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Permanent Normal Trade Relations for Russia Would Benefit the U.S. and Russia

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On November 19, 2006, America and Russia signed a bilateral market access agreement that details U.S. requirements for Russia's accession to the World Trade Organization (WTO). Russia will now work to combine the bilateral accession agreements into a formal multilateral draft Protocol of Accession that the WTO General Council must approve before Russia can become a member of the WTO. As part of this process, Russia will likely face calls for additional commitments to bring its trade regime into compliance with WTO rules, including the elimination of domestic subsidies, improved customs and regulatory transparency, privatization of state-owned enterprises, and stronger intellectual property rights (IPR) protection. The final multilateral accession agreement should both integrate Russia into the global, rules-based trading system and help lock in the reforms needed to improve Russia's long-term economic potential.

In order for the U.S. to share the benefits of Russia's eventual accession to the WTO, Congress must vote to ratify Permanent Normal Trading Relations (PNTR) with Russia. America's businesses, farmers, and households stand to gain from Russia joining the WTO, but, without PNTR, they will be at a disadvantage competing with their foreign counterparts in the Russian market. The successful approval of such legislation is also an important step in strengthening the U.S.–Russia economic relationship and maintaining open channels for discussions to advance issues of concern to the United States, such as access to hydrocarbons and other natural resources.

The Case for PNTR

As a member of the WTO, the United States is generally obligated to provide reciprocal, unconditioned most-favored-nation (MFN) treatment to the goods of all other WTO members. As such, the U.S. must either extend PNTR to Russia or invoke the non-application provision of Article XIII of the WTO agreement. The non-application provision allows member countries to exclude other members from MFN benefits at the risk of reciprocal treatment. If the U.S. opts to invoke the provision, Russia would have the right to deny the U.S. equal treatment under the WTO agreement. Thus, the U.S. would be left to watch other countries reap the benefits of Russia's accession. These benefits include:

- **Expanded access to non-agricultural goods markets.** Average tariffs for industrial goods will fall roughly 36 percent to an average bound rate of 8 percent.¹ Information technology products, aircraft, chemicals, and various capital equipment products will face even lower average tariffs.
- **Significant new services market access in banking and securities; insurance; telecommunications; audio-visual services; energy**

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and energy-related services; express delivery; wholesale, retail, franchise and direct sales distribution; business services; and environmental services.² In the U.S.–Russia bilateral agreement, Russia maintains the ability to limit foreign direct investment in the banking and non-life insurance sectors. The U.S. Trade Representative (USTR) should insist on elimination—or at least a short-term phase-out—of this provision in the final multilateral accession protocol.¹²

- **New market access provisions and more transparent and predictable tariff treatment for agriculture products.** U.S. farmers, ranchers, and food processors will benefit from greater opportunities to sell to the Russian market.³
- **Reduced non-tariff barriers to trade.** These include limits on export subsidies, improved customs procedures, streamlined and more transparent agriculture inspection procedures, and greater adherence to science-based sanitary and phyto-sanitary regulations.
- **Extensive binding improvements to Russia's protection and enforcement of intellectual property rights.** The U.S.–Russia bilateral agreement establishes a solid starting point for the final set of commitments needed for the multilateral accession agreement. The bilateral agreement contains provisions dealing with piracy, counterfeiting, border control, and protection for pharmaceutical test data; it also provides for continued cooperation and progress on resolving IPR issues.⁴

Even before these new commitments to liberalize trade were made, U.S. companies, such as Boeing, ConocoPhillips, Johnson & Johnson, General Motors, and Ford, have enjoyed unprecedented profits in Russian markets. Russia has enjoyed unprecedented economic growth, averaging around 7 percent a year, which has been bolstered by high oil prices since 1999. This growth has also helped expand the bilateral trade relationship between the U.S. and the Russian Federation, with total two-way trade growing an average of 15 percent per year between 2000 and 2005 and valuing over \$19 billion in 2005.⁵ With Russia's new accession commitments, this relationship should only become stronger and more important to the two economies.

No trade agreement alone, no matter how comprehensive, can solve all of the economic policy and structural issues a country faces. But, trade agreements can help maintain the momentum for economic reform and put additional pressure on foreign governments to enforce the rule of law. The growing Russian market is an opportunity that American businesses cannot and should not miss. The provisions of the U.S.—Russian bilateral accession agreement go far toward insuring that the final protocol pulls Russia into a world trade regime that promotes fairness and opportunity for Russia and other WTO members.

Conclusion

The U.S.–Russia bilateral agreement is especially effective in insuring that Russia's accession will result in greater opportunity for all WTO countries. Farmers, manufacturers, and service exporters will gain

1. *Ibid.*

2. Office of the United States Trade Representative, "Trade Facts: Results of Bilateral Negotiations on Russia's Accession to the World Trade Organization (WTO) – Non-agricultural Goods Market Access," November 19, 2006, at http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2006/asset_upload_file693_9979.pdf (November 27, 2006).

3. Office of the United States Trade Representative, "Trade Facts: Results of Bilateral Negotiations on Russia's Accession to the World Trade Organization (WTO) – Agricultural Goods Market Access," November 19, 2006, at http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2006/asset_upload_file346_9977.pdf (November 27, 2006).

4. Office of the United States Trade Representative, "Trade Facts: Results of Bilateral Negotiations on Russia's Accession to the World Trade Organization (WTO) – Action on Critical IPR Issues," November 19, 2006, at http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2006/asset_upload_file151_9980.pdf (November 27, 2006).

5. U.S. Department of Commerce, International Trade Administration, "National Trade Data," at <http://tse.export.gov> (November 29, 2006).

new, meaningful market access to Russian markets. Russia must reduce or dismantle tariffs and non-tariff barriers to trade, and Russia will have to operate according to international rules of trade or be subject to action by the WTO dispute settlement process. And, the agreement will strengthen intellectual property rights protection. Importantly, U.S. ability to raise important issues in the WTO framework, such as providing a level playing field to all companies in the natural resources sectors, will also be strengthened. Russian economic reformers' capacity to push forward with domestic economic reform will also be enhanced.

Congressional approval of Permanent Normal Trade Relations with Russia will successfully con-

clude a process that began 13 years ago with the establishment of the Working Party on the Accession of the Russian Federation to the WTO. America would benefit from Russia, an increasingly important global trader, joining the WTO's rules-based trade regime.

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