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Looking Back, Looking Forward:
Russia & the WTO
Implications for U.S. Agricultural Trade

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Implications for U.S. Agricultural Trade

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The Past: Post-Soviet Realities

- Planned system that existed outside economic reality.
  - Product shortages.
  - Low productivity.
  - Resources channeled to military.
  - Exported oil/gold, imported grain.
- System collapsed when subsides ended and agriculture faced markets.
  - Production fell by 40% after 1991.
  - Disastrous 1998-1999 grain harvest.
  - Declining livestock industry.
- Food aid in 1992-1995 and 1999-2001.



The Present: Recovery

- Rebuilding since 1990's nadir and 2009 economic crisis.
  - Ended most price controls in 1990s.
  - 1998-2000 ruble devaluation improved competitiveness.
  - Private sector expansion – now 75% of economy.
- Rising primary production.
  - Agricultural output in 2011 grew by 16.1%.
  - Russia has land and water resources.
  - Cheap energy.
  - Investment in machinery.
  - Grain and sunflowers.

The Present: Recovery

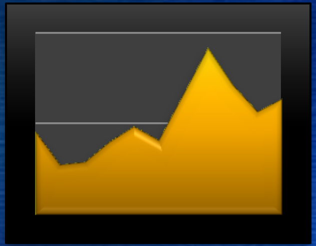
- Rising processed food production.
  - Production rose 10% annually from 2005-2008.
  - Improving product quality.
  - Foreign investment.
  - Industry consolidation.
  - Around 40% of inputs used are imported.
    - More than a half of the meat and milk products in big Russian cities are provided by import suppliers.
    - As much as 70% of the raw materials in meat processing plants are imported.

The Present: Rising Consumption

- Oil money fueling a consumer boom:
  - Many wealthy in Moscow, St. Petersburg.
  - Rising middle class in other cities such as Yekaterinburg and Nizhniy Novgorod.
  - Consumer spending on food has increased from 2006 through 2011 by 114% with an annual growth rate of 17%.
  - Retail and wholesale trade sales grew by 17.8% in 2010.
  - Russian retail food and beverage sales are forecast to increase in real terms from just over $200 billion in 2010 to more than $240 billion by 2014—a 20% increase.
  - Total imports of ag, fish and forestry up 26% in 2011.

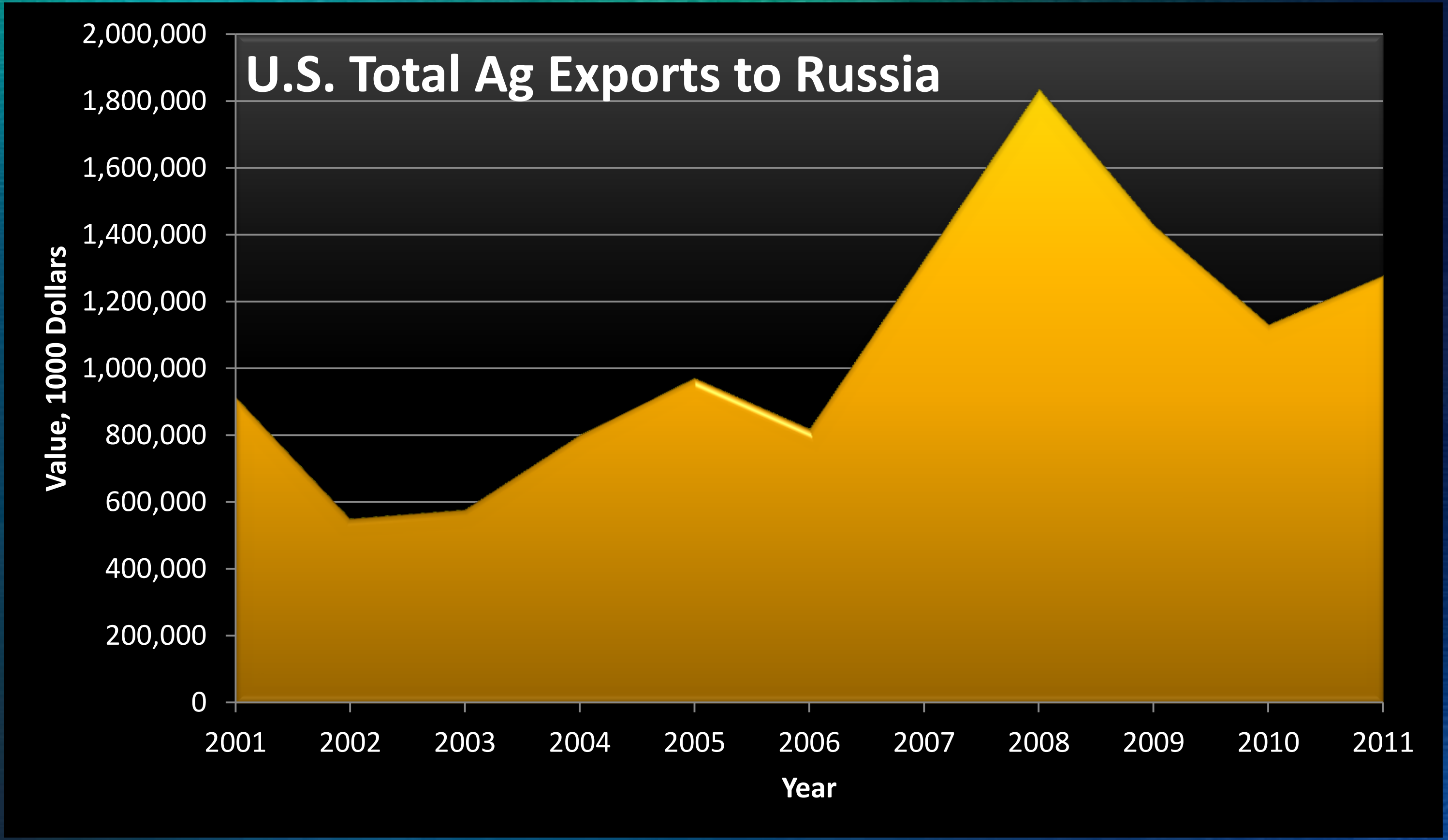
The Present: Trade

- In 2005, Russia imported just under $15.8 billion worth of agricultural products from around the world, but 2011 imports expected to exceed $32 billion.
- In 2010, the United States was the seventh largest supplier in the Russian market.
- Imports of U.S. food and agricultural products were around $1.3 billion.
- Leading products: Red meat, poultry, nuts (almonds and pistachios), food preparations, genetics (livestock and poultry), seafood, bourbon and rum, soybeans, & fresh fruit.



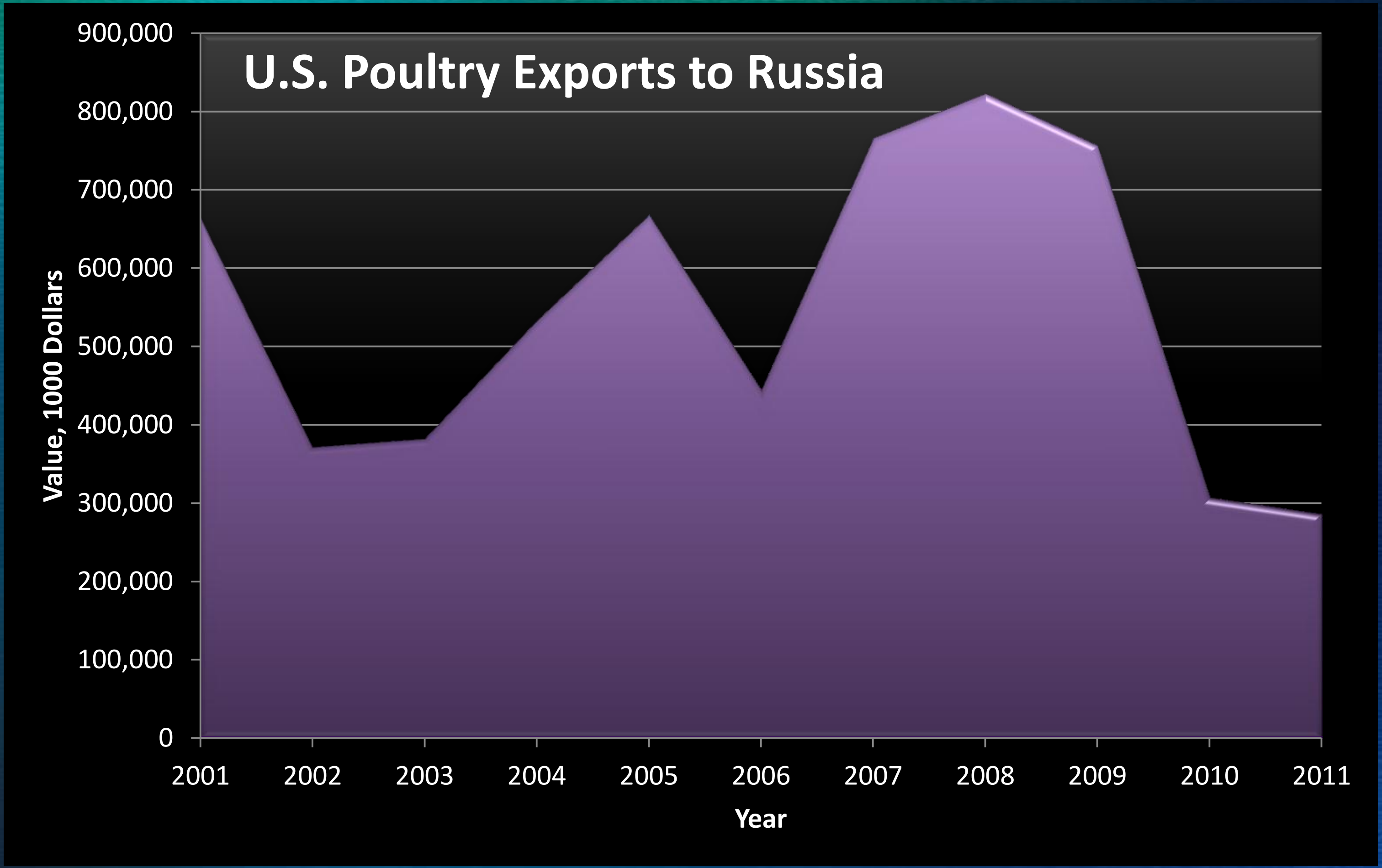
The Present: Trade

- Russia is the 17th largest U.S. ag export market with increasing trade over time.



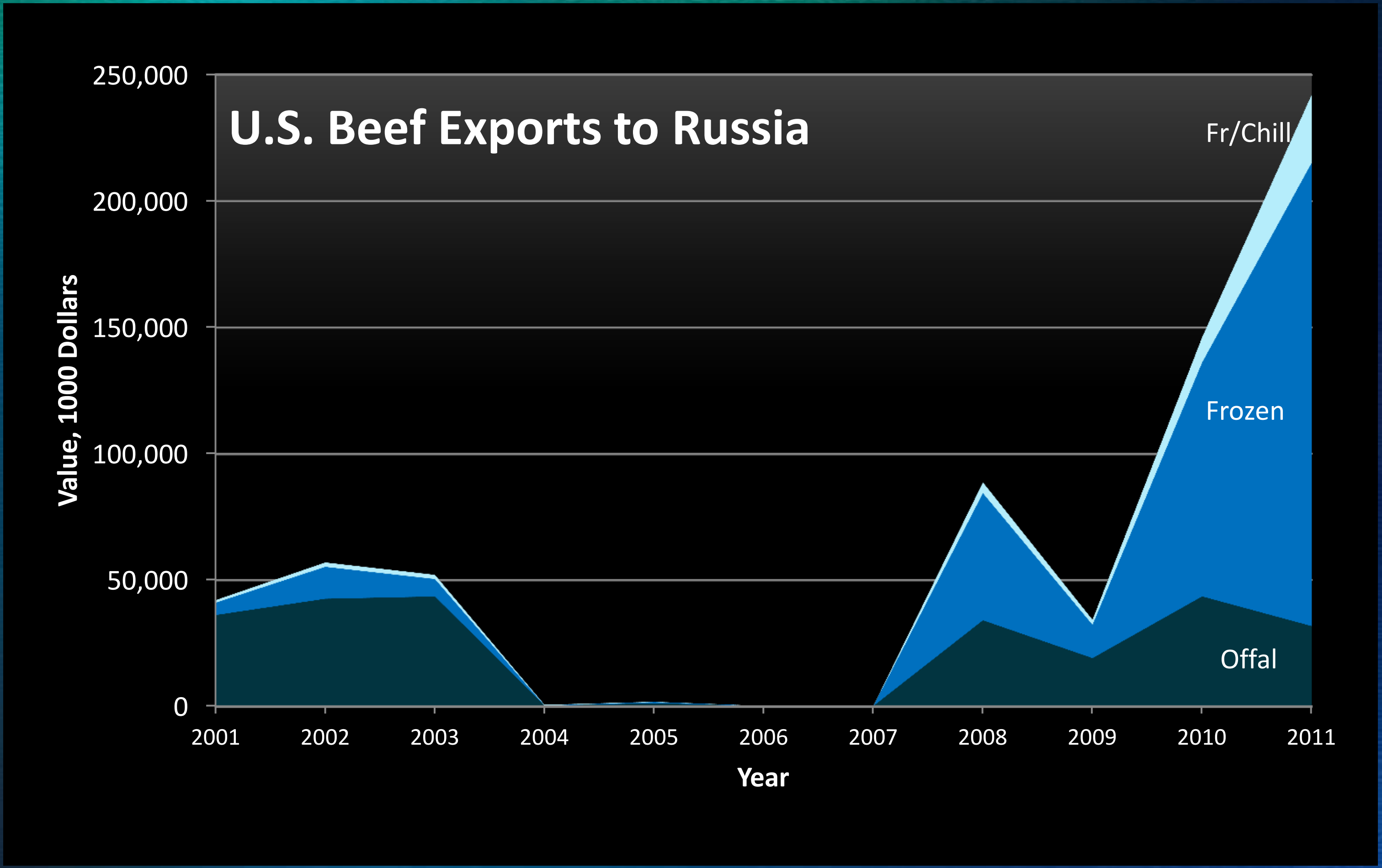
The Present: Trade

- Russia is the 4th largest U.S. poultry market.



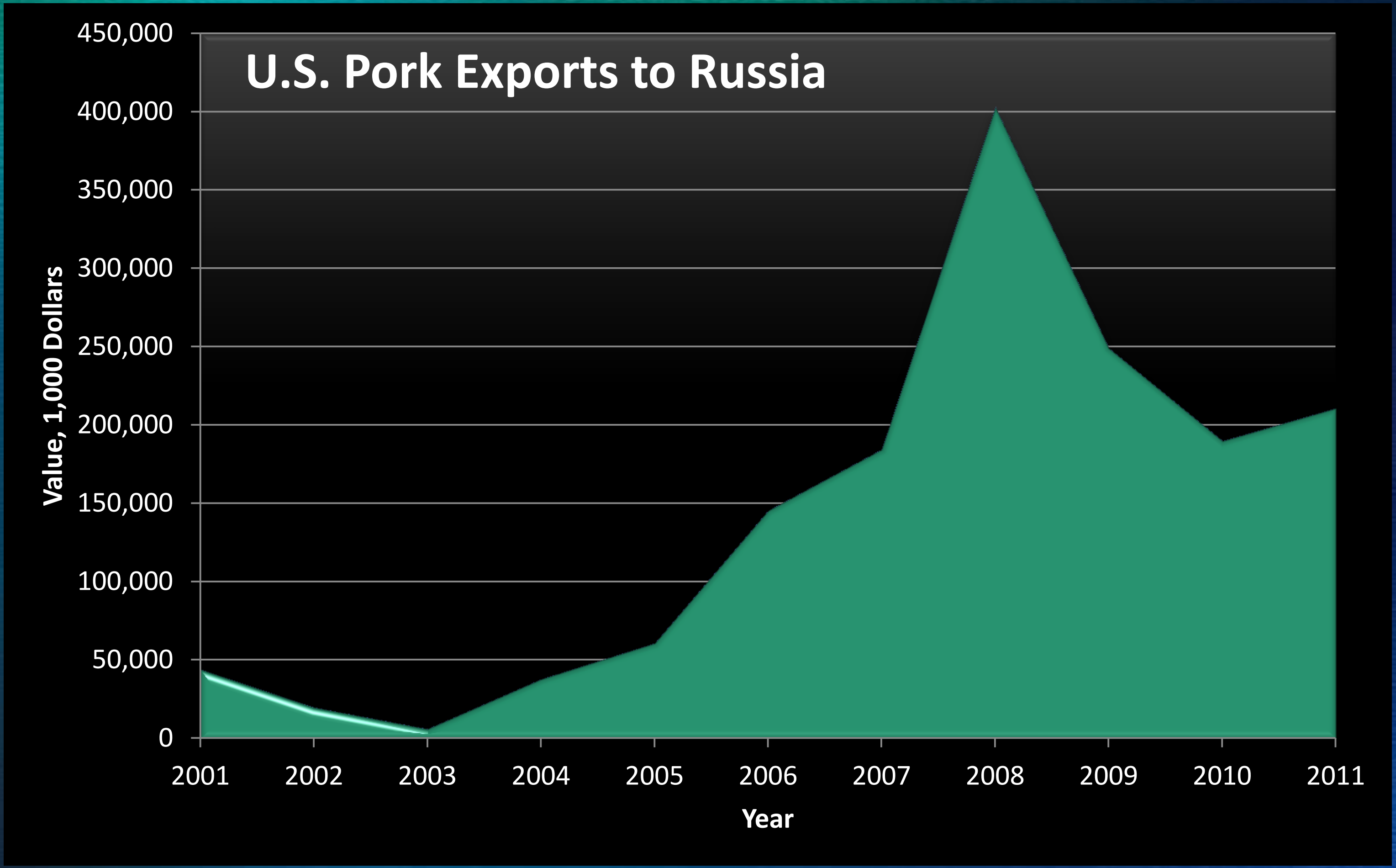
The Present: Trade

- Russia is the 5th largest U.S. beef market.



The Present: Trade

- Russia is the 6th largest U.S. pork market.



The Near Future: WTO Accession

- On December 16, 2011, trade ministers approved the terms of Russia’s accession and issued a formal invitation for Russia to join the World Trade Organization (WTO) as its 155th Member.
- Ended Russia’s 18-year effort to join the multilateral trading system.
- Entry of largest country outside trading system.
- Largest accession package ever – 600 pages!
- Formal accession likely by August, 2012.

The Near Future: WTO Accession

- Average duties for all products cut to 7.8% from 10% in 2011.
- Reduces the average tariff on farm goods to 10.8% from 13.2%.
- Examples include:
  - Pork: By January 1, 2020, adopt a tariff-only regime bound at 25%.
  - Apples: Tariffs for all varieties will fall by at least two-thirds within 5 years.
  - Pears: Reduce tariffs from 10% to 5% within 3 years.
  - Almonds, walnuts, pistachios and macadamia bound at applied rate of 5% upon accession.
  - Cheese: Reduce maximum tariff bindings from 25% to 15%–mostly within 3 years.
  - Soybeans, soybean meal and soybean oil: Russia will bind its tariff on soybeans at zero and cut its tariff on soybean meal from 5% to 2.5 % within a year. Will bind its tariffs on soybean oil at 15% upon accession.
  - Breakfast Cereals: Russia will reduce tariffs on breakfast cereals from 15% to 10% within 3 years.
  - Wine: Russia will reduce its tariffs on wine from 20% to 12.5% within 4 years.

The Near Future: WTO Accession

- Disciplines on Sanitary and Phytosanitary (SPS) measures including risk assessment, sound science, equivalence and right to comment.
  - Russia has reopened its market to U.S. poultry products.
  - Russia agreed to an interim approval and registration system for biotech products.
  - Accept FSIS certifications of pork and poultry producing facilities.
  - Reduce/eliminate licensing requirements.

The Near Future: WTO Accession

- Tariff rate quota (TRQ):
  - Pork: Global TRQ of 400,000 tons for fresh/chilled/frozen pork and a separate TRQ of 30,000 tons for pork trimmings. Both have zero in-quota rates.
  - Beef: High-quality beef will no longer be subject to quota and will receive in-quota rate. Global TRQ of 11,000 tons for fresh/chilled beef and U.S. country specific TRQ of 60,000 tons for frozen beef. TRQs have an in-quota tariff of 15%.
  - Poultry: TRQ of 250,000 tons for chicken halves and leg quarters with an in-quota tariff rate of 25% and separate TRQ access for commercially important turkey products. Also access to boneless chicken TRQ.
  - Whey: TRQ of 15,000 metric tons, with a 10% in-quota duty.
- Allowed aggregate measure of support (AMS) reduced from $9 billion for 2012-3 to $4.4 billion by 2018.

The Future: Opportunities

- The market.
  - Population: 142 million people.
  - Economic growth, especially in major cities.
  - Rising disposable income, real wages, food expenditures and falling unemployment.
  - Growing retail sector.
- Strong product demand.
  - More direct sale to consumers.
  - Inputs to food processing.
  - Major beef, poultry, animal genetics, fish, tree nut, and dried/fresh fruit importer.

The Future: Opportunities

- Investment and cooperation.
  - Animal genetics.
    - U.S. live animal exports at $58 million, mostly breeding cattle.
    - U.S. hatching egg exports at $13 million, at record levels.
  - Farm machinery.
    - Already U.S. 4th largest export market.
  - Food processing investments.
- Customs Union (CU).
  - Includes Russia, Belarus, and Kazakhstan.
  - 1 January 2012: The free movement of goods, services, capital and labor between countries.
  - All CU legislation will have to be consistent with Russia’s WTO commitments, including the SPS agreement.

The Future: Challenges

- Technical standards.
  - SPS problems such as vet issues.
  - Anti-dumping and safeguards.
  - Intellectual property/branding.
- Customs Union (CU).
  - Country specific requirements may vary in practice.
- Local and other competition.
  - Strong local/CU/EU producers.
- Political issues.
  - Jackson-Vanik - Need to pass critical legislation to grant Russia Permanent Normal Trade Relations (PNTR).
- Corruption, currency, and economic volatility.

Thank you!

Acknowledgements
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