



# Russia's Accession to the WTO

## *Opportunities for the U.S. Machinery Sector*

### Russia's membership in the WTO will provide significant commercial opportunities for U.S. exporters:

- U.S. manufacturers and exporters will have more certain and predictable market access as a result of Russia's commitment not to raise tariffs on any products above the negotiated rates and to apply non-tariff measures in a uniform and transparent manner.
- Russia agreed to bind all of its tariffs on machinery products and, after full implementation of its WTO commitments, Russia's average tariff on machinery will be 6.4 percent.
- To join the WTO, Russia must change its trade regime and implement many trade liberalizing obligations. The United States, by contrast, will merely extend permanently to Russia the same trade treatment it already extends to all other WTO Members, and has extended to Russia every year since 1994.
- Russia's obligations, including those on tariffs and non-tariff measures, will be enforceable through use of WTO dispute settlement.

### Machinery Sector Overview

- The machinery sector accounted for over \$1.3 billion of U.S. exports to Russia over 2008-2010 (annual average) or 11 percent of total U.S. industrial exports to Russia.<sup>1</sup>
- Russia is the 17<sup>th</sup> largest market for U.S. machinery exports.<sup>2</sup>
- Top U.S. machinery exports to Russia include submersible pumps, machines for arc welding, chain saws, various filtering equipment, rock-drilling or earth-boring tools, mobile drilling derricks, and distilling or rectifying machinery.
- In 2009, U.S. production of machinery products surpassed \$293 billion.<sup>3</sup>
- The U.S. machinery sector employed over 500,000 workers in 2009.<sup>4</sup>
- U.S. SMEs exported \$674 million in machinery products to Russia in 2008 and made up 81 percent of all U.S. firms in the sector exporting to Russia in 2008.<sup>5</sup>
- Investment in the development of the chemical sector is crucial for Russia's economy and provides export opportunities for U.S. suppliers of chemical and plastic processing machinery and equipment.<sup>6</sup>
- As Russia continues to explore and seek access to its mineral deposits, opportunities will be available for U.S. exports of mining equipment.



### Improved Market Access for U.S. Machinery Exporters to Russia

- Russia's tariffs on machinery products currently range up to 25 percent.<sup>7</sup>
- After full implementation of its WTO accession commitments, Russia's average tariff on U.S. machinery exports will be bound at 6.4 percent, with tariffs ranging from zero to 20 percent.
- Russia committed to binding 64 percent of its tariffs on machinery products at 5 percent or less.

1 Global Trade Atlas. Calculation based on import data as reported by Russia. The definition for machinery used in this report, unless otherwise cited, is based on select products within Harmonized System (HS) Chapters 73, 82-85, 87, and 91.

2 U.S. Department of Commerce, Census Bureau.

3 U.S. Department of Commerce, Census Bureau, within NAICS 331-335. Shipments used as a best available proxy for production.

4 U.S. Department of Labor, Bureau of Labor Statistics, within NAICS 331-335 (non-seasonally adjusted data).

5 U.S. Department of Commerce, Census Bureau, NAICS 333.

6 U.S. Department of Commerce, U.S. & Foreign Commercial Service, including from the 2010 Country Commercial Guide for Russia.

7 The calculated average tariff rates reported in this paper reflect only the ad valorem duty rates contained in Russia's WTO Schedule of Concessions and Commitments on Goods, as well as Russia's applied rates as contained in the Customs Union Common External Tariff.

### Selected Subsectors and Products:

- *Energy Equipment:* Russia's tariffs on energy equipment currently range up to 15 percent. After full implementation of its WTO accession commitments, Russia's average tariff on U.S. energy equipment exports will be bound at 6.7 percent.
- *Hand and Power Tools:* Russia's tariffs on hand and power tools currently average 9.3 percent and go as high as 20 percent. After full implementation of its WTO accession commitments, Russia's average tariff on U.S. hand and power tools exports will be reduced to, and bound at, 6.8 percent.

## **Key States Exporting to Russia**

- Top U.S. states exporting machinery to Russia include: Texas, Oklahoma, Virginia, New York, Arkansas, Pennsylvania, Illinois, South Carolina, Maryland, and California.

## **Other Key Commitments by Russia for the Machinery Sector**

### National Treatment:

National treatment requires that imported goods be treated no less favorably than domestically produced products. As a result, Russia cannot impose on imports measures that are more burdensome or stringent, such as additional inspections, higher taxes, or stricter technical requirements, than those applied to domestically produced products.

### Transparency:

Upon accession, Russia will ensure that laws and regulations pertaining to trade in goods, trade in services, or intellectual property rights will be published before they become effective and will be subject to "notice and comment" procedures. Compliance with these rules will not only give interested persons (e.g., U.S. producers and exporters) an opportunity to provide input into the rules governing trade with Russia, but it will also ensure advance notice for any changes. In addition, where Customs Union (CU) authorities have responsibility for WTO issues, such as sanitary and phytosanitary measures, technical barriers to trade, customs issues, and enforcement of intellectual property rights at the CU border, these transparency obligations will apply.

### Customs Valuation and Fees:

The WTO Customs Valuation Agreement and Russia's commitments in its Protocol of Accession, inter alia, establish rules on methods used to determine the value of imports to calculate tariffs. These commitments increase certainty and predictability on this core trade issue. Upon accession, Russia will cut its maximum customs fee, paid to clear imported goods through customs, by about two-thirds. In addition, Russia will establish lower fixed fees for the customs clearance of goods using electronic format or other simplified filing methods, and overall will ensure that its fees related to importation and exportation will not exceed the cost of services rendered.

### Technical Barriers to Trade/ Standards:

As a WTO Member, Russia and its Customs Union partners will be responsible for implementing the terms of the Agreement on Technical Barriers to Trade (TBT) and standards-related commitments in Russia's Protocol of Accession. The TBT Agreement includes obligations relating to the preparation, adoption, and application of mandatory technical regulations and voluntary standards to avoid the creation of unnecessary barriers to trade. Russia and its Customs Union partners will also assume an obligation to provide a notice and comment process on proposed technical regulations affecting trade in goods, to comply with TBT Agreement rules for conformity assessment procedures, and to use relevant international standards as a basis for their technical regulations, except where ineffective or inappropriate for achieving the legitimate objective. Implementation of these obligations can facilitate trade in almost all products.

### Government Procurement:

Within four years of becoming a WTO Member, Russia will commence negotiations to join the WTO's plurilateral Government Procurement Agreement (GPA). Government purchases generally account for 10 percent to 15 percent of a country's GDP. The GPA subjects the purchases covered by the GPA to a system of WTO rules aimed at ensuring that procurement is conducted in a fair, transparent, predictable, and non-discriminatory manner that levels the playing field for foreign suppliers.

### Trade-Related Investment Measures:

Upon accession, pursuant to the WTO Agreement on Trade-Related Investment Measures, Russia will be prohibited from imposing certain conditions on investing in Russia in order to obtain a benefit from the government. For example, unless specifically "grandfathered" in Russia's Working Party Report, Russia would not be able to impose local content requirements or export requirements as a condition of investing in Russia. Implementation of this Agreement will ensure that companies make investment decisions and business plans based on commercial considerations.