THE ECONOMIC TIMES

Will Russia Energise the WTO?

Dec 29, 2011, 04.01am IST, Sajal Mathur

One bright spot in the World Trade Organization (WTO) would be the completion of the 18-year-long membership negotiations of the Russian Federation. Russia is by far the largest economy outside the WTO and its membership is welcome, overdue and likely to be just as significant as China's entry 10 years ago.

WTO membership offers a 'win-win' situation for Russia and the world. For Russia, membership locks in domestic reforms undertaken since the 1990s to become a rule-based market economy. With heavy dependence on oil and gas, WTO entry also offers Russia a chance to diversify its trade basket and to get non-discriminatory most-favoured nation (MFN) treatment from the rest of the world. Predictable, stable and transparent application of global trade rules by Russia would significantly improve the business and investment environment for the rest of the world.

There is also significant market access on offer: over 140 million consumers of goods and services. India is well-placed to grab this opportunity. India's merchandise exports to Russia amounted to $15.8 billion in 2010-11 and included pharmaceuticals, electrical machinery, vehicles, clothing, tobacco, coffee, tea and spices. As part of its WTO commitments, Russia's average tariff bindings would be just 10.8% for agricultural products and 7.3% for manufactured goods.

Russia has entered into a customs union with Belarus and Kazakhstan, and access to these markets will also open up significantly as a result. However, tariffs alone have never been the only stumbling block for entry into the Russian market. Non-tariff barriers (NTBs) - such as technical regulations, sanitary and phytosanitary measures, import bans, licensing requirements and the general lack of predictability or transparency in the trading environment - has in the past dissuaded traders from operating in Russia. With WTO membership, NTBs and behind-the-border measures will be subject to disciplines and global standards. Quantitative restrictions not justified under WTO rules would be eliminated.

In services, Russia has specific commitments in 11 service sectors and 116 sub-sectors, including those of interest to India such as computer, professional (legal, accounting, architectural, engineering and other business services), communication, travel and construction services. There are specific commitments on intra-corporate transfers and business visitors that should ease movement of professionals - a key issue for India.

Interestingly, as a Soviet legacy, Bollywood movies and songs are, perhaps, more popular than Hollywood in Russia and there is tremendous potential for the audio-visual services sector. More stringent intellectual property protection is also a central plank of Russia's WTO entry and will protect copyright and other IPRs.

Another key sector of benefit would be energy. Most major oil and gas producers such as Saudi Arabia, Russia, Iran and Iraq were never members of the General Agreement on Tariffs and Trade (Gatt). Mineral fuels were run as a cartel with Opec playing a leading role. The energy sector, like agriculture or textiles and clothing, was carved out of the WTO/Gatt system. The energy sector was excluded as a general exception to conserve exhaustible resources and/or for national security considerations. Since the Gatt days, the landscape has slowly changed.

Most major energy producers are now either members of the WTO or are taking steps to join the organisation. The accession of Saudi Arabia and now Russia may change the approach and treatment of the energy sector in the WTO.

The issue of dual pricing of energy products with different prices domestically and for export has generated debate in the subsidies context. Energy-related activities such as pipeline transportation, energy distribution services or services incidental to mining are service sectors covered by the Gats, or WTO's trade in services agreement.

The coverage is patchy though energy majors such as Saudi Arabia, Oman and now Russia have specific commitments in these areas. Tariffs and NTBs on energy products also affect countries like India, an importer and exporter of mineral fuels (we have spare refining capacity).

WTO rules governing transit trade and the negotiations on trade facilitation are also of relevance. For example, if India were to explore gas pipelines from the Middle East to cater to its growing energy needs, it would need reassurances that the pipelines through neighbouring countries are secure and will not be turned off (a situation that has raised concerns in other parts of the world and has led to an Energy Charter).

Securing supply of energy products is a major preoccupation and a potential source of tension across the world. Russia, with its abundant supply of oil and gas, has been a major player in the geopolitics of energy. New and often competing pipeline projects have been laid out. Disciplines on export restrictions and duties applied to raw materials have been mooted by some WTO members on the grounds of energy security.

It is possible that energy and other 21st century issues such as climate change could be brought to the negotiating table in the future. In fact, Russia's entry may change the negotiating dynamics of the WTO. Russia is one of the five permanent members of UN Security Council. In the WTO, it would have to share its veto power with over 150 other members. How Russia adjusts and contributes to decision-making in the WTO would be closely observed. Even if additional members make consensus-building a challenge, it would be fair to say that Russia's entry should be welcomed.

(The author is professor at the Centre for WTO Studies, IIFT)