U.S. trade officials pressed for details Friday on where Russia is falling short of its World Trade Organization commitments in preparation for the release of the administration’s final report on Moscow’s trade behavior in December.

The hearing came hard on the heels of the WTO's first review of Russia's trade policy since the formerly communist country joined in August 2012. A number of members, including the United States and the European Union, took Moscow to task this week for backsliding on trade liberalization.

That same sense of disappointment also pervaded the brief interagency hearing chaired by the Office of the U.S. Trade Representative.

"Membership in the WTO brings certain privilege and benefits, but it also carries obligations," Betsy Hafner, deputy assistant USTR for Russia and Eurasia, said at the start. "As we have long said, the administration will use the tools of the WTO to ensure that Russia fulfills those obligations."

Only one witness, Randi Levinas, executive vice president of the U.S.-Russia Business Council, testified before the panel, which also included officials from the departments of State, Agriculture and Commerce.

Levinas noted significant improvement in Russia in nuts-and-bolts categories like starting a business, getting credit, registering property and getting electricity over the past year, and said the country had made progress in other areas like trade facilitation. She also welcomed the recent expiration of import quotas for combine harvesters, which was the latest of a long-string of obstacles Russia and its neighbors have imposed on John Deere and other foreign manufacturers.

"All that said, the Russian government continues to pursue policies - such as localization and import substitution - that present challenges to business plans in the market and curtail competition," Levinas said. She cited several examples, including a new data storage equipment law and draft laws requiring domestic sourcing of telecommunication and data center equipment.

In addition, "new subsidies are under consideration that would provide farmers a 25 percent discount on domestically manufactured machinery and additional subsidies of up to 65 percent for large manufacturers of that equipment," Levinas said.

The panel then dug into a number of trade irritants, including a weakening of intellectual property protections for biologic medicines that Levinas said was at odds with Moscow’s WTO commitments and an increase in government procurement policies that restrict foreign goods and services.

"Just this morning, a new decree entered into force that prohibits government agencies from buying certain imported electronic equipment if there are two or more analogues from Russia or the EAEU [Eurasian Economic Union]," Levinas said. That includes computers, printers, scanners, telephones, televisions, radios, speakers and antenna as well as ATMs and point-of-sales terminals.

Against that backdrop, Russia recently started talks to join the WTO’s Government Procurement Agreement, honoring a commitment it made to begin those negotiations within four years of joining the WTO.

That’s a potentially important development because of how much the state dominates the economy in Russia, Levinas said, referencing a new report from Russia’s anti-monopoly service which found that the state and state-owned enterprises control 70 percent of the economy, or twice the 2005 level.

That includes 96 percent of the transportation sector, 86 percent of the banking system, 77 percent of machine building and 80 percent of medical technologies, she said.

In last year’s report on Russia’s WTO compliance, USTR said it was "increasingly concerned that Russia is moving away from the core WTO principles" and would not hesitate, if appropriate, to file a formal complaint to enforce U.S. trading rights.

Despite that threat and the panel’s focus Friday on where Russia could be shirking its obligations, Levinas said after the hearing that she did not know if the Obama administration would launch any trade litigation against Moscow during its short time left in office.
U.S. Blasts Russian ‘Import Substitution’ in WTO Review

Snapshot

• USTR complains about Russian efforts to replace imports with domestic goods
• Food safety regulations, intellectual property protection also of concern

By Len Bracken, Bloomberg

Sept. 30 — The Russian move to replace imports with domestically produced goods, a strategy known as import substitution, was at the top of the list of concerns flagged Sept. 30 by a senior U.S. trade official.

Betsy Hafner, deputy assistant U.S. trade representative for Russia and Eurasia, said at a hearing on Russia's compliance with World Trade Organization rules that the U.S. and other countries were concerned about Moscow’s use of this strategy, as well as intellectual property rights standards at odds with WTO rules.

As reflected in the recent WTO trade policy review of Russia, other members share U.S. concerns about Russia's continued commitment to the core principles of the WTO,” Hafner said at the hearing of the Trade Policy Staff Committee.

The EU said in a Sept. 28 press release on the WTO review that Moscow should abandon import substitution measures aimed at “hindering foreign operators’ access to the Russian market, via restrictions on imports, public purchases or investments in so-called strategic sectors.”

Domestic-Only Subsidies

Randi Levinas, executive vice president of the U.S.-Russia Business Council and the sole witness at the hearing, said that Russian subsidies for domestic construction and agricultural equipment producers have adversely affected U.S. manufacturers.

She also noted concerns about a new data storage equipment law and draft laws requiring domestic sourcing of telecommunications equipment. The Ministry of Economic Development, she said, had itself questioned whether high Russian tariffs on telecommunications equipment were WTO-consistent.

Hafner said the administration would “use the tools of the WTO to ensure Russia fulfills its obligations,” indicating that the U.S. might also bring WTO dispute settlement cases on those issues, although to date Washington has not brought any cases against Moscow.

Levinas noted several areas where the Eurasian Economic Commission has improved trade relations, such as the reopening in August of the Eurasian market for U.S. combine harvesters, which are manufactured by U.S. companies such as Deere & Co. and Navistar International Corp.

She said Russia and the Eurasian Economic Commission have worked with industry to simplify customs procedures and facilitate trade. In some cases, U.S. manufacturers in Russia are now able to bring inputs into the country under duty suspensions, she said.

Medvedev Defends Strategy

Russian Prime Minister Dmitry Medvedev Sept. 22 said in an article he wrote that was published in the journal Economic Issues that contemporary Russian import substitution “is not designed primarily to oust imported goods” and is not based “on currency manipulation or administrative props for Russian companies.”

Medvedev said the goal was to promote the growth of Russian companies in the global market. He cited the formation of joint ventures with foreign automakers that led to a 22.5 percent decline in auto imports in 2015.

Levinas said there were a range of policies and rules linked with import substitution in the agriculture sector. She noted preferences given to domestic pork, dairy and sugar producers in state and municipal contracts. Government procurement is important because the state’s dominance in the economy has doubled since 2005, she said, playing major roles in not just oil and gas, but also in transportation, banking, machinery manufacturing and medical technology.

Western countries introduced travel bans and financial sanctions against Russia following its 2014 annexation of Crimea, and Moscow introduced counter-sanctions that targeted agricultural imports from the west. A trade analyst has told Bloomberg BNA that meat, poultry and dairy are three sectors Russian officials have sought to support since 2012, contending that they are doing so in accordance with WTO rules.

The EU, which is a larger trading partner with Russia than the U.S., has initiated a WTO dispute settlement case concerning Moscow's ban on the import of EU pigs and pork.

Intellectual Property Rights

Levinas said that her group, which represents U.S. companies doing business in Russia and Russian companies doing business in the U.S., continues to have intellectual property rights concerns, particularly in the pharmaceutical industry, such as patent rights and compulsory licensing.
Amy Holman, director of the Office of Multilateral Trade at the State Department, asked Levinas whether Russia's intellectual property rights protections for pharmaceutical drugs met its WTO commitments.

Levinas said the so-called “four-three rule” whereby small molecule drugs have four years of clinical test data protection before generics can use the data and three years for biologic drugs falls short of Russia's six-year WTO commitment.

This rule gives generic manufacturers the option of producing lower-cost versions before six years is up, Levinas said. U.S. brand-name manufacturers argue that they need more time with exclusive rights to market a drug in order to recoup their investments. Levinas said Russia should have sufficient data protection as this would also support innovative Russian companies rather than producers of generics.

The testimony and other material gathered by the Trade Staff Policy Committee will be used to assist USTR in drafting its report to Congress on Russia's WTO compliance, which is due in December.