

Presentation of the AEB guide “How to Invest in Russia 2013”

Quality Information | Effective Lobbying | Valuable Networking

www.aebrus.ru

Ruslan Kokarev

COO, AEB

Welcome word

Stuart Lawson

Chairman of AEB Finance & Investments
Committee; Executive Director / Head of UK
Business Center, Ernst&Young LLC

Introduction

Michael Akim

Director of Strategic Development,
ABB Russia

***Russian economy as a place of
investment in modernization and
innovation***

Art Franczek

President,

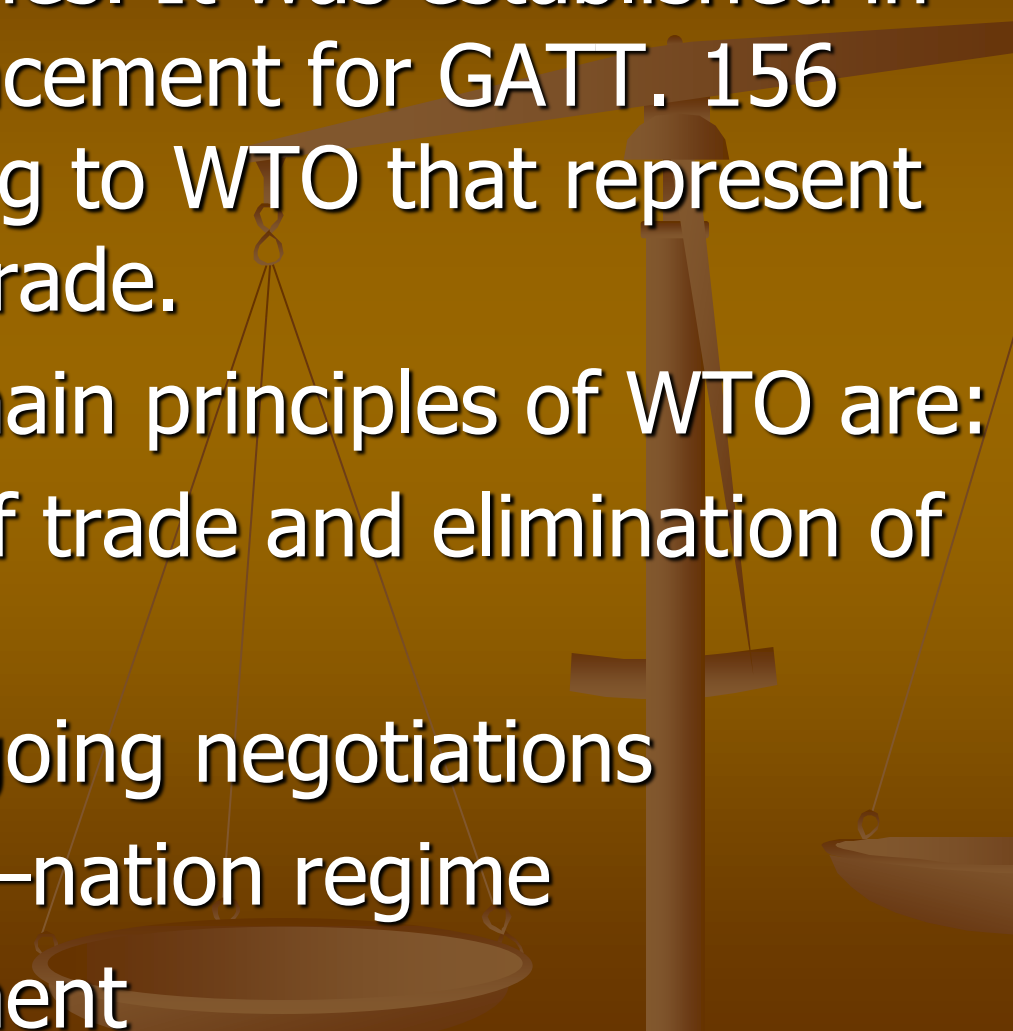
American Institute of Business and Economics

***Period of adjustment, how Russia is
adapting to WTO and what it means for
investors***

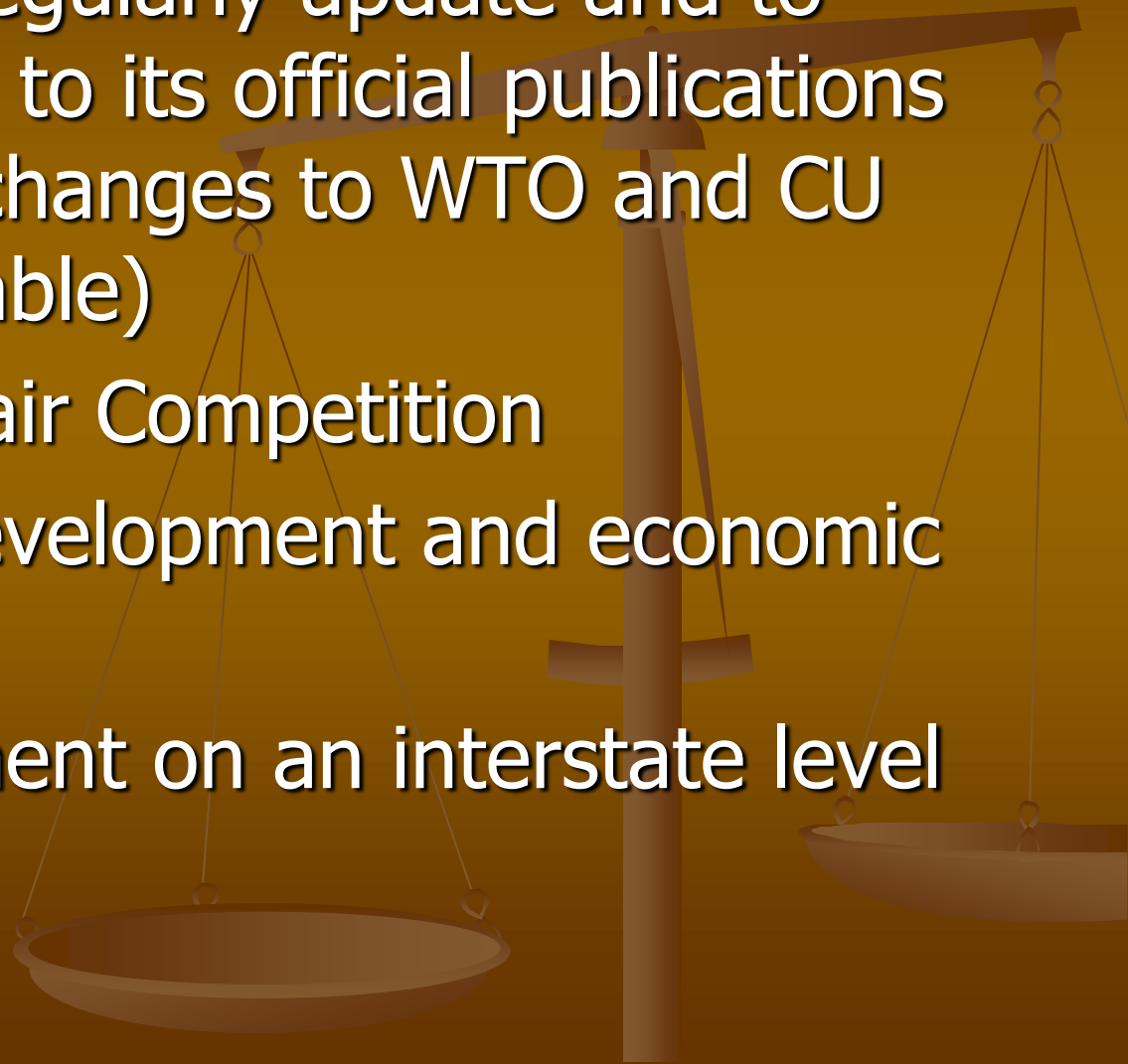
TOUGH TRANSITION



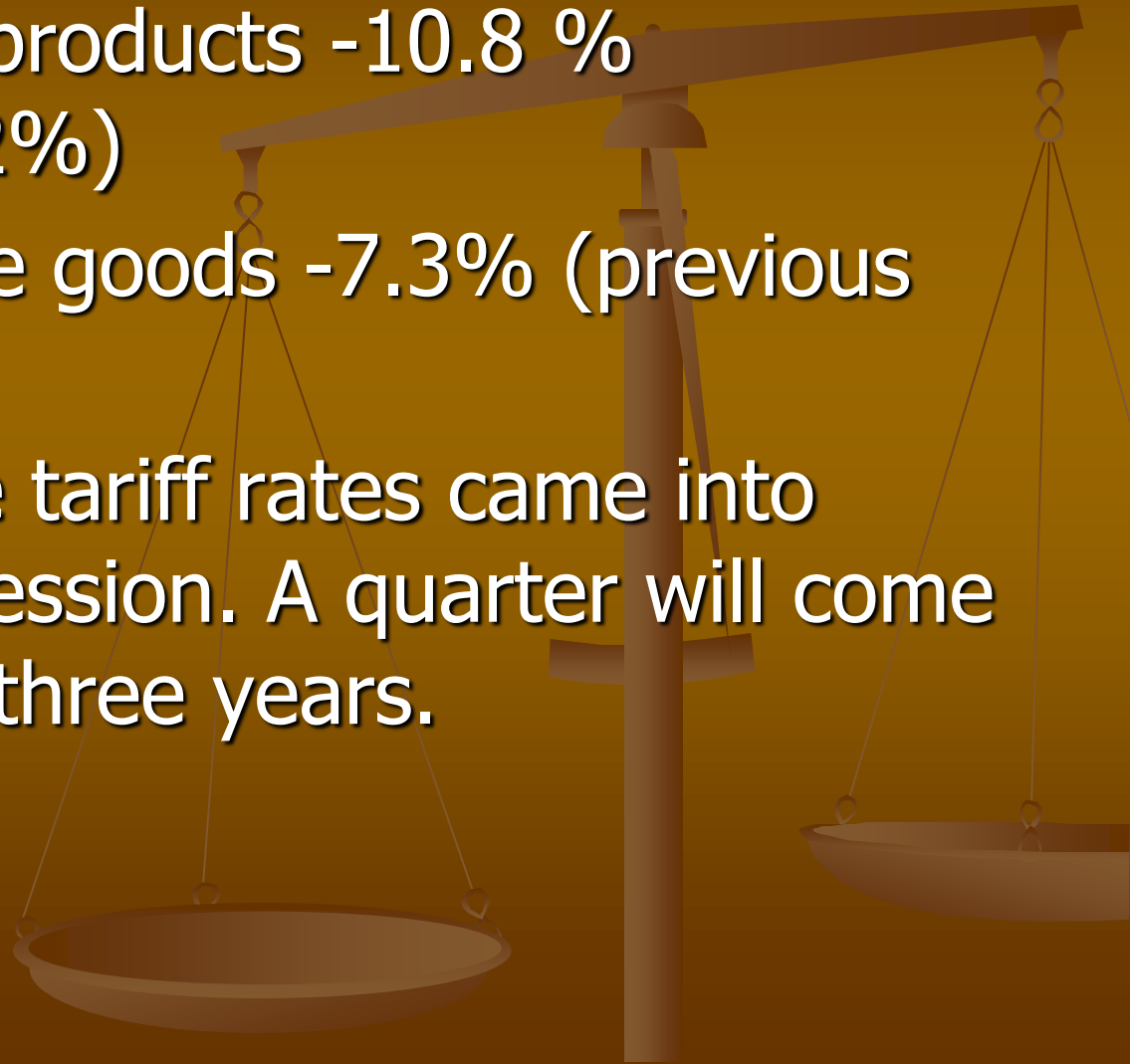
ART FRANCK, President The American
Institute of Business and Economics

- 
- The World Trade Organization establishes a framework for trade policies for its member countries. It was established in 1995 as a replacement for GATT. 156 countries belong to WTO that represent 93% of world trade.
 - Some of the main principles of WTO are:
 - Liberalization of trade and elimination of trade barriers
 - Principle of ongoing negotiations
 - Most –favored –nation regime
 - National treatment

- Freer Trade
- Predictability and Transparency (Russia is committed to regularly update and to improve access to its official publications and will make changes to WTO and CU publically available)
- Promotion of Fair Competition
- Encouraging development and economic reform
- Dispute settlement on an interstate level



- Some Russian commitments:
- On average the final binding tariff will be 7.8% (previous rate was 10%)
- For agriculture products -10.8 % (previously 13.2%)
- For manufacture goods -7.3% (previous (9.5%))
- One third of the tariff rates came into effect upon accession. A quarter will come into force after three years.



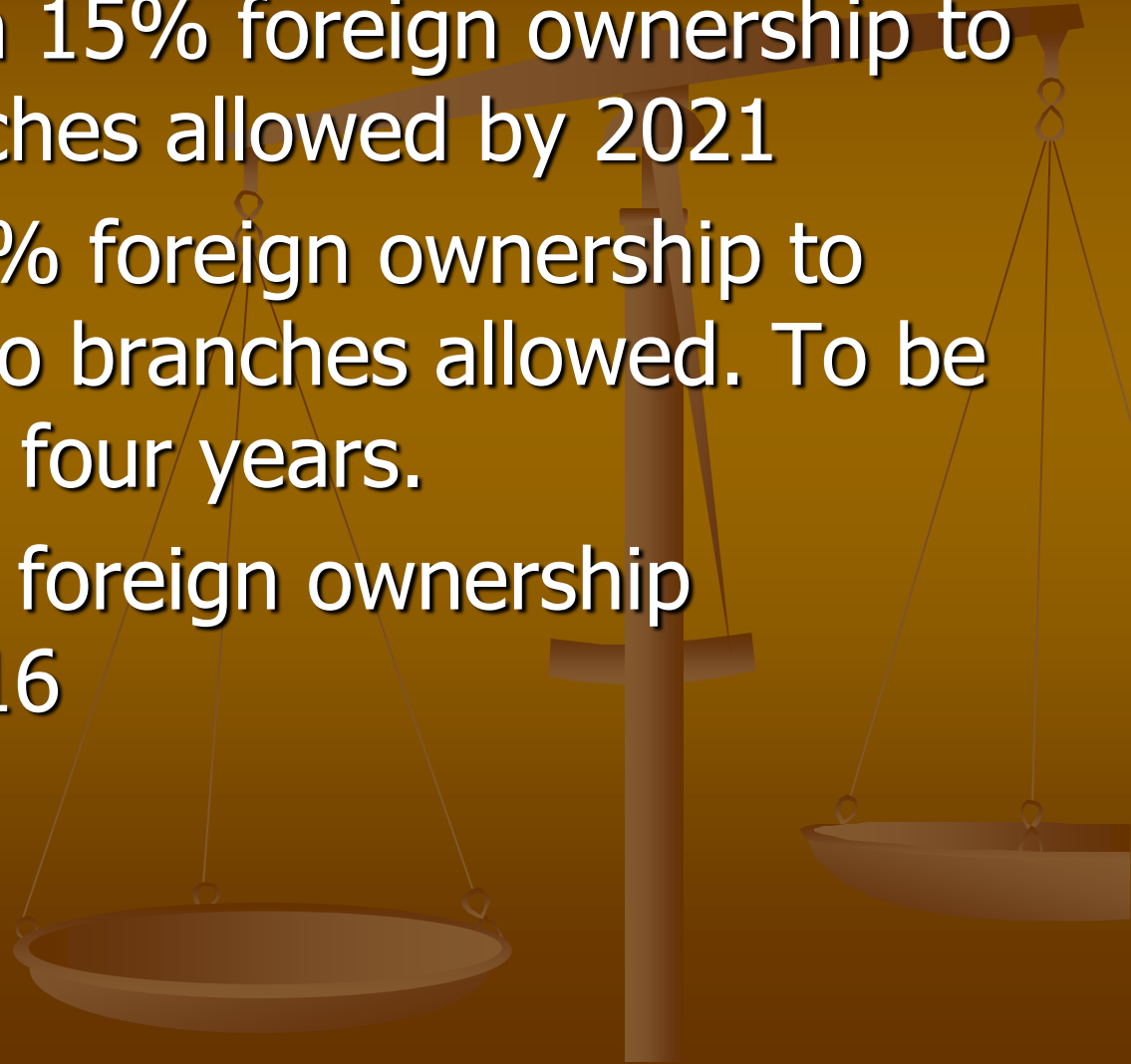
Some transition dates

- Commercial airplanes from 20% to 7.5% by 2018
- New autos from 30-35% to 25% in 2012 to 15% by 2018
- Used autos from 35% to 25% in 2012 to 20% by 2018
- LCVs from 25% to 10% in 2012 to 5% by 2018



Some Transition Dates

- Insurance: from 15% foreign ownership to 50 % and branches allowed by 2021
- Banks: from 15% foreign ownership to 50% in 2012. No branches allowed. To be reviewed within four years.
- Telecoms: 49% foreign ownership removed by 2016



Commitments in Agricultural Sector

- Russia applies tariff-rate quotas (TRQs) on agricultural imports of meat products and high tariffs on any imports over the TRQ.
Beef-15% within TRQ 55% above TRQ (530,000 tons)
- Poultry -25% within TRQ 75% above TRQ (350,000 tons)
- Pork -0% within TRQ 65% above TRQ (350,000 tons), by 2020 TRQ will be removed and the rate will be 25%

Local production of Autos

- In 2005 Russian Governmental Decree N. 166 established a special investment program in order to support local production of autos.
- MED concluded agreements with 31 manufacturers and 42 spare parts manufacturers, as well as memoranda of intent with 15 vehicle and 189 spare parts manufacturers.
- The deadline for concluding an agreement was 2/28/11 and 12/31/13 if there is a memorandum of intent in place. This program will be effective until 2021.


Russia's WTO Commitments on Services

- As part of WTO Russia has undertaken enforceable market access commitments covering service sectors such as audio-visual, telecommunications, distribution, express delivery, energy and financial services (including insurance, banking and securities)
- The World Bank studies show that services generate 72% of Russia's 3% gain in GDP from WTO accession

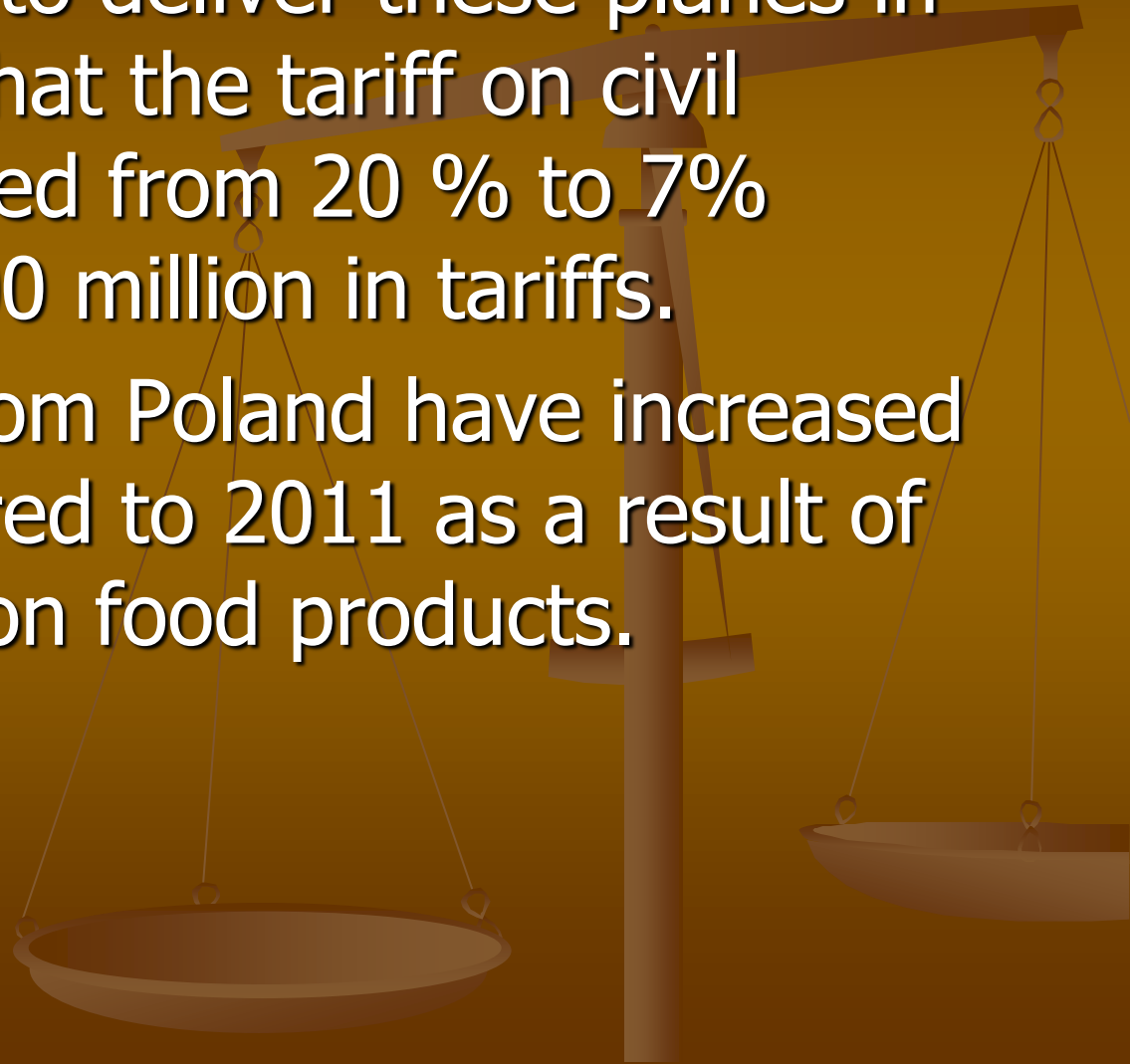
- 
- The World Bank estimates that Russia's GDP will increase by 3.3% in the first three years and 11% after 11 years as a result of WTO accession.
 - Maxim Medvedkov has said that Russia may actually lose .5 % from GDP because of Gazprom issues
 - Prime Minister Medvedev said that we may not see results for 5 to 10 years.
 - In 2012 59% of Business were felt that Russia's WTO accession would improve the business climate . In 2013 it was 29%.

Initial Results of WTO accession

- The EU estimates that its exporters will save 2.5 billion Euros annually on reduced tariffs and that 3.9 billion Euros of additional exports will be generated
- US exports to Russia have increased 29% from 2011 to 2012
- General Motors announced plans to invest US 1\$bn in the next 5 years, Nissan and Renault have also made significant investments. These investments in the auto sector were a result of Russia's WTO agreement extension of tax benefits until 2018. Mercedes plans to produce autos in Russia.
- Exports of timber to Finland have increased by 20% because export tariffs were significantly reduced

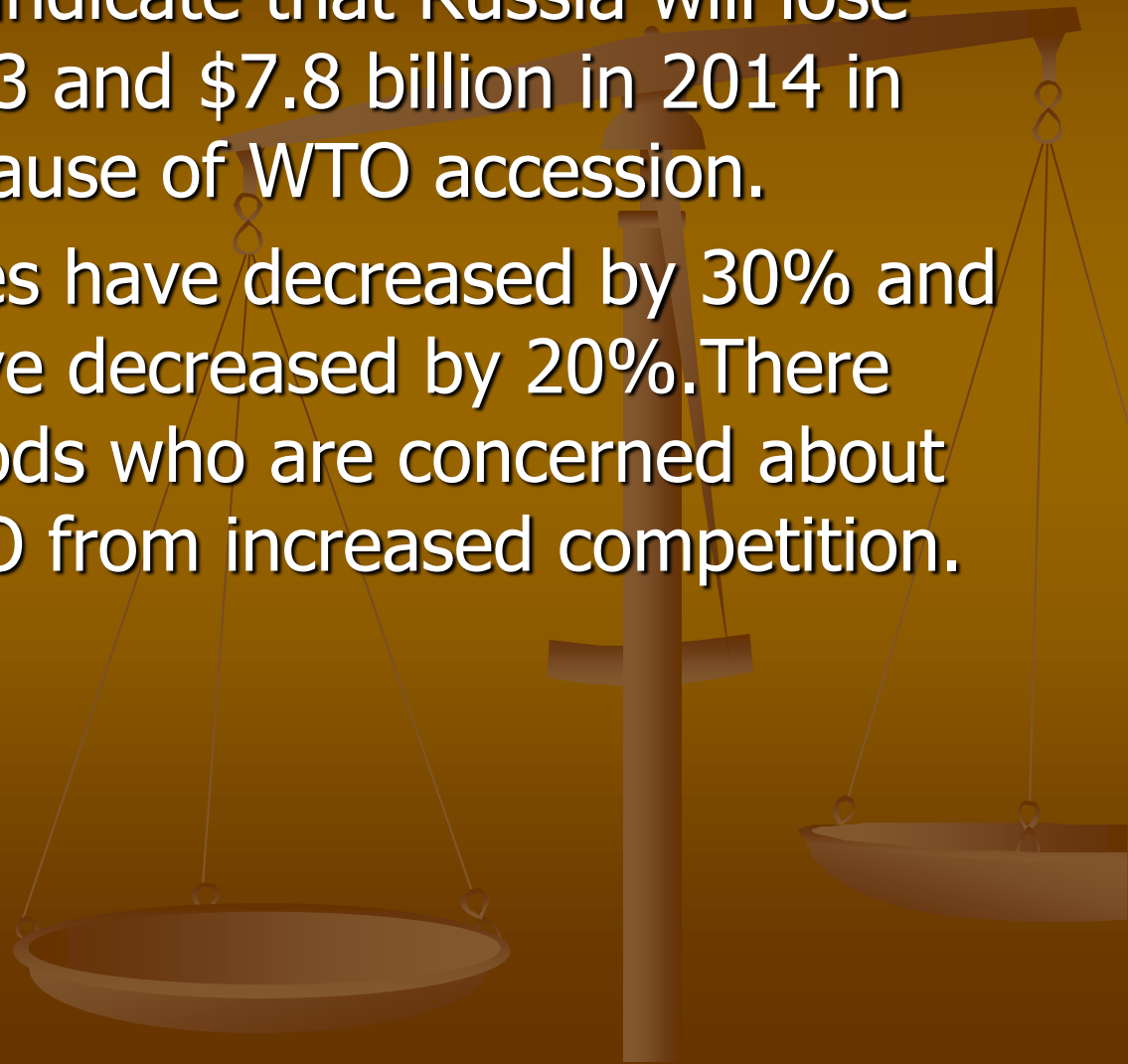
- 
- The IT industry will significantly benefit from WTO accession as Russia has removed restrictions on imported digital equipment and reduced the import duties on high tech goods to zero. Russia has become a member of TRIPS and is committed to join ITA.
 - Russia's spending on information Technology products is expected to increase 11% in 2013.
 - Foreign pharmaceutical companies will greatly benefit from Russia's WTO accession as tariffs on these goods have been greatly reduced and 6-year data protection has been implemented. Projections show an annual increase of 8% in Pharmaceutical imports.

- Boeing has announced plans to sell 37 MAX planes to Russian Technologies.
- Boeing expects to deliver these planes in 2018 the year that the tariff on civil aircraft is reduced from 20 % to 7% saving over \$400 million in tariffs.
- Food imports from Poland have increased by 30% compared to 2011 as a result of reduced tariffs on food products.



Russia's adjustments during the transition period

- Official estimates indicate that Russia will lose \$5.7 billion in 2013 and \$7.8 billion in 2014 in tariff revenue because of WTO accession.
- Russian pork prices have decreased by 30% and chicken prices have decreased by 20%. There are 400 monogorods who are concerned about the effects of WTO from increased competition.

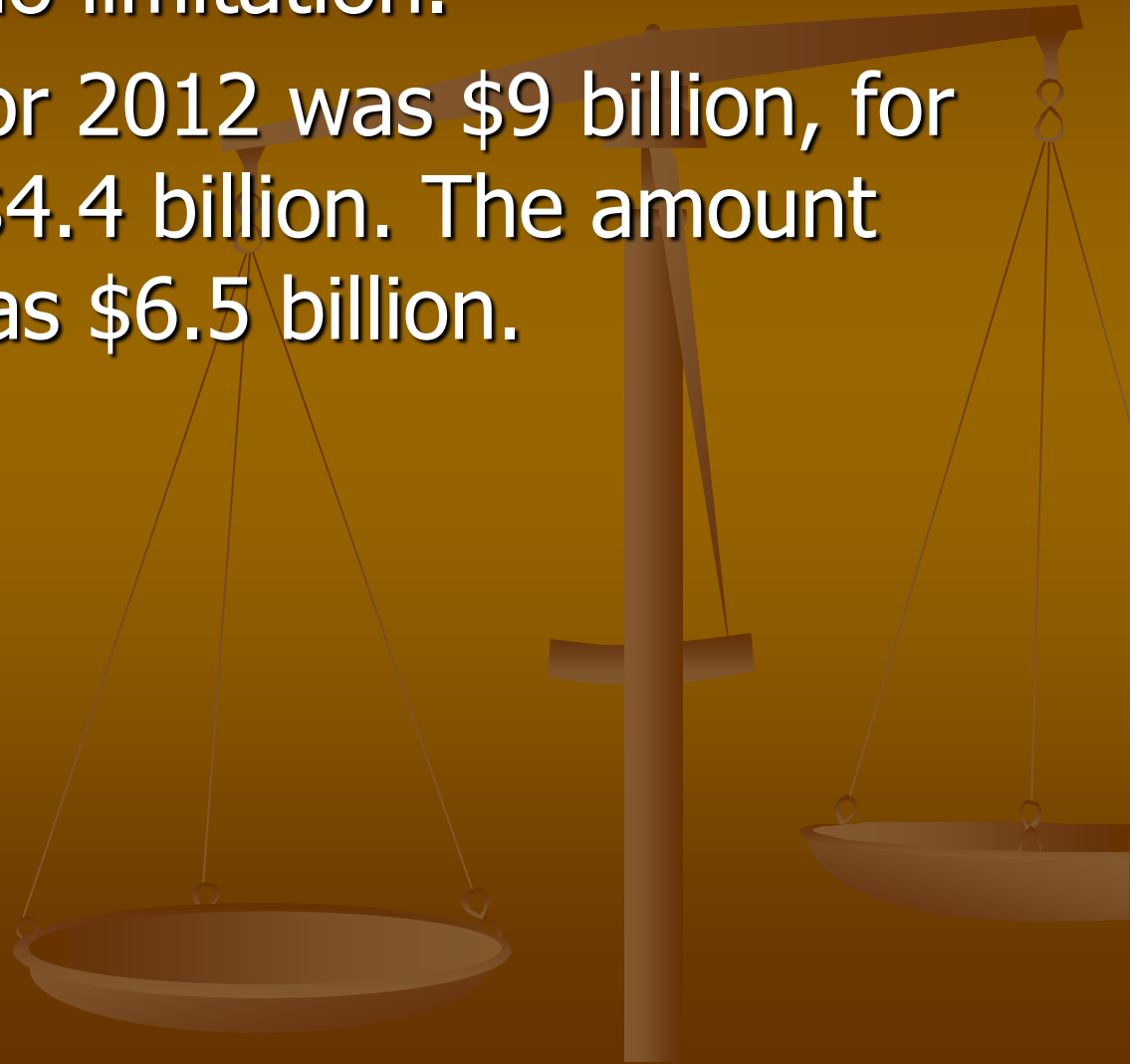


WTO Subsidies

WTO divides support measures into 2 groups:

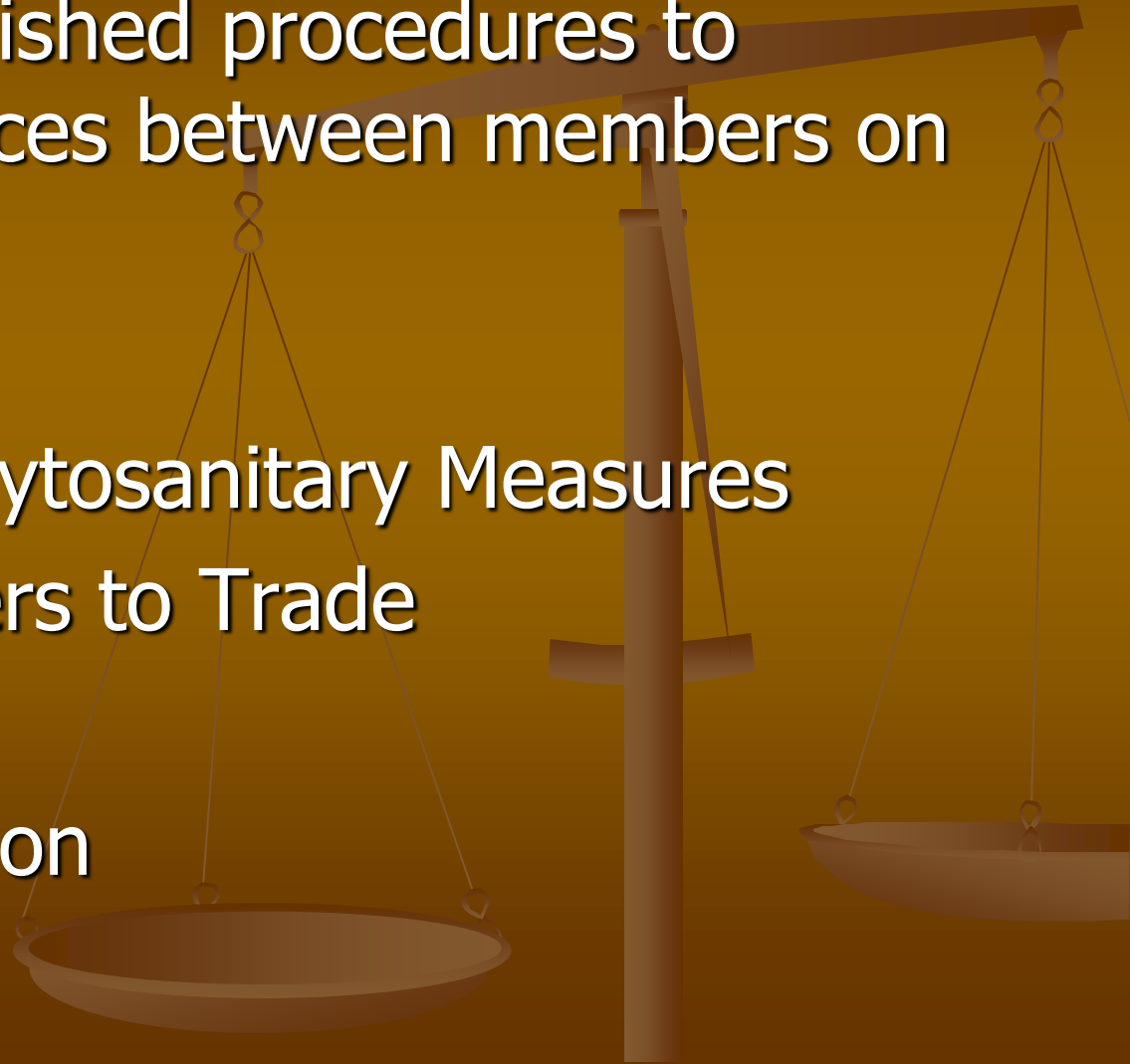
- Green: non-distorting : R&D, pest control, training, consulting, risk insurance, marketing and promotion, infrastructure, electricity, roads, environment, etc.
- Yellow: distorting: price supports, marketing loans, payments based on the size of agricultural plots, payments based on the number of farm animals, subsidies related to the means of production, seeds, fertilizers, irrigation, etc. and individual programs of subsidized loans

-
- Yellow supports are limited, the Green supports have no limitation.
- The limitation for 2012 was \$9 billion, for 2018 it will be \$4.4 billion. The amount used in 2008 was \$6.5 billion.

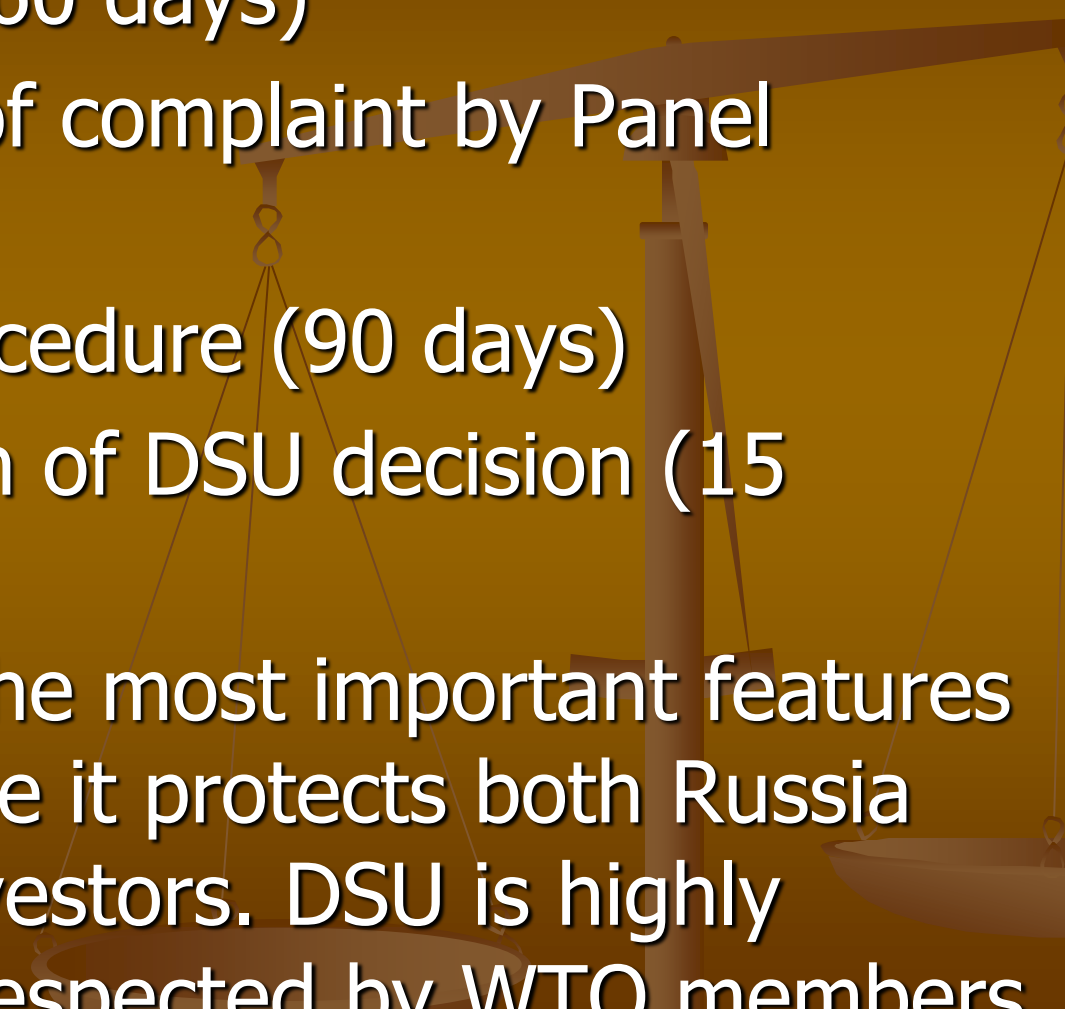


Dispute Resolution under WTO

- WTO has established procedures to resolve differences between members on such issues as:
 - Agriculture
 - Sanitary and Phytosanitary Measures
 - Technical Barriers to Trade
 - Antidumping
 - Customs valuation
 - Other issues

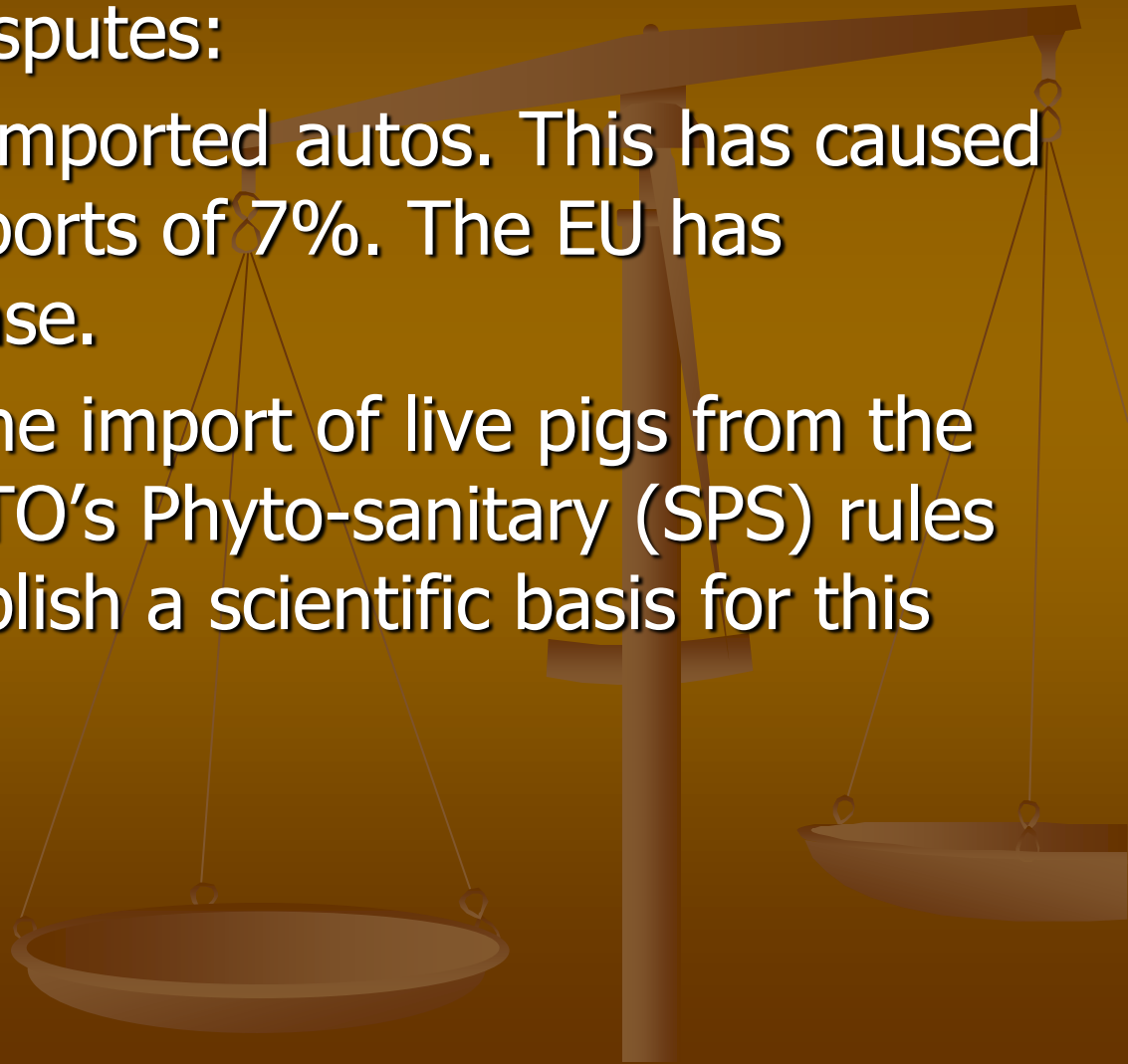


Stages of WTO Dispute Settlement

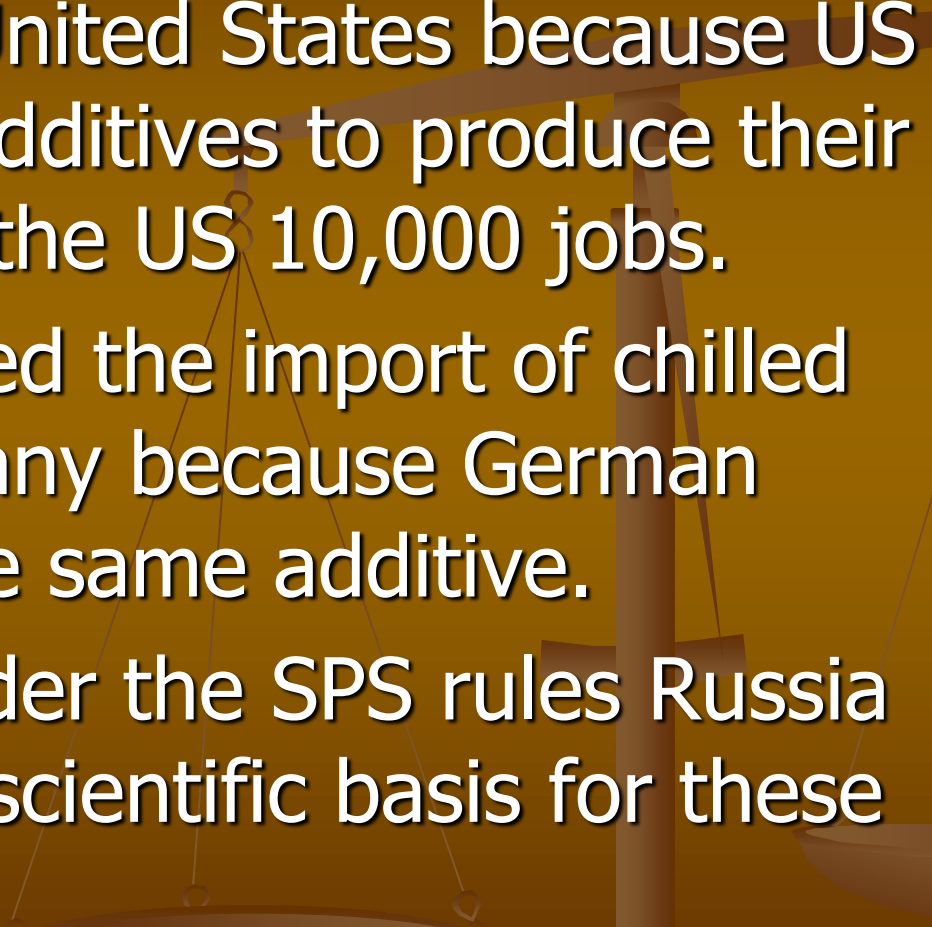
- Consultations (60 days)
 - Consideration of complaint by Panel (9months)
 - Appellation Procedure (90 days)
 - Implementation of DSU decision (15 months)
 - This is one of the most important features of WTO because it protects both Russia and Foreign investors. DSU is highly regarded and respected by WTO members.
- 

Possible Dispute Resolution Cases

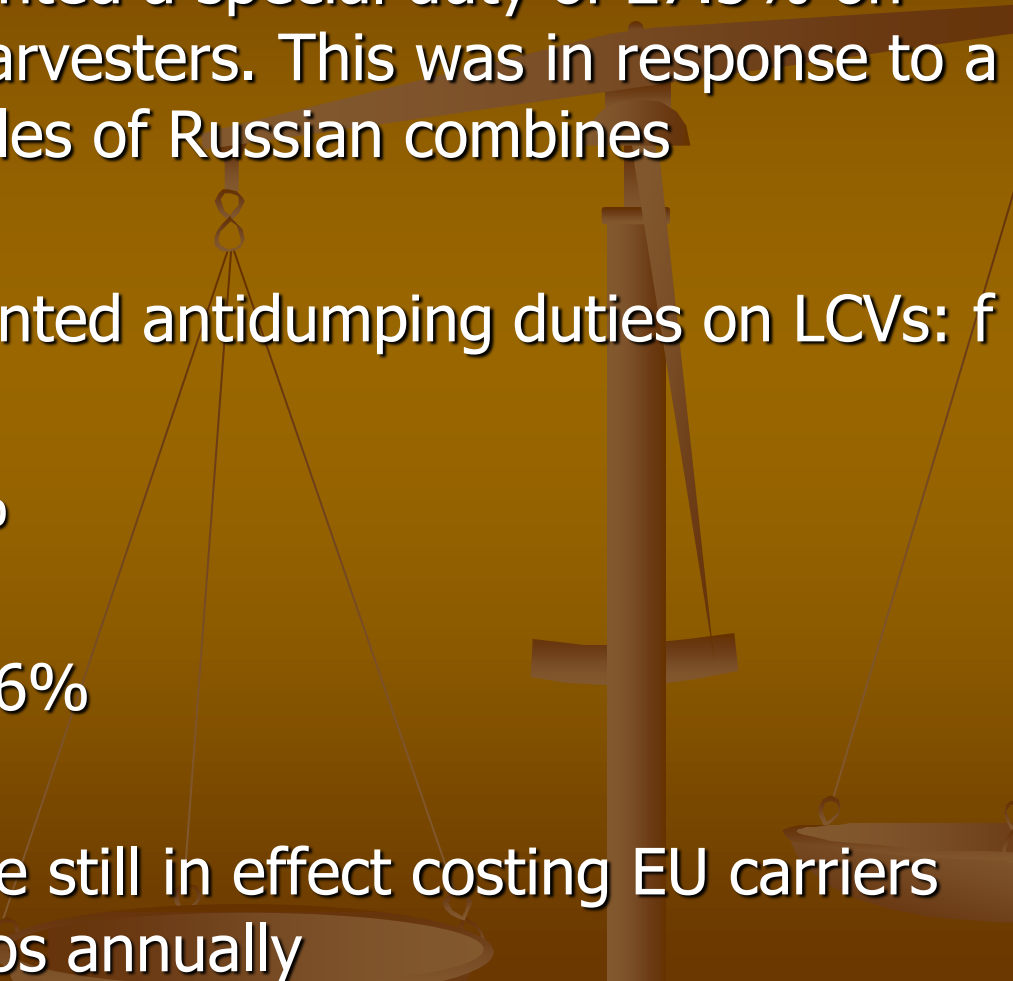
- The EU Trade Commissioner has identified the following trade disputes:
- Recycling tax on imported autos. This has caused a reduction in imports of 87%. The EU has officially filed a case.
- Russia's ban on the import of live pigs from the EU. Under the WTO's Phyto-sanitary (SPS) rules Russia must establish a scientific basis for this ban.



Meat Ban

- Recently Russia banned the import of meats from the United States because US producers used additives to produce their meat. This costs the US 10,000 jobs.
 - Russia also banned the import of chilled meat from Germany because German producers use the same additive.
 - In both cases under the SPS rules Russia must establish a scientific basis for these bans.
- 

Russia's Protective Measures

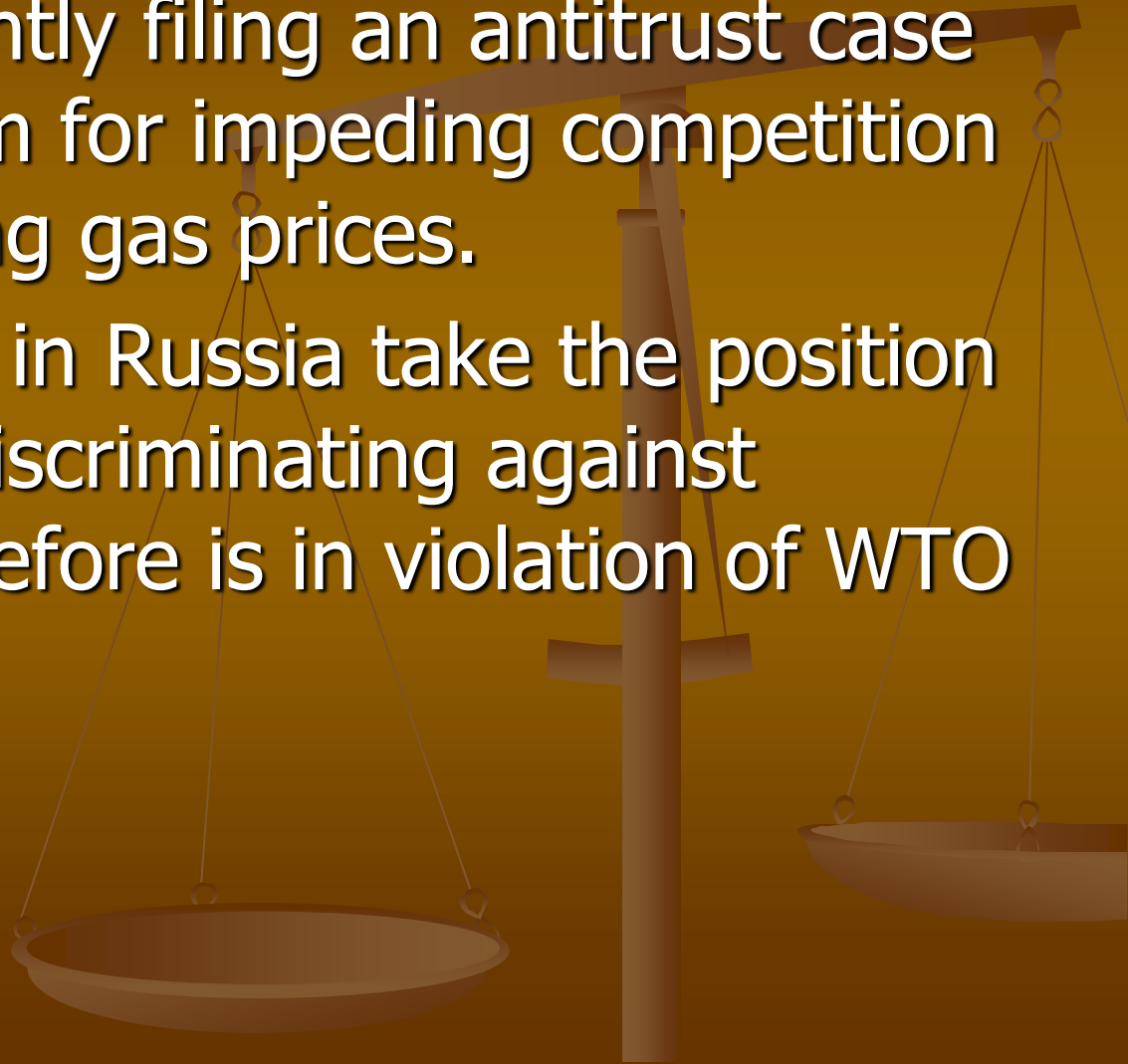
- The EEC has implemented a special duty of 27.5% on imports of combine harvesters. This was in response to a 43% decline in the sales of Russian combines
 - The EEC has implemented antidumping duties on LCVs: f
 - Ford Turkey -11%
 - Peugeot Citroen- 23%
 - Fiat Iveco -23%
 - Mercedes & VW – 29.6%
 - Over flight charges are still in effect costing EU carriers about 400 million euros annually
- 

Some Russian Dispute Resolution issues

- According to the Ministry of Economic Development 73 trade barriers are currently imposed against Russian goods in 18 foreign markets. Five countries have made remedy investigations that are currently taking place and 11 antidumping duties are being reviewed. Antidumping investigations are being reviewed with the US, Ukraine, India, China and Mexico. Russia loses 2.5 billion dollars annually due to antidumping.

WTO and the EU/Gazprom antitrust case

- The EU is currently filing an antitrust case against Gazprom for impeding competition and manipulating gas prices.
- Several officials in Russia take the position that the EU is discriminating against Russia and therefore is in violation of WTO rules.



- Russia's WTO accession begins a new economic age for Russia. As President Putin has said: Russia's accession to WTO will create the incentive required to modernize our economy, improve our business climate, help Russia in the medium term to gain a better place in the international division of labor and make our market more attractive to capital and direct investments.



Thank You
Art Franczek
artf@online.ru
www.wto.org



Polina Kryuchkova

Head of Department for
Investment Activity Development,
Moscow City Investment Agency

***Favorable Investment Climate is a Key
Priority of Moscow Authorities***

Q&A Session



The Association of European Businesses (AEB)

Ul. Krasnoproletarskya 16, bld.3

127473 Moscow, Russia

Tel.: +7 (495) 234 27 64

www.aebrus.ru