds majority vote in favour) by either the Ministerial Conference, the highest decision-making body, or the WTO General Council, a permanent body which brings together the ambassadors of all the organisation's members. Russia will formally become a member of the WTO only after it ratifies the accession protocol.

Georgia has officially made unblocking the talks with the Russian Federation conditional on the introduction of international customs officials (they had previously demanded the presence of Georgian officials only) on the border between Russia and the breakaway republics on the territory of Georgia, South Ossetia and Abkhazia (which the Russian Federation has recognised as independent states). Russia does not agree to this, as it does not want to acknowledge Georgian sovereignty over these territories. In return, it is only prepared to publish data on the movement of goods in these areas, and to partially withdraw its embargo on imports of Georgian wine and mineral water. According to Moscow it is the West which should bring about a change in Tbilisi's position by bringing its influence to bear on Georgia. Switzerland is involved as a mediator in settling the Georgian-Russian dispute, but these trilateral talks have not yet produced results (another round ended in failure at the beginning of October). Apart from appeals from the EU or US to Georgia to resolve its dispute with Russia, there has been no information about any specific actions by the West to encourage Tbilisi to withdraw its veto. The Georgian government is aware of the exceptional political situation in which its country finds itself; it is therefore unlikely that it will be ready to deprive itself of such an important argument without getting anything in return (such as financial compensation, or promises of foreign investment in the Georgian economy). Therefore, it may happen that Georgia will continue to block Russia's membership at the WTO Ministerial Conference in December, which would be a defeat for the West.

The consequences of Russia's accession to the WTO

If the accession process is completed successfully, Russia's accession to the WTO will have important consequences for its economy and its business partners, but because of the transition periods, some of these consequences will take a few years to become apparent. WTO membership for Russia will reduce its ability to introduce protectionist policies (which it has done especially often in the past few years); it will impose the need for more transparent standards and rules, as the organisation requires; and in doubtful cases, both Moscow and its trading partners can appeal to the mechanism for settling disputes provided for within the WTO. As a result of these changes Russia would become more attractive for investment; competitiveness on the Russian market would also increase, which would favour the modernisation of the Russian economy which the government has called for.

WTO membership would also open up to Moscow the opportunity to get involved in the mechanisms for regulating international economic relations, including co-authoring the rules of international trade; Russia is currently the only major country remaining outside the structures of the WTO. This would also increase the chance of its joining the Organisation for Economic Cooperation and Development (OECD), and would bring it closer to concluding a free-trade area agreement with the EU (in both cases, WTO membership is a prerequisite). During the negotiation process, Russia succeeded fairly well in protecting its own markets from a sudden inflow of foreign competition. No significant reduction in Russian tariff rates should be expected; on the one hand the rates already in place are quite low, and on the other the transition periods (for example, for importing car parts, or export duties on timber) will allow for a smooth adjustment to the new market conditions. Moreover, WTO standards will govern the trade in energy resources that forms the basis of Russian exports to only a limited extent. Russian exporters and agriculture are not threatened by the WTO's limitations on the support the state can give them, as the negotiated limits on subsidies are even higher than they are at present. In the case of banking, insurance and telecommunications, restrictions on investment for foreign entities have been introduced.