

Russia Set to Join WTO

January 2012

Russia has completed accession negotiations with the World Trade Organization (WTO), and now expects to join the WTO in the first half of 2012. The global auto component industry has long anticipated this development. A big stumbling block that needed to be overcome related to "Decree 166" – a set of rules governing the auto industry in Russia which provides preferential import duties to certain carmakers that agreed to assemble vehicles in Russia and use local parts. Agreement was reached on this and the other issues.

Effect on Automotive Suppliers

Analysts estimate the current Russian market to be at approximately \$45 billion, including approximately \$12 billion in OE component and \$27 billion in aftermarket sales. By 2015, the Russian OE supply market is expected to triple in size, to approximately \$35 billion. Car production in Russia is expected to reach over 3.25 million by 2015, with international brand products expected to be in excess of 2.5 million of that amount. Once Russia joins the WTO, and thereby commits to opening its markets to foreign companies and investors, these numbers are expected to grow even more rapidly.

Currently, there are a limited number of foreign auto component manufacturers in Russia, mostly confined to larger companies. This has been the result of not only the relatively closed market for foreign automotive components, but also to the difficulties and risks inherent in doing business in Russia. Accordingly, many components and systems have been either locally sourced (with mixed results) or imported (at higher costs). But as a result of the WTO's imposed market liberalization, analysts expect many opportunities in Russia to open up to foreign suppliers who could either import products more freely, especially from East European production centers, or establish local manufacturing operations or JVs directly in Russia.

Russia's WTO Accession Package

As with other countries who join the WTO, Russia has agreed to a draft "Protocol of Accession" with the WTO, which outlines Russia's commitments to providing and opening market access for specific goods and services over a prescribed timetable. During this timeframe, Russia will be given a "transition" period for certain products, during which it would be able to protect domestic producers.

Russia's overall bound tariff rate on industrial and consumer products will average around 7.8 percent, as compared to 10% currently. The vehicle manufacturers currently producing in Russia which were granted preferential status will be given a period of years to transition out of such status. As for export duties, Russia will enter into specific commitments with regard to the level of its export duties.

Continued

Russia also committed to eliminate quantitative restrictions on imports or other similar restrictions. In its customs valuation practice, Russia will follow the provisions of the WTO Customs Valuation Agreement, relating to the methods that should be followed to set value of goods, transfer pricing principles and the elimination of the current practices of using minimum or fixed valuation schedules to establish the value of imported goods. Russia is also required to abandon subsidies related to the exportation of goods.

In addition, Russia pledged to follow the WTO Agreement on Technical Barriers to Trade. This Agreement ensures that regulations, standards, testing and certification procedures do not create unnecessary obstacles to trade, by requiring that Russia apply a non-discrimination and a national treatment regime with regard to technical regulations. It will also harmonize technical regulations and conformity assessment procedures with relevant international standards.

Things to be Done

There are still a few hurdles to be overcome before Russia becomes a full member of the WTO. First, the WTO Ministerial Conference is scheduled to meet in mid-December to approve Russia's accession package. Then, after receiving a formal invitation from WTO Ministerial Conference, membership in the WTO becomes official 30 days after the Russian authorities ratify acceptance. This is all expected to be completed by mid 2012.

However, due to Russia's inclusion in the list of countries covered by the "Jackson-Vanik Amendment," enacted by the U.S. Congress in 1974, the benefits provided by Russia's accession to the WTO may still be withheld from the U.S. market unless the U.S. Congress votes to remove Russia from the list of countries covered by the law. Negotiations on Capitol Hill are underway with respect to this issue.