



Russia's Accession to the WTO

Opportunities for the U.S. Aerospace Sector

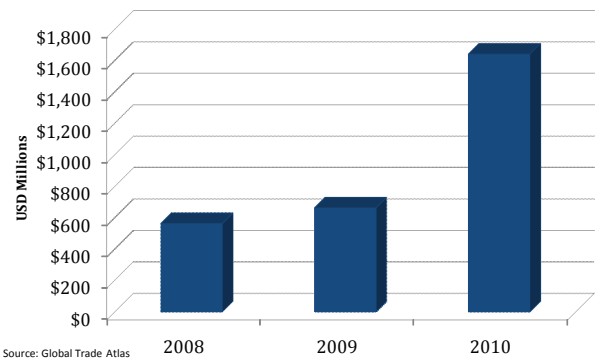
Russia's membership in the WTO will provide significant commercial opportunities for U.S. exporters:

- U.S. manufacturers and exporters will have more certain and predictable market access as a result of Russia's commitment not to raise tariffs on any products above the negotiated rates and to apply non-tariff measures in a uniform and transparent manner.
- Russia agreed to bind all of its tariffs on aerospace products and, after full implementation of its WTO commitments, Russia's average tariff on aerospace products will be 8.3 percent.
- To join the WTO, Russia must change its trade regime and implement many trade liberalizing obligations. The United States, by contrast, will merely extend permanently to Russia the same trade treatment it already extends to all other WTO Members, and has extended to Russia every year since 1994.
- Russia's obligations, including those on tariffs and non-tariff measures, will be enforceable through use of WTO dispute settlement.

Aerospace Sector Overview

- The aerospace sector accounted for \$955 million of U.S. exports to Russia over 2008-2010 (annual average).¹
- Top U.S. aerospace exports to Russia include large civil aircraft, aircraft engines, small civil aircraft, helicopters, navigation equipment, and radar equipment.
- In 2009, U.S. production of aerospace products was about \$172 billion.²
- The U.S. aerospace sector employed approximately 492,800 workers in 2009.³
- As the Russian aerospace industry continues to build its capacity to produce locally, market opportunities are expected to develop for U.S. manufacturers of high-tech machine tools and smaller aircraft components that would feed into the Russian supply chain. Additionally, U.S. avionics, navigation systems, and other large integrated components will continue to be in demand by Russian manufacturers of aircraft and helicopters, especially in the modernization and the aftermarket segments.⁴
- Russia is one of the very few countries with its own vertically integrated aviation and airplane industry. The United Aircraft Corporation (UAC) is a majority state-owned enterprise that places the majority of Russia's private and state-owned aircraft design bureaus, manufacturers, and sales under a single joint stock company. UAC is actively pursuing joint production and technology sharing arrangements with aerospace producers in the United States, Western Europe, and elsewhere. Therefore, Russia will be an important market for U.S. aerospace companies and Russia's WTO accession will help to ensure that U.S. manufacturers stay on a level playing field with local Russian competitors.

U.S. Aerospace Exports to Russia Averaged \$955 Million



Improved Market Access for U.S. Aerospace Exporters to Russia

- Russia's tariffs on aerospace products currently range as high as 20 percent.⁵
- After full implementation of its WTO accession commitments, Russia's average tariff on U.S. aerospace exports will be reduced to, and bound at, 8.3 percent.

Selected Products:

- *Wide-Body Civil Aircraft:* Russia's tariffs on civil aircraft currently go as high as 20 percent. After full implementation of its WTO accession commitments, Russia's tariffs on U.S. wide-body civil aircraft exports will be reduced to, and bound at, 7.5 percent.

1 Global Trade Atlas. Calculation based on import data as reported by Russia. The definition for aerospace in this report, unless otherwise cited, is based on the product coverage under the WTO Civil Aircraft Agreement and includes products within HS 84, 85, 88, and 90.

2 U.S. Department of Commerce, Census Bureau, NAICS 33641. Shipments used as a best available proxy for production.

3 U.S. Department of Labor, Bureau of Labor Statistics, NAICS 336411 (non-seasonally adjusted data).

4 U.S. Department of Commerce, U.S. & Foreign Commercial Service, 2010 Country Commercial Guide for Russia.

5 The calculated average tariff rates reported in this paper reflect only the ad valorem duty rates contained in Russia's WTO Schedule of Concessions and Commitments on Goods, as well as Russia's applied rates as contained in the Customs Union Common External Tariff.

- *Narrow-Body Civil Aircraft:* Russia's tariffs on civil aircraft currently go as high as 20 percent. After full implementation of its WTO accession commitments, Russia's tariffs on U.S. narrow-body civil aircraft exports will be reduced to, and bound at, 12.5 percent.
- *Engines:* Russian tariffs on aerospace engines currently average 10 percent. After full implementation of its WTO accession commitments, Russia's average tariff on U.S. aerospace engines exports will be reduced to, and bound at, 5 percent.

Key States Exporting to Russia

- Top U.S. states exporting aerospace products to Russia include: Florida, Georgia, Washington, Texas, New York, Alabama, South Carolina, Connecticut, California, and Maryland.

Other Key Commitments by Russia for the Aerospace Sector

National Treatment:

National treatment requires that imported goods be treated no less favorably than domestically produced products. As a result, Russia cannot impose on imports measures that are more burdensome or stringent, such as additional inspections, higher taxes, or stricter technical requirements, than those applied to domestically produced products.

Transparency:

Upon accession, Russia will ensure that laws and regulations pertaining to trade in goods, trade in services, or intellectual property rights will be published before they become effective and will be subject to "notice and comment" procedures. Compliance with these rules will not only give interested persons (e.g., U.S. producers and exporters) an opportunity to provide input into the rules governing trade with Russia, but it will also ensure advance notice for any changes. In addition, where Customs Union (CU) authorities have responsibility for WTO issues, such as sanitary and phytosanitary measures, technical barriers to trade, customs issues, and enforcement of intellectual property rights at the CU border, these transparency obligations will apply.

Trade-Related Investment Measures:

Upon accession, pursuant to the WTO Agreement on Trade-Related Investment Measures, Russia will be prohibited from imposing certain conditions on investing in Russia in order to obtain a benefit from the government. For example, unless specifically "grandfathered" in Russia's Working Party Report, Russia would not be able to impose local content requirements or export requirements as a condition of investing in Russia. Implementation of this Agreement will ensure that companies make investment decisions and business plans based on commercial considerations.

Government Assistance:

Russia agreed that, prior to accession, the government assistance program for the lease or purchase of aircraft would be extended to cover the purchase of imported aircraft by leasing companies.

State-owned Enterprises:

As part of its accession package and as spelled out in its Working Party Report, Russia has agreed to ensure that certain state-owned or state-controlled enterprises will operate based on commercial considerations and provide U.S. and other WTO Member companies market opportunities on a non-discriminatory basis. Thus, Russia will need to ensure that Aeroflot makes its purchasing decisions of aircraft based on commercial considerations and gives U.S. companies an adequate opportunity to compete for sales.

Intellectual Property Rights:

Upon accession, Russia will become subject to the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) which sets out minimum requirements for protecting and enforcing intellectual property rights, including with respect to copyrights and related rights; trademarks; patents; undisclosed information, including trade secrets and pharmaceutical and agricultural chemicals data submitted to obtain marketing approval for pharmaceutical and agricultural chemicals; industrial designs; and semiconductor lay-out designs. The TRIPS Agreement further provides rules governing the enforcement of intellectual property rights, covering, inter alia, civil and administrative procedures and remedies, provisional measures (i.e., preliminary injunctions), customs procedures and criminal procedures. Full implementation of this agreement, which is subject to WTO dispute settlement procedures, will benefit U.S. innovators, producers, and key exports.

Government Procurement:

Within four years of becoming a WTO Member, Russia will commence negotiations to join the WTO's plurilateral Government Procurement Agreement (GPA). Government purchases generally account for 10 percent to 15 percent of a country's GDP. The GPA subjects the purchases covered by the GPA to a system of WTO rules aimed at ensuring that procurement is conducted in a fair, transparent, predictable, and non-discriminatory manner that levels the playing field for foreign suppliers.