

CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

RUSSIA'S ACCESSION TO THE WTO

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URI DADUSH: Good morning, ladies and gentlemen and welcome to the Carnegie Endowment. Welcome to this session on Russia's accession to the WTO. Jim Collins, who is senior associate and director of our Russia program, will be with us very briefly – very shortly. He is right now tied up in a video conference on another issue, but he'll be with us in a few minutes.

Let me say, first of all, that Russia's accession to the WTO is critical, of course, for all the reasons we know, not so much because this is 2 percent-plus of world trade, but also because of the country's strategic importance and the history. There is a sense in which we can say that the era of the Cold War is not fully over until Russia is completely part of the international economic institutions and structure.

But the other point that is perhaps missed, and I know some of our speakers today will bring out, is that joining the WTO is much more than accepting a system of trade rules. It's about governance rules. It's about predictability of the domestic system of law, the rule of law and the system and fairness of regulations that govern international commerce.

So what is at stake is a lot more than the narrow trade agenda in Russia's WTO accession. Now, to address these questions, I think that we have, today, a truly expert panel on these questions. I will not read you the biographies. You have the biographies with you, but we are going to have in the order Chiedu Osakwe, who is a close friend for many years, is the director of accessions at the World Trade Organization and he has flown over from Geneva, especially for this session.

He will be followed by David Tarr, another very good friend of mine for many years, who is a consultant and former lead economist with the World Bank and adjunct professor in international economics at the new Economic School in Moscow. And few people, if any, have done more analysis of the Russia accession process – economic analysis – than David has done.

He will be followed by Carnegie's very own Ambassador Jim Collins, who sits in an office right next to – we are neighbors – and Jim was U.S. ambassador to Moscow from 1997 to 2001 and so has followed Russia's WTO accession during a critical time in a very direct – in a very direct way.

And to respond to all the claims and – (laughter) – to all the claims and any provocations that might arise in the course of the discussion, we have Aleksey Shishayev, who's the council and head of the economic office at the Russian Embassy here in Washington. And top of that, Aleksey is an accomplished trade economist who has published widely on the issues.

So I think you will hear everything you ever wanted to know about Russia WTO accession in the course of the next hour and I, myself am looking forward to hearing my friends here. Chiedu?

CHIEDU OSAKWE: Thank you. I'm going to say good morning to each and every one of you and also to thank Uri, who is a dear friend from many years back for organizing this. It is an important question. No day goes by in the secretariat without our receiving countless questions on the status of the – of the accession of the Russian Federation.

It's what my friends at Carnegie have asked me to address is the specific question of what is the status of the accession of the Russian Federation. I'll do my best and I'll tell you, I think to be able to answer this question, I think we need to have clearly in our mind a set of related questions and issues.

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The first of course, is that we need to know how the WTO legal and policy framework for accession is structured – what is it? And then, secondly, I think we need to clearly bear in the mind the sort of objectives that are not written, but exist, on which our members focus as they go through with the application of every candidate country, or separate customs territory.

And Uri referred to some of them, which I will go through with you again. Thirdly, an area where I will speak less and where probably David Tarr will speak more will be on the actual substance of the issues of the working party. And the reason I will do less speaking on this is because those negotiations for accessions and the working party run – they run on two tracks.

One track is the bilateral track, which is confidential to the parties. That's the way it works and then the part is the multilateral track, which is on the table and there I will simply allude to several points. And then two final points I would just very briefly look through the reform objectives that the Russian Federation has set out, at least they have done so in two major speeches this year.

One is the statement by the Prime Minister Putin at Davos in January and the second is by the President Medvedev in September this year and his article, Russia go forward. And then we'll try to reach some sort of conclusion.

Now, I'm going to go through this quickly because it's a panel but also because I have a paper and everything is scripted. So you know, you'll have it later on. So let me just go through it very quickly.

Look, Mr. Lamy, my boss and the members are completely on the same gear. Russia – the Russian Federation is too important and too strategic a power to be outside of the WTO. It's also too important a country to be a nonmember of any of the major pillar organizations that support the architectural trade, finance, development and security.

Russia – the Russian Federation needs to be party and needs to be a member in all these organizations. It is not yet a member of the WTO and for specific reasons that we'll look into, but I should also say very clearly that there is no blockage. There is no member blockage to the accession of the Russian Federation, absolutely not.

And forget the pressure point on that regard. It's simply not true. And then I think a final flavor I should give you in the intro is that I would say that, one, the tree – on the tree of WTO accession, the fruit of the accession of the Russia working party can be harvested at any time. It can be harvested at any time.

But for the harvest to take place, it is a swinging fruit and that fruit needs to rest in stable equilibrium. If it doesn't, it can't be harvested. And I think that we need to understand that very clearly. And the final point that I'll attach to that is in over – in over 60 years of the multilateral trading system, there is no greatest systemic of Russia than risk and surprise.

Members want stability. They want to see predictability and they certainly don't want to deal with risk that – that's how we work. You know, we're not venture traders. We don't work at the fund market. We don't take risks. We are those dark men in dark gray coats who do things only when we are very comfortable with them.

Now, what is the legal framework for our accession process? If you look at – I mean, you're a policy think tank, so I can be as tedious as I want.

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MR. DADUSH: (Chuckles.) No you can't, Chiedu, you can't.

MR. OSAKWE: I'm not running for elections, so it's easy to quote articles. If you look at Article 12 of the Marrakech Agreement established in the WTO, that's where we have the legal framework. And what is its first import – it's just two, three sentences, interstate or separate customs territory can accede to the WTO, two conditions.

If it has capacity and full autonomy over the conduct of its external trade relations and secondly, if it has capacity to implement all the covered WTO agreements. And so it's that simple and the rest is practice. The rest is simply the way the system has developed. Let me move to the second point.

And that second point is what are the objectives of our accession process? There are several. One, there must be commitment to an open, liberal trading order and market economy. That's absolutely indispensable. Secondly, there needs to become an advance to the rule of law, to governance and respectful contracts.

Thirdly, it's absolutely vital that the new member, the country or the separate customs territory that accedes, through its accession process must strengthen the system. It strengthens it in two ways, through improvements in market access opportunities and secondly through a reinforcement of the rules.

A fourth point is that our members expect that the acceding government will be able to enhance its own welfare. In other words, it will be richer and not poorer as a result of joining the WTO. A final point is – and when you think about some of the African countries like the one that I come from – the situation in which they found themselves in 1995 when the WTO came into existence, it becomes obvious.

And that final point of accession process is that on day one of membership, day one, the new member must be fit and able to implement the balance of rights and obligations of membership. And if you look at several of the low-income, low-capacity countries that have joined the WTO as founding members in 1995 without going through the accession process, you find the flipside of the coin.

Now, to the question where are we on the actual accession process of the Russian Federation – where is it? The accession process of the Russian Federation is in temporary suspension. No work is going on. And that temporary suspension was declared by the Russian Federation itself, together with the other two acceding governments, Belarus and Kazakhstan.

Remember on the, well, just a brief *entendu* of the calendar of events in a few seconds, I will explain to you how we came to where we are. On the 4th of June in St. Petersburg, you had the Economic Forum organized by the Russian Federation. On the margins of that meeting, the R.F. leadership reached an understanding which several of our members, principally the European Union, now the Union, to conclude its accession process by the end of 2009, 4th of June.

Five days later, on the 9th of June, the prime minister announced the formation of the Customs Union between, amongst rather, the Russian Federation, Belarus and Kazakhstan on the basis of their sovereign decision to create and accede. They met with WTO members on the 17th of June to say exactly what I have just said, that they're suspending their individual working parties to look at a different format and to do so and that they would like to join on the basis of a customs union.

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You had the framework that I underlined from Article 12. Members who act predictably – there was a range of – there was a range of reactions, surprise, perplexity, confusion. This would delay – where is the information on the customs union, legislation, tariffs schedules, competencies, enforcement structure, implementation period.

You know, the WTO is filled with bunches of bunches of lawyers. Members – these are highly legalistic minds and they plot away at every single detail. So you know, everyone sat there and we didn't know quite know where we are. So that's where the situation was until after the summer break.

After the summer break, the three delegations returned to meet with members on the 15th of October to say that they had reviewed the issues, they had been in contact with several delegations and would now like to abandon the idea of acceding as a customs union and to revert to their individual autonomous sovereign – all those weasel words I'm using – autonomous sovereign working parties.

So the process, to cut a long story short, is in temporary suspension, a process of informal consultations led by the Russian Federation, accompanied or in partnership, I should say, with Belarus and Kazakhstan is on the way to re-launch it.

Now, the re-launch would take place following an understanding between the three delegations and members that they would provide an information note on the customs union and explain, describe all the things that should be described and also explain the meaning and implications of the customs union for their individual working party processes.

The reason being that the three delegations still want to – would like to accede in the context of a customs union. Now, probably Aleksey would give greater clarity on that. So we are waiting – the membership is waiting for that note, promised also by the three delegations.

Now, let me move to the third point, which is to give you a flavor of the process of the substance and some of the issues in the negotiations in the working party. And I now go back to the Russian Federation working party before the suspension, before the suspension. Now, you know the status but I'm moving back again in time to – prior to the suspension to tell you some of where things stand.

Essentially, a substantial amount of work had been done on the bilateral track. Fifty-three bilateral agreements had been signed on goods, market access between the Russian Federation and 53 members. And I should say two things here. One, this was the highest number of bilateral market access agreements for any WTO accession working party and secondly, I should also say that the total number of members in the Russian Federation working party is 61.

Now, as I said, 53 agreements had been signed and the secretariat, in accordance with her role, were well in the process of consolidating – that's another jargon – the results of the separate bilateral market access agreements. You know the way it works. The negotiations, the bilateral negotiations are confidential.

They take place between the acceding government and a member in compartments. When they're done, they're deposited with the secretariat, with my boss. He hands it to me, the consolidated – that consolidated into a draft tariff schedule on the basis of the most liberal commitment, on the basis of the most liberal commitments.

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So that process was underway. What are some of the issues that were still being talked about? I don't want to say unresolved or outstanding, but let me refer to you in general terms, which is aid they – these aspects of the negotiations are confidential. You had issues still under discussion with regard to concessions on sugar, on alcohol, on meat tariff lines that relate to tariff rate quotes – or TRQs – and meat tariff lines relating to high-quality beef.

You have discussions on covering areas of, for instance, export duties as well. You have – so you have some of these issues, as I said, it's a flavor. Perhaps David, who's more involved in Moscow and with the negotiators may know lots of details much more than I do.

On the services negotiations are the schedule, the consolidation took place in 2006 and finishing touches were underway. So a lot of work had been done. One other point I should mention with regard to the multilateral part of the negotiations is that before the suspension, the Secretariat was working very closely with the chief negotiator and his team to – to prepare the architecture of, quote, “the legislative action plan.”

This would be, if you like the action plan that was set out, all the domestic legislation and Russian Federation that would give effect to its WTO commitments. It's a centerpiece of work. Without a legislative action plan, no government – no government accedes because it has the whole rule of law issue and it's the laws, the domestic laws that WTO members can invoke on the – when they suffer nullification or impairment of their benefits.

And so to bring this to a conclusion, that's where we are. What is required at this stage is a clarification by the Russian Federation – in a note that it's promised WTO members – which describes the customs union. As I said in the beginning, tariff schedules, legislation, enforcement issues, rules for origin matters, the scope of the competencies.

And then on the basis of that, there will be consultations with the chairpersons of the working parties and the working party of the Russian Federation. And their members can take a decision on re-launch. This is doable. The Russian Federation accession to the WTO will happen. The ball is largely in its court – in its own court.

Members would like to see the R.F. succeed and this is one of the strategic priorities that Mr. Pascal Lamy is committed to – very strongly committed to. I'm sorry, Uri, I know I overran on time grounds, but I thought perhaps maybe more is better than less. I thank you for your patience.

MR. DADUSH: Thank you very much, Chiedu, thank you. David.

DAVID TARR: Thank you very much. That was a very helpful introduction to this discussion of the legal framework and facilitates my presentation. I should say, before I start, that I'm going to talk a lot about what has been agreed, what Russia has agreed, but I should say that I know everything that I'm going to discuss here is from public information.

Nothing that I'm going to discuss comes from anything confidential. There's a lot of information on the – even despite the fact that as was stated, these bilateral discussion are confidential. On the United States' Trade Representatives' Web site, there are multiple fact sheets as to what was agreed in the bilateral agreement between the United States and the Russian Federation.

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And in other cases such as in the European Union, there were agreement – there were many press reports. So that's largely the source of my information. So but first – as was mentioned, Russia is the largest economy that's not in the World Trade Organization. Just a couple of facts on Russia's size.

It's GDP at the end of 2008 was between 1.6 and \$1.8 trillion, depending on what source you use, based on nominal GDP at market exchange rates. This makes it the eighth or ninth largest economy in the world. In purchasing power parity terms, if you used the exchange rate based on purchasing power parity, Russia moves up to the sixth largest country in the world with \$2.3 trillion GDP, making it larger than the United Kingdom and France as an economy.

So it's a big economy and as was mentioned, important to have such a large economy in the World Trade Organization. But it's been very controversial. And there's some allegations that we should discuss. For example, in Vladimir Putin's radio address earlier this month, he stated, quote, "We have the impression that for some reason, some countries, including the United States, are hindering our entry into the World Trade Organization," unquote.

It's been alleged off and on by some officials of the Russian Federation that Russia's being discriminated against. It's been asked to take on more commitments than other nations to accede to the World Trade Organization.

Putin also said in his address earlier this month that, quote, "The Cold War era Jackson-Vanik amendment with Russia is an anachronism hindering Russia's WTO accession bid," unquote. So in this talk, I'm going to ask a question of what are Russia's commitment and how do they compare to other countries that have acceded to the World Trade Organization.

As has been mentioned, Russia has completed, for the most – has completed its bilateral market access negotiations with 53 countries. Essentially, all countries who have requested such an agreement. So we know it's essentially a done deal as far as the bilateral market access agreements are concerned.

Georgia is an exception. Georgia agreed and now has reneged on that agreement. With the exception of Georgia, though, all bilateral agreements are completed. So this is what I'll talk about, what has Russia agreed and how do the commitments compare? What are the unresolved issues? Who stands to gain or lose in Russia from accession and how much? What are the prospects for Jackson-Vanik removal?

And I'll conclude with a discussion of why I believe Russia is at a crossroads on trade and foreign direct investment policy. So let's consider tariffs first. Russia has agreed to cut its average tariff – bound tariff – to about 8 percent. Its present tariff is around 12 to 13 percent. So this is about a 50 percent cut in tariffs, relative to the current applied levels, on average.

This, I would regard as a liberal tariff offer, but it's not an unusual tariff offer by the standards of the transition countries who have acceded. Except for China, all transition countries that have acceded to the World Trade Organization have agreed to even lower bound tariffs than Russia.

This is a list of the countries who have acceded to the WTO and their bound tariff offers on average. This is not – the less couple of countries aren't here. I got this from Mr. Osakwe's division. They prepared this information. But you see the transition countries here have average bound tariffs less than 80 percent, with the exception of China, which was 9.1.

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So Russia's bound tariff offer of 8 percent is not an unusual bound tariff offer – again, it's a liberal offer but not unusual. The least developing countries have higher tariffs; they enjoy a special status in negotiations. Nepal and Cambodia had significantly higher bound tariff offers, but the WTO accords a special status to the 50 official least-developing countries of the world.

So let's move to services. Russia has made a comprehensive and impressive offer in the services sectors. Just mention a few examples: The quota on the maximum share of foreign banks or foreign insurance companies has increased from 15 to 50 percent. The monopoly restriction on fixed-line long-distance telephone services in Russia has been removed. Russia is offering national treatment and market access for a wide variety of professionals, for example, lawyers and accountants, for wholesale and retail trade and for courier services. I just mentioned those as examples; it's really a very impressive services commitment offer.

But all acceding countries to the WTO since 1998, for which I have data, have assumed a rather higher and comprehensive level of commitments in terms of sectors included.

I don't have a simple number like the average tariff as I do for goods, but what we do have is these two tables prepared, again, by Mr. Osawke's division, which an X here, a dark number, suggests that a country has taken a commitment in a services sector. So for example, if you look at Croatia there in the second column, they've taken commitments in virtually all sectors except for audiovisual services and postal services. And so most countries have made very comprehensive commitments. So Russia has also made comprehensive commitments but, again, it's not usual.

The one thing which Russian negotiators will often tell you is that they avoided a commitment on branch banking. This is very controversial in Russia but it's something which the U.S. Treasury Department has insisted upon, and was successful in getting all of the – all countries who have exceeded to agree to – with the possible exception of the least-developing countries that I don't know about – but essentially all countries have agreed to this. It's typical in World Trade – branch banking is permitted.

But Putin himself said this was a deal-breaker and Russia's bilateral market access agreement with the United States was signed without a commitment in branch banking. So the offer is not unusual. It's a liberal offer in services, but not unusual by the standards of acceding countries.

Sanitary and phytosanitary conditions, Russia has been alleged to use sanitary and phytosanitary conditions for protection against the United States, and for political purposes against Georgia, Moldova and possibly Belarus. Russia agreed in its bilateral market access agreement with the United States to extensive commitments designed to prevent sanitary and phytosanitary protection against the United States. For example, the inspection of United States facilities that export poultry, beef or pork to Russia will be delegated in most cases to the United States Department of Agriculture.

So this is really a very impressive commitment in the area of sanitary and phytosanitary conditions to the United States, but it's in response to what essentially the U.S. would have never accepted an agreement with Russia that, because of the agricultural interest – due to the perception in the U.S. that Russia had been using these conditions to block agricultural exports.

So are these excessive demands due to political considerations? My view is that the evidence that I've just cited contradicts this. Gas pricing, which I didn't mention, was an unusual demand. I've personally wrote a paper on this subject which I believe resolved this issue largely in favor of the Russian side. But

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with the exception of gas pricing demand, I believe that this was a standard set of demands and Russia's commitments, which are liberal and substantial, are not unusual.

One could argue that the accession process itself is unfair in the sense that the countries which were grandfathered into the WTO at comparable levels of development have taken on lower levels of commitments than acceding countries. Accession, itself, is a very difficult process but by the standards of exceeding countries, it's a typical level of commitments. Russia is very close to accession but there are some outstanding issues and there hasn't been much progress in the past 18 months.

Agricultural issues are some of the most controversial of those remaining. Trade-distorting subsidies is a key issue but I can say that given the level of subsidies which Russia presently uses, they would be able to, within in the de minimis levels, even the tight de minimis levels of a developed country, be able to use that type of support and expand their level of support to the extent that they use the nontrade-distorting subsidies, like so-called green box subsidies, so they could exceed with the present level of subsidies which they use, and this is why I say "should" it be so controversial on the subsidy issue.

And they could expand their subsidies to the extent that they used much more efficient green box subsidies. The evidence says in the literature that green box subsidies are what farmers really need; they really need the services, the research and development, the pest control. That's what really helps them with productivity; the gains versus the costs – the society of those are very high and the world in general is moving towards green box subsidies.

Export taxes on timber are an issue. I have some students at my university in Moscow who I've supervised a paper on this that suggests that there is an optimal export tax for Russia in timber to exploit some monopoly power but the existing export taxes considerably exceed the optimum and Russia would be better off, at least in terms of its overall welfare, if it were to reduce those export taxes, although there is a positive optimal export tax.

And I'll just skip the issue of state trading organizations to save time, and there is the conflict of Georgia, which I don't think I can have time to get into that one either. (Laughter.)

MR. OSAKWE: Good for you.

MR. TARR: But we should just say that in principle, Georgia has a blocking vote in the WTO because they're on the working party and the working party report will have to be submitted to the general council. And without Georgia's approval, they won't be able to get the working party report submitted to the general council. So like most things in the WTO, things have to be done by unanimous vote. And so Georgia has a significant influence in the process.

So what would Russia gain? And who gains, who loses? At the request of the ministry of economic development and also the ministry of communications, I conducted several studies over several years on this subject. The initial paper was with my colleagues Jensen and Rutherford. We estimate Russia would gain about 3.3 percent of GDP in the medium term from WTO accession and about 11 percent in the long term. This is about 53 billion per year, each year in the medium term – just using the numbers I gave you on GDP earlier – and about 177 billion per year in the long term.

The estimates show that it's from their own liberalization that these benefits come. It's not from improved market access. Russia essentially already has "most favored nation," or better market access, on

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virtually all of its markets. So it's not from improved market access that it would achieve these gains, but rather from its own liberalization, especially in the services area. It's really the services liberalization that is the source of these gains, at least according to our modeling.

One negative impact of WTO accession is that we estimate that the sectors which will expand are the raw material and intermediate goods sectors, and it's the sort of light industry, food industry, construction material sectors which contract as a result of the WTO accession. This is contrary to the very strong diversification goal of the Russian government. So WTO accession cannot be relied upon in our view to achieve the diversification objective. It works against it.

We estimate the gains are widespread and slightly progressive. We have a model with all 49,000 households of the Russian household budget survey and we find virtually all households gain and, in fact, it's slightly progressive in that the poor gain slightly more than the rich, and that's because of increased foreign competition and foreign and direct investment in services sectors. Capital gains slightly less than labor and the poor depend more on labor income and so the poor gain slightly more than the rich.

All regions of Russia gain. We have a model with 10 regions of Russia. This shows here our estimates of the percentage of GDP of the gains in the different regions. And the results vary primarily based on the capacity of the regions to attract foreign direct investment and a good climate for investment. So those regions which are more attractive to foreign investors, such as the Far East, the Northwest, are the ones which gain the most.

As has been mentioned, Russia has returned to a single-country accession process. But as was also mentioned, some ambiguity remains. The biggest ambiguity is the statement repeated by multiple countries – all three countries – of their intention to, quote, “simultaneously accede” based on a common external tariff, which means if you take this literally, all countries who wait will have to wait until the slowest gets in.

Kazakhstan is also very close to accession but Belarus is very far from accession, so if they really want to accede simultaneously, it means they have to wait for Belarus. And that will be many years. So there is ambiguity on this accession process.

WTO accession will end Jackson-Vanik amendment. It is of course an anachronism to have most-favored nation status depend on Jewish immigration but the political economy in the U.S. will change after accession. The reason is Jackson-Vanik is inconsistent with U.S. obligations to a WTO member. The United States cannot retain Jackson-Vanik and apply its obligations to Russia as a WTO member.

So the U.S. will have the option at accession to opt out of its obligations to Russia, at which point Russia will reciprocally deny its market access agreement with the U.S., at which point export interests from the U.S. and foreign direct investment interests from the U.S. will lobby U.S. Congress to eliminate Jackson-Vanik. So the whole political economy will change.

Right now, there is no lobbying for the elimination of Jackson-Vanik, but after Russia is a member, U.S. export and FDI interests will lobby for the elimination. And as a result, what we've seen is of the 13 countries for whom Jackson-Vanik has applied and who have acceded to the WTO, Jackson-Vanik was eliminated for 12 of them. Only in Moldova is it still in existence, presumably because it's just too small for U.S. interest to be able to get into that market and to lobby for the elimination of Jackson-Vanik against Moldova. So clearly, there will be lobbying interest to eliminate Jackson-Vanik and so that will – but I don't see that as holding up WTO accession.

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I'm going to skip this slide in the interest of time and just conclude with arguing that Russia is at a crossroads. It desires industrial diversification. It's a very strong goal of the Russian government to achieve industrial diversification. In the early Putin years, Russia was moving toward an open economy model of economic development, and WTO accession was a key element of that strategy.

But in recent years, Russia has employed import substitution industrialization and state intervention to achieve diversification, such as export taxes on timber to develop the wood-processing sector, increase tariff on light industry, food and autos, use of SPS for protection against Moldova, Georgia, U.S. and Belarus, increase state ownership and industrial subsidies in recent years in some sectors, FDI restrictions on 42 strategic sectors, some of which are, I think, fully justified, but in some of the sectors, it's questionable why they are on the list, and a grain marketing board recently with unclear objectives. So this is one path for industrial diversification. It's essentially a "picking winners" path, which I think economists would generally argue is not a good idea.

On the other hand, the strategy of WTO accession I regard as a unique historical opportunity to move toward the open economy strategy. Business as usual in an economy without a WTO accession leads to a one-sided lobbying where vested interests in protection are the only ones lobbying, and this results in excessive protection in general for many countries in terms of what is best for the interest of the country.

The WTO accession brings the international community into the lobbying process. In order to meet the demands of the working party, the home country must respond to that, and as a result, political leaders at the highest level of government get involved in the process, and impose reform on ministries which resist reform. This is the pattern you see in WTO accession in virtually all accession processes. So as a result, you get a much larger level of reform that could not be achieved under normal political economy situations within the country, and that's why I regard it as a unique historical opportunity.

But what about the industrial diversification objective? In my view, what's really required for that is institutional reform. This is a dramatically better strategy to achieve diversification. Russia rates very badly, unfortunately, on many of these measures, like the "doing business" measure – Russia is 120 out of 183 countries in the world on the evaluation of what type of a country it is to do business. On logistics performance, 99 out of 150; on the transparency international corruption index, 147 out of 180 small and medium enterprises need institutional reform crucially, and without that, I don't believe you're really going to get the industrial diversification.

Until a few years ago, when people talked to me about institutional reform, my eyes would start to glaze over, and think, this could never happen. But what Georgia has done in the past 7 years has shown an amazing level of institutional reform very, very quickly. They moved from worst in the world – I think around 110 in the world about 7 years ago – to now number 11 in the world, ahead of Japan, Sweden and Finland.

It's an incredibly level of institutional reform – and it's real reform. I was just there a couple of weeks ago and people tell me at the petty level they don't see corruption anymore. There may be corruption in the country at higher levels but just in their walking around, they don't see corruption. So it is possible but it takes a very serious effort, starting from the highest levels of government. Thank you.

MR. DADUSH: Thank you very much, David. That was very comprehensive and useful. Jim?

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MR. COLLINS: I'm going to try to give a sense of America's perspective on this process. And I'm not going to try to repeat most of the information you have, which I think has been very helpful and very thorough. And I think I want to make one basic point to you, and that is that general policy for the United States has been fully consistent with I think that described by our first speaker, which has supported Russian accession for the WTO really from the very outset.

I was part of the early formulation of this position in the '90s, and it has been consistent, really, without any serious questioning from the first time it was articulated in the early '90s. So the issue of – is America somehow holding up as a matter of policy, Russian accession – I don't think has ever really arisen. Moreover, it has had a number of elements of other policy in the United States with respect to Russia that have reinforced the desire to get Russia into the WTO.

The most general one has been, I would say, a basic effort to bring Russia and all of the new states and post-Communist states that emerged after the end of the Soviet Union into the international systems institutions, and to have them be full-participating members to assume that we will be better off if the Russian voice is taken account of in the basic institutions of the trading, economic, financial and other institutions.

So I think the first point here is as a matter of principle, we have pressed for, encouraged Russian accession in multilateral fora. When I was involved, we certainly were promoting that. We were encouraging the Russian side to become engaged and get on with the process.

I don't think that's changed. I think we're in the same position; I don't believe that it's really possible to find any statement from the Obama administration which doesn't fully accord with this, and you can look at the April 1st summit meeting statement where this was endorsed as one of the priority areas for American policy under what has become known as “the reset.”

So what's the problem? Well, the problem essentially is equally simple: This is a trade negotiation. And a trade negotiation, while I don't pretend to be an authority on the subject, to me as an observer – often a frustrated one – has a dynamic that is quite different from general policy. It is very concrete, it is very specific and most, but particularly, it tends to reflect the very specific interest in the United States, in this case, that had issues they wanted resolved through whatever leverage or advantage they could achieve in the negotiation of the bilateral agreement with the Russian side. And that meant that there were many things that were protracted.

Now, the United States is not unique in this. If you've had 53 agreements, I can pretty well assure you that everybody's got a pet rock, if not more than one. And this has been a very difficult, complex process partly because Russia is a big country, a big economy, an economy which had not been part of the global financial trading economic system in any full participatory way for most of the 20th century. So everybody was getting, in a sense, first crack at trying to define a relationship with a country whose economy they didn't know very well, but where they thought there were particular interests.

Well, this got me into things like movies. One of the biggest issues for the United States almost from the very beginning has been intellectual property rights and their protection. And at the outset at least, I used to get visits rather regularly from a man named Jack Valenti who was the head of the Motion Picture – (laughter) – Association, whose main interest was to ensure that Russian WTO accession or our trade agreements of any kind protected American films from being pirated and shown illegally or without authorization and royalties in the Russian Federation.

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Well, it was a problem. I mean, you know, any of us who were there during the '90s or, in many ways, for many years since, could go down and for a couple of dollars buy a pirated, rather bad copy, usually, of the latest Hollywood release.

But it was a much bigger issue because in the big money, it was software. And it was a variety of other products as well that really were the economic issue. So intellectual property from the very outset was one of the really difficult problems. And this was an element of this – (inaudible).

The other one was chicken. Now, it wasn't only chicken but chicken was the one over which we had two wars. I am a veteran of two chicken wars – (laughter) – in which the Russian ministry of agriculture and the Russian agricultural interests felt they were being unfairly undermined in terms of any possible future development by the export from the United States of frozen chicken parts. These were affectionately known rather quickly in the early '90s as Bush legs.

However, this issue has been with us from the outset. It is a matter of Russia seeking to recover a place for its own poultry and livestock industry in an extremely difficult, competitive environment, and in an environment in which, frankly, Russian agriculture, to put it charitably, has not been the most efficient in the globe. This means jobs, it means a whole host of issues, but anyone who deals with the American farm lobby knows perfectly well that agriculture is going to be an issue in any society where you're starting to try to deal with its competitive position or threats to it.

And so this issue has remained a central issue – phytosanitary, sanitary issues, nontariff trade barriers, quotas, you name it. It's been a part of a major set of issues that the American side has tried to resolve through negotiation of various elements of WTO accession.

Other issues there are more arcane, but they have to do with market access basically and treatment in the Russian market. A current issue is encryption. Encryption means rules that are resisted by the American producers that affect the way the technology of cell phones and other kinds of communication media are designed and function. Russia wants certain information that our people are unwilling or at least very reluctant to provide, and so we have a standoff.

In any event, what I'm trying to suggest here is the problem has been that when you got from the general policy of support for accession, the political level agreement I think across the board, that everyone will be better off with Russia in the WTO. It's taken about 13, 14 years even to get close as we are to this process essentially because it's been a trade negotiation.

Now, it is a negotiation. You know, there's probably right and good on both sides. I think it is fair to say that the Russian side at the beginning essentially just wasn't prepared for the negotiation. I mean, and understandably, they had not had the kind of specialists or people who dealt with the issues of WTO in any real meaningful way. And so I remember there were two people in the ministry of foreign trade and foreign affairs who essentially knew the subject.

Well, you had to start from a rather small base to build the capacity to deal with these things, and I think the Russian side has done a rather remarkable job in building that capacity, and having produced 53 agreements. That is quite an achievement – including an agreement with us.

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So if they've reach an agreement with us, what's the problem? Well, you've heard part of the problem is the WTO process itself and what happens. Part of it has been, frankly, the customs union surprise, and I can say with some certainty that the Americans were caught totally unawares that this was going to happen. And it confused things, and if we're back on track, as I hope we are, it's good news. But we've lost a fair amount of time.

But the real issue for the United States still remains now not the bilateral agreement, which is signed, but in some sense from the bilateral point of view, are the Russian authorities living up to – if not always the latter, at least the spirit – of the undertakings that have been incorporated in that agreement, and in some cases, specific commitments to the united states for certain actions before accession.

And we come back again to things like chicken – except it's really pork this time – but the latest argument I heard about last night at the holiday reception for the Poultry & Egg Exporters Association – (laughter) – where it is that Russia will not permit the import of any chicken parts or chicken meat that has been subject to chlorine sanitizing procedures, which are standard in the United States and so forth.

MR. : Together with the EU.

MR. COLLINS: Yeah, I understand it's together with the EU, but I mean, this is the issue, right? It's the latest issue. We have pork issues and so forth. We also have remaining intellectual property issues and so forth, but these are largely of implementation. Seen by our side as not adequate, seen by the Russian side as fully justified in terms of the way they're conducting their business.

My own view here and I will end with this is that as long as we do not have accession, these issues will become the reasons you can't have accession. And we will continue to find reasons or things that are newly evident – new evidence of the reason Russia really isn't ready for membership or they're not living up to their obligations or whatever you want – whatever you wish to say.

The most recent one is harvester tariffs. You know, the commitment, allegedly, was made at least as I understand it, to take Russian tariffs on imported harvesters from one level to, I take it, your general level, that would be the WTO level. But it didn't happen. And so now, the American side is saying, well, you know, you see, they're not living up to their commitments.

Well, I'm not going to try to make the judgments one way or another. What I'm simply saying is we have a trade negotiation and as long as that is a negotiation that takes place outside the WTO rules-based, sort of, framework and legal system, there's no good way to resolve the issues other than the usual way you do it with people who aren't in the organization.

So I mean, in my view, it's a certain chicken-and-egg quality, if you'll pardon my return to the chicken analogy. It seems to me that it is very much in the United States interest to get this process finished. We will benefit in the ability to resolve and deal with most of the issues that are out there in a continuing stream if we have a rules-based framework to do it.

As long as we are outside in this sort of you know, marketplace jungle trying to deal with it, it's going to become a more and more contentious and a certainly difficult issue for us to deal with. And let me continue with one word about Jackson-Vanik. You know, I – I failed to get Russia off the Jackson-Vanik list in the mid-'90s.

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But the compromise was that Russia is not really subject to the provisions of Jackson-Vanik in any meaningful way. That has been the case since the mid-'90s so in practical trade terms, it doesn't have effect. However, I would say it's long past time that we got Russia off the Jackson-Vanik or we got rid of Jackson-Vanik or however it's going to be handled.

I also am realistic and I have believed for many years that the only way Jackson-Vanik will end for Russia is WTO accession and I think my colleague explained why that's true. The dynamics on the Hill, if I interpret it correctly, are quite simply. Very few congressmen are prepared to stand up and say I want to do this for Russia.

But they're quite prepared to stand up and vote yes if it is I'm doing this for American business interests. And that's sort of the dynamic that's been there for years. So it has never had much to do with immigration since 1991. That's not been the issue. But I can tell you chicken parts, pork bellies, movies, you name it, have been a reason for Jackson-Vanik.

And I think it is – it is rather shameful. It's made a mockery what was, in fact, a very serious piece of legislation to address a real issue at its time. But at this point, we're well past the time it should end and I'm only hoping, therefore, also that we'll get them into WTO so that we can get this past us.

MR. DADUSH: Thank you very much, Jim. Well, Aleksey, so we have been dating for 16 years. (Laughter.) We've gone to the movies. We've gone to dinner together; we've eaten chicken and pork. The parents have met. Why are we not married?

ALEKSEY SHISHAYEV: You know, I came here with some prepared remarks, but after I heard all this, I got such an idea that we're talking about some major phenomenon. So everybody – and this time that Russia should be a part of WTO. Everybody said that a lot of work has been done and that there is no perfect solution to trade negotiations.

You can have trade experts, especially veterinarians, talking like (sentries ?) about how to better export and import chicken legs or beef or pork. But still, there actually is out of the WTO and I think that maybe, maybe we should look on a wider picture what's actually going on in the world trade – global trade system.

In recent years we're not so successful in achieving significant – significant results, neither in Doha Round nor on other bilateral relations. If you look what the issue of the U.S. trade policy, there's not so much you can showcase as a significant breakthrough. So maybe – maybe the process of Russia accession just conform to this – not good times in terms of trade.

Maybe we – if we were done this negotiation much faster in '90s, maybe we could get there already, be a part of the Doha negotiations and complaining – making them even more complicated, so. But I just want to reiterate that actually I agree with maybe 90 percent of what was said today, with some exceptions.

But these exceptions actually prove the overall rule like if you see the list of the outstanding issues and the trade and the negotiations on demand, chicken or tariffs, the last point is Georgia conflict. The question is what the political issue does on that list and – but that's the reality. It's trade and at the same time, it's political negotiations.

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Russia is committed to the goal of becoming member of WTO. It's our priority, if I will, economic policy and it was stated as a priority for the custom – for newly created custom union. I think that what – enormous results during these 16 years, not only for the sake of WTO but for the sake of Russian economy, to modernizing our legislation through actually –

If you start on the project and checking what Russia has done to draw new laws and regulations, it's enormous work and we're 99 percent complying with what WTO requires to do. The implementation of this new legislation, sure, helped to create more friendly business climate, more investment friendly business climate.

And the recent statistics before, of course, the financial crisis showed that there was significant push of capital to Russia and especially I'm dealing with American companies and on regular basis and there are a lot of business people who go to Russia, do business and if they come there, maybe they're first year can get rough but then they stay there and they don't want to go.

And it's – it's the reality. And when you ask them why you don't make the case. Why don't save all this – it's – it must mean that the basic answer is, we just don't want more competition. And that's true. Well, half a year ago, we – there was a decision with custom union.

In order to understand it, you should look carefully into the history and it's not something – it's not like suddenly done decision. It's actually the process of the creation, the establishment of the custom union has been on track for also for 16 years. Is the process of getting back closer with – we live together for centuries and our economic conflicts is similar.

There are a lot of systematic companies – production sites who need this close ties with – for these countries. And the crisis, actually, the financial – global financial crisis showed that we – it's not only needed, but it's possible right now to make progress on this track. So the decision was announced that the custom union is created and that it's not that custom union comes first before WTO.

It can be done. We can go both directions. Of course, that's – at beginning, it was some uncertainty. Still, there is some uncertainty how to do it from a technical point of view. But the political goal is quite obvious. We need to liberalize our relations, even on a deeper basis than in WTO with our neighbors.

And at the same time, we want to be a part of that medium. How to achieve this, that's maybe an issue of negotiators as well as politicians, but it's worth is because three countries which were mentioned, it's about 170 million people, enormous market, not much debt the customers have on this market and it's enormous opportunity, not only for the businesses inside those countries but for the whole world.

So that means that there is nothing impossible in this process and we can achieve these goals but we need to work hard and we, together, not only with WTO secretaries but with the major countries, with EU, with the U.S. and there should be not only trade decisions, but also political decisions.

MR. DADUSH: Thank you very much, Aleksey. This, then, allows us to open it up and we have several minutes for questions and we have a roving mike here. Why don't we start front, Evelina, and then you move, you move back. And we'll take several questions and then turn to the panel.

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Q: Spurgeon Keeny, Council on Foreign Relations. Could you elaborate or explain the role that Georgia has, assuming that all of the outstanding problems with – between the United States and Russia are resolved or are clearly in the process of being resolved, can Georgia or any other country maintain a veto indefinitely on the accession process?

MR. DADUSH: Thank you, yes. Evelina, just come to the center here and move up. Come to the middle here and move up. Oh, Annie's there, sorry, sorry, yes. Go ahead, please, introduce yourself.

Q: Yeah, thank you. Jim Berger from Washington Trade Daily. Not much was said about IPR, actually, the broader issue. And I just wonder if you could elaborate more on IPR. As I understand it, it's a multilateral issue so it is in the working group right now. And that seems, as of yesterday, seems to be the major issue for congressional acceptance.

MR. DADUSH: Okay, intellectual property rights. Yes and behind there – that's it.

Q: I'm Bill Liefert with the Economic Research Service of USDA. David Tarr's work shows that Russia would gain in the medium to long-term from accession to nontrivial degree. Certainly, consumers would gain, the production-sighted economy would gain safe from productivity growth due to increased competition in world markets, greater inflow of world technology investment.

But those are the types of gains that producers that more threaten rather than benefit existing producers in the short run. And David's work also shows – and I believe correctly – that there be very few market access gains to Russia from accession.

In fact, from a market access point of view, almost all of existing Russian producers would suffer rather than benefit because with the exception of just a few sectors of the economy, Russia's a net importer of most goods or become even – would become a net importer under increased trade with WTO accession.

So it leads to my question. Are there any existing political and economic interest groups in Russia particularly representing producer interest that support WTO accession?

MR. DADUSH: Very good question. Yes?

Q: Thank you, this is Bruce Malshevich, private consultant. I think this is a question for Dr. Tarr. In connection with negotiations by the EU and by the United States with Russia energy subsidies, so called, were a big issue. That is, price discriminating in favor of energy-intensive industries like fertilizers, cement, steel, titanium. I'm curious as to how that issue was resolved or was it swept under the carpet, in effect?

MR. DADUSH: And Zanini?

Q: Yeah, Gianni Zanini, World Bank Institute. I had a couple of questions and one is about the amount of legislation and rules that have already been adopted by the Russian Federation. In theory, the pending issues should be market access, maybe national treatment, maybe issues of implementation of SPS and maybe IPR agreements.

But to a large extent, all those reforms that you have entrenched the rule of law is part of WTO accession should have been already been taken and adopted in your legislation. But nonetheless, we see this poor ranking in doing business, in other type of international sort of rankings.

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So you know, it seems that so far, that large institution of reform that ought to have already been there regardless of the status of now of the pending issues and the agreement on market access and national treatment hasn't really led to much.

The other question that I would have for Ambassador Collins is that I understand that there are some maybe small nagging issues, let's say, in the bilateral relations. But why would also maybe the U.S. or U.S. interests expect that those commitments be already adopted and enforced by Russia before accession?

Now, they could make a case after accession that then, you know, this chlorine problem, you know, should not be raised or maybe harvester tariff should not be as high as they may be now. Why would it be an issue now that bilateral agreement is subject to or should be coming in force only as a part of the accession undertaking?

MR. DADUSH: Okay. Let's take one more and then turn to the panel. Yeah.

Q: Hello, my name is Amanda Lahan and I'm from the PBN Company. I actually have a two-part question. The first is regarding the letter from Russia about the customs union. I'm wondering if you have any idea when to expect it and what will happen next once the WTO receives the letter. And my second question is will Russia have to renegotiate any of its bilateral agreements once the customs union comes into force? Thank you.

MR. DADUSH: Okay, Evelina, how long do we have – until what time do we have the room? Until 11:30, so we have a few minutes, if we need them. Let me then come back to the panel and then we'll take some more questions. Chiedu, you want to take it off and just pick the ones that you would like to address. (Laughter.) You don't have to – you don't have to answer them.

MR. OSAKWE: All right, good. I'll take the easy ones. Perhaps the last question by the lady is probably the best place to start. The answer to that is that it's an area where there is also a degree of uncertainty. We don't know. Members do not know, not as the Secretariat, what would happen to the signed bilateral agreements.

But let me give you the facts. The facts that have been communicated to us by the Russian Federation is that in the context of the customs union, they shall seek to – and I'm quoting, "preserve and safeguard the integrity of all their bilateral agreements," unquote. However – however, they also say, remember part of what they have communicated is that the tariff schedules for the three countries of the customs union will be aligned on the Russian Federation tariffs schedule.

As a consequence, part of the analysis that they, the Russian Federation, have already made is that – and I'm reporting their analysis. There are 3,000 tariff lines in respect of Kazakhstan which are more liberal in those tariff lines than the Russian Federation tariff lines. And so those tariff lines will have to be readjusted upwards.

That is to say, greater levels of tariff protection. Now, the question they have to answer to members is exactly the question you have posed. What will happen? Will there be renegotiation? Will there be compensation? These are legal results and so that is also not entirely clear.

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With regard to Belarus, the analysis that they have provided – provided us is that there are about 22 tariff lines where readjustments would have to take place. The final point on that question, which is at the core of the re-launch is that nothing yet has been provided yet on paper. Nothing, at any stage, since the 9th of June.

Everything is just based on conversation, on informal contacts. And so what the membership is waiting for is the paper that they have requested from the three delegations and which the Russian Federation and the two other delegations have committed themselves that they would provide, but that has not yet been provided.

And so I hope that answer is helpful but it is the key of what's going on. And remember, just to come to it on that core question, are there – their proposal on the custom union – on the customs union to the membership is there's two levels. One, they would like a harmonized common tariff schedule, one.

And then secondly, with regard to the multilateral issues, they would like a harmonized set of commitments on draft reports and there is of covered competencies, which they all still not sure about at this time and nobody else is sure about that.

Two other questions I think I could answer – (chuckles) – did you want me to answer the one on Georgia? Listen, this – (chuckles) – is beyond me and I still have many years to go before retirement. (Laughter.) But as – I didn't mention that word. But the way – the way we – I know that the international community love to speak about WTO vetoes.

But we don't speak about it that way. We use the flipside of the coin, essentially, that this is a making in our system is on the basis of consensus. Now, what that essentially means and it's not a weasel word. What it essentially means is that – it's true – listen, it's about lawmaking. It's about brought-on regulations that intrude behind the border in members.

The result of that is that any member, like any member or members like the Cotton-Four, like whatever you think could express a real and instability, but members have not used this irresponsibly. Essentially, before they give their agreement, if they have an area of sensitivity, they have to demonstrate to the rest of the membership that there is a real sensitivity of a commercial nature.

Otherwise, that position is unsustainable. The members would stand around and watch and informally, they would prevail on the member that's seeking – and I'm using a word that we normally don't use because it hardly ever happens – to exercise a blockage, to back down. It – the system doesn't work that way.

I know the headline – the headline news is vetoes and blockages, but it doesn't work that way. And this was one of the points I sought at the very beginning with regard to the Russian Federation accession. There is no member that's blocking it. I can honestly tell you that. There isn't a blockage.

There are real interests – a commercial interest and both David and Ambassador Collins, you know, through their precise examples on what the greater degree of freedom they have than I do to speak about individual issues are pointed to are some of the core issues. So no, no veto. I do not think that the position of Georgia is – however you interpret it and define it is an insurmountable problem.

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The system still moves ahead. A couple of other things related to that. I think one of the points – I mean, there's no question by Aleksey, but one of the point that he make, which in a sense, I should underscore because my boss, Mr. Pascal Lamy, you know, discusses this in private advice that he's giving to acceding countries is trade negotiations – accession negotiations focus on trade matters.

But it's also part of international cooperation. Accession negotiations are not extraterrestrial. I mean, they're planted here on earth and they're planted on the basis in the midst of international cooperation. And you have to look at lots of things that go in – that go on the global international cooperation landscape.

A couple of questions from the gentleman at the World Bank Institute on why has several of the legislation of several of the commitments, rather, undertaken by the Russia Federation in the course of its accession not been implemented. And is there legislation that underpins it? And I think that's a question. I service these negotiations. I hear the discussions and it's a key question and important and useful one, if I may express that bias, which would move the accession closer to – closer to closure.

First of all, because it's good will. If you enter into a commitment, even if it's in the process, still, of incomplete negotiations, the signals will be good if they're implemented. The question of legislation has also arisen because there are several levels. You have the legislation that should be adopted by the Federal Executive Council in Russia.

And then you have accompanying legislation – accompanying, sorry, regulation that would be given effect by ministers, signed and gazetted with regard to their WTO agreements. So there's a whole raft of regulatory and legislative issues that if there were implementation, even as the accession negotiations involved, I would also be helpful in confidence building in the involving process.

And I think that was a useful question and a key point to be made. And for example, the one that you identified yourself are namely intellectual property.

MR. DADUSH: Thank you, Chiedu. David, just, we continue on the sequence, yeah.

MR. TARR: Do you want to answer the intellectual property – or should I say something? All right. First on, who supports WTO accession? There are – there is a significant lobbying group, the Russian Union of Industrialists and Entrepreneurs who do support WTO accession and, most notably, its spokesman is Mr. Mordashov, who has significant steel interests in the steel industry. Largely, they're the main exporters who, you know – I argued that there is not a lot there in a way of market access, but there are some gains in market access, and in particular, the anti-dumping area is an area where a number of Russian exporters have been subject to anti-dumping actions.

And once Russia is a WTO member, it has additional rights in legal proceedings under WTO rules, and any country who is a WTO member who wishes to take anti-dumping action or investigating an anti-dumping case against Russia. So a lot of the industries which have been subject to anti-dumping, like steel and ferrous metals and chemicals – these industries tend to support WTO accession in Russia and have been significant supporters.

And I would say that there is – sort of the statements which come out of the leadership have had an influence. And say, if you go back a few years ago, polls in Russia suggested that there was general – a majority of people were supporting it. And what you see is some pulling back and more ambiguity at the

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upper levels and you see some changes in the polls as well. But in terms of industries, those raw material exporters.

Okay, then there was a question about energy subsidies. Well, I mean, this was resolved. I wouldn't call it "swept under the rug." I mean, it's mainly – it's not energy subsidy; we're talking about – it's gas. The issue is natural gas. There's never really been a big issue on oil of significance. The big issue is the fact that Gazprom, the monopoly exporter, charges much higher prices – roughly six to seven times as much – on its exports of gas as it has been, historically, charging within Russia.

This was a huge issue up until the time of the bilateral agreement between the European Union and Russia. The U.S. also had similar position of the EU, but was not a major consumer of Russian gas, and so it deferred, essentially to the EU in the negotiations and more or less made it be known that whatever the EU decided on this, the U.S. would go along. So the U.S. never really made this an issue in its bilateral – it was resolved, essentially, in the negotiation with the EU.

And as I said, this was a paper that I did in which I explained that Russia would lose approximately 2 to 3 percent of its GDP if it were to unify its gas prices. The initial demand of the EU was Russia should unify its gas prices. And it was presumed by many of the negotiators pressing Russia that it was actually in Russia's interest to unify its gas prices, just as it is, you know, in its interest to lower its tariffs. Even though there may be political interests against it, it was assumed it was in their interest.

And the paper which we wrote on that – Peter Thompson and I – I think largely resolved that issue because it became apparent this was not in Russia's interest and Russia was not forced, in the negotiations, to unify gas prices. Sort of the footnote to this is that Russia is on its own, at this point, raising gas prices rather substantially because it is losing – its production capacity is extremely small and it really, in my view, needs to introduce competition in the sector, which has been something we have been pushing for – the World Bank has pushed for, for over 10 years.

IPR – well, I understand there may be some pharmaceutical issues still unresolved that are coming up now, but there was an agreement on intellectual property with the multilateral group approximately a year-and-a-half ago. The general view has been that the legal regime in Russia on intellectual property has been good, but that the enforcement has been weak. There were a number of details I can get into, if you want – but I won't – on the sort of lack of enforcement. But no country has perfect enforcement and it was generally accepted that Russia has been making a serious effort to implement IPR restrictions.

And Russia has regarded it in its own interest for many years – that intellectual property enforcement is in its own interests, because it has a strong human capital base itself and would like to develop its own inventions and technologies. So that issue was more or less resolved, although I understand, as I said, there may be some pharmaceutical issues which are still unresolved. But let me just leave it there.

MR. DADUSH: Good, thank you. Jim, did you want to pick up on any?

MR. COLLINS: I'll just make two comments. I mean, I think the theme you've heard here is the right one – that a tremendous amount of work has been done on legislation, on regulations and other things to move Russia toward the formal state of dealing with those things it has to before accession and setting out the timetables that it will follow after accession.

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The real problems have been, if you will, implementation. And that has had two different dimensions, from the American point of view. The Americans, in addition to the bilateral agreement, signed certain side letters. They called for certain actions, if you will, now, and were not dependent just on accession. So the question – you know, there's been a lot of back-and-forth about whether or not Russia had sufficiently implemented the provisions of those letters. And you know, you could argue this forever, frankly, in my view. But the implementation was the issue, not the substance or the when.

The same has been true on the symbolic level. And here, I would agree with my colleague from the secretariat – that a lot of the issues that keep coming up – they're not necessarily issues that were even extant at the time the negotiation – the bilateral agreement was done, or whatever, but they've popped up since. Well, they are now trade issues and they are now, in some sense, symbolic. It's not a question of whether they are resolved by the bilateral agreement, but they are taken as indicators of faith or goodwill or readiness to do what Russia will be required to do after accession.

And here, I would simply point out that one of the big, sort of, elephants in the room in Washington is China. The China WTO accession experience has been one that is very controversial. And there is certainly a large body of the vocal writing and yakking in this town, which says we're not going to make the same mistake twice. And so this has – you know, I think Russia often has a case that it's sort of unfairly set a different standard for Russia, not so much in the specifics of the arrangements, but in the expectations and what it's going to take to convince Americans that Russia will really perform. And that's a problem. It's been a political problem.

Now, I also believe that it gets resolved only when you have to make a decision. And right now, you know, Congress doesn't have any decision to make. Well, they'll go on arguing about this forever until there's a real decision to make. Then they have to vote yes or no. And there, I'm much more optimistic.

MR. DADUSH: Very good. Look, I'm a little concerned – I will turn it to Aleksey in a second – I think we are a little – coming up against time, right? We were supposed to finish at 11:00, am I right? Oh, 11:30? Okay, so we have – we can take another round. Aleksey, do you want to comment on anything so far?

MR. SHISHAYEV: Yeah, I'll be very quick – just comment on all these questions together. You know, if you analyze them, you see some kind of similar approach. It seems like Russia is entering, like a group of perfect countries, to where they are absolutely perfect. And there is some guy who wants to get in and if you check him on every box, he has something wrong in each field.

But correct me if I am wrong, but I guess the – a role of WTO is not to get together the perfect trading partners – (laughter) – but to provide the mechanisms to make these partners more better and make easier for them to trade and to solve the problems they have. Don't you think that if we have Russia inside the WTO, it will be much easier to complain about the problems that we have in IPR or in chicken exports or on gas prices? I mean, you have very experienced courts there who can spend many years talking and giving advices. So I think that – this is my first point.

Second is that I heard many times today that people are mentioning some kind of rating systems, that according to those ratings, Russia is number 135 or 185 somewhere. But you know, we have perfect examples how companies with triple-A ratings just went down in a few seconds. Maybe it's – you know, the system of ratings is absolutely not perfect and maybe we should – especially in the case of Russia, it's a country where you have to talk to people to understand what's really going on.

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And again, I have a lot of experience dealing with the business community and what they say does not match what you see on the charts of these ratings systems. Maybe neither that approach nor rating approach is absolutely perfect, but maybe the truth is somewhere in the middle. And on the question of IPR, unfortunately, I saw here James Glassman, the vice president for the pharmaceutical industry coalition.

I wanted him to comment on that because we just – before this meeting, we had a small conversation and I asked him how are you doing in Russia? He said we solved absolutely all problems except one, but we are working on that and we are involved in the legislative process. So unfortunately, he left, but again, we just had the working group of intellectual property and when people say that there are a lot of troubles in IP in Russia, I always ask them, can you name them? Then let's talk case-by-case.

MR. DADUSH: Thank you. Yes, the gentleman there at the back?

Q: Sam Charap, Center for American Progress. I have one question for Mr. Osakwe and two for Aleksey. First, for Mr. Osakwe, several of the agreements that were signed in Minsk on November 27th won't actually come into force for months or in, actually, some cases, years. I was wondering, is it possible – would the members of the working group have to wait until those agreements are implemented before they're able to fully assess the customs union and proceed with the multilateral negotiations?

And for Aleksey, can you confirm that Russia plans to conduct these negotiations simultaneously with the other two partners in the customs union? And as you said, the importance of speaking to people in Moscow – from what I heard there, there are going to be two parallel tracks of negotiations – that the three members of the customs union are going to be jointly negotiating issues that the customs union concerns, such as tariff rates and so on, and there's going to be separate negotiations on issues unrelated to the customs union or that the customs union doesn't cover, such as services, subsidies and so on. Is that true?

MR. DADUSH: Yes, the lady – sorry, the lady and then the gentleman, yeah.

Q: Thank you. I'm Pat Mears with the National Association of Manufacturers. And needless to say, many of our companies are invested in Russia and have spent a good deal of time trading with Russia. And we look forward to an accession agreement that we can bring to Congress and work to have it passed. Ambassador Collins, you're absolutely right that the elephant in the room is China. And one of the most important issues around that is IPR. The experience has been very frustrating, to say the least, in getting implementation and enforcement of IPR commitments.

So Aleksey, my question for you, which is a little bit of a weeds question, but I'll take the liberty – one of your panelists did ask it here – one of the major issues on IPR is the revision to the civil code. And this is a big issue and a lot of people in Congress know about this. Can you give me an update, or maybe one of the other panelists could, on where this stands right now? And do you expect this to be completed by the time the accession talks are done, as well? Thank you.

Q: Eddie Sterman (ph), Gimo University (ph), Moscow, and now visiting researcher at SAIS. Thank you so much for brilliant presentations. I would like to ask a question for Ambassador Collins, if it's possible. Some time ago, we had also one country which was against Russian accession. It was Saudi Arabia – made some negative points.

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But as it was perceived, at least from outside, with some help of our American friends, this – Saudi Arabia accepted and they are – the problems were resolved. And now, we have Georgia. Do you – of course, the United States has a lot of leverage in Georgia. Do you think the administration has the will to press Georgia to get Russia into the WTO?

And one additional question, maybe: With the European Union – now, Russia is not yet in the WTO, the European Union is pressing the point that after it will be in the WTO, it would like have a free trade zone as soon as possible. Do you have the same thing in the U.S.? Do people in the U.S. think about having a free trade zone with Russia as soon as possible? Thank you.

MR. DADUSH: There's one more question and that will be the last question.

Q: Wayne Merry, the American Foreign Policy Council. A question for Dr. Tarr. Obviously, Kazakhstan would very much like to be in the WTO. Belarus is, to some degree, off in a league of its own of distance from WTO membership that is almost an academic question. So to what extent does the current Russian position of trying to seek entry as a trading bloc essentially operate as a hindrance on Kazakh sovereignty and Kazakh ability to serve its own economic interests?

And secondly, to what extent could this potentially be used, from Moscow, to introduce/impose some kinds of economic reforms on Belarus on the notion that progress in Belarus is much less likely to come from Geneva or from Brussels than it is from Moscow?

MR. DADUSH: Thank you very much. I'm going to ask the panel to respond in reverse order from the way we did it, and also to invite them to make any concluding remarks that they might have as they address the questions. So Aleksey?

MR. SHISHAYEV: The question about how we conduct negotiations – I think that Chiedu already quoted exact wordings from the documents submitted by Russia, so it's a very legalistic issue. You should read these complicated words and try to figure out what is it they actually mean.

But we continue to say that Russia, Belarus and Kazakhstan will aim to enter WTO simultaneously and on harmonized conditions. All negotiations of matters of customs union will be conducted by a single group of negotiators; all other issues will be resolved through bilateral means. I think it's pretty simple.

At the same time, I would refer to statements by Russian leadership, including First Deputy Prime Minister Shuvalov while he was here in Washington. And he explicitly said that there are no rules you cannot change. If, at some point, the three countries see that one country isn't making progress, then the leadership can again get together and think about future steps. There is not that one country cannot join WTO first and others will follow.

What else? About IPR in civil code, the work is on track and I think that the most important issue is to stress that this work is open to comments from the business community and from other countries and that those people who write this legislation – it's city bureaucrats or lawyers or academia. You know, you could not just – the overall goal is to make the legislation more efficient. So there is no way you can just write down something which will definitely be good for all the players.

So if you – there is a way to effect this process, and I think that it has been quite well accepted. Again, I refer back to what a representative from the pharmaceutical issue said, that they are involved and

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they can comment and they can fight for the decisions which will help them to work with Russia. I think that's it. Maybe I missed something.

MR. DADUSH: Thank you, Aleksey. Jim, any answers or concluding remarks?

MR. COLLINS: Well, with respect to the question on Saudi Arabia and Georgia and so forth, I think I would defer to the position that was outlined about how WTO works. I doubt very much that you can point to a time in which it was the United States that told Saudi Arabia to do what it's supposed to do. You know, it doesn't work that way.

And it is almost certainly the case that, if we come to the time when the accession process reaches that stage when it's basically a decision to be made by the collective in WTO, it's going to get made. But you're not going to have, you know, say, Georgia, which has got its own set of issues – and the Russia-Georgia relationship is not the best – they're not going to stand up today and say oh, well, we forget it, you know; we're just going to do whatever everybody else wants. That's not the real world. But I think the real world is that this is about trade and it's about rules, and that the system works, essentially, to bring people in when those – the basics of the negotiations are completed at both the bilateral and multilateral level.

On free trade zone, there was discussion of this at various times in the past. I have to say I'm not aware that this is on the agenda at this time. I know it is for the EU, but it's not – as far as I'm aware, it's not an active discussion on our part. And I guess I would only make one last comment. I do think, as I listen to the discussion of WTO in this town and I listen to the reasons that we have a problem or there are issues, that what strikes me is two things. One, that this China issue is really there, but it's a question of confidence.

You know, there are a very substantial number of people in this debate in Washington who think that we were had in the China negotiation – that we didn't get the performance after accession that we had every right to expect; that either we didn't make the right agreements at the time – you can name however it happened. But somehow, it hasn't worked out the way people thought they voted, or accepted the premise of Chinese accession at the time.

And the next step is, “and we're not going to do the same thing again with a big economy.” And that means that there is a confidence problem in this town, and it's a difficult one to overcome. And as is often the case with U.S.-Russia relations in any sphere, the particular becomes the general immediately. So if there is something that Russia is seen as doing, let's say, to harvester tariffs, this isn't a trade question only; it becomes a cosmic question. You know, will Russia really do what it says when we make that final decision that they can be a member?

Now, I think this is, you know, only going to be resolved when you get to the real decision, as I mentioned. Then you will get it resolved and you will have a different debate. But my strong belief is that we are far better off, given the nature of the issues that now arise between us and Russia over trade issues, to have those taken into the WTO process than we are trying to resolve them outside it. Because we just don't do very well resolving these things outside it. And they blow up into huge, cosmic issues, which aren't. So we'd be much better off if they are a part of this rules-based framework.

MR. DADUSH: Thank you, Jim. David?

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MR. TARR: Yeah, there was one question directed to me specifically, and that was what are the economic interests of Kazakhstan and Belarus in this customs union and how does it – well, let me start with Kazakhstan. This is a complicated question, which Cossus (ph) Michalopolous and I did a paper about 15 years ago, almost on – you know, there was an earlier incarnation of this customs union. I mean, Russia, Kazakhstan and Belarus have been in a customs union since 1995. And it was gradually expanded to include Kyrgyzstan in 1996 and then Tajikistan and ultimately, Uzbekistan.

And it was patterned in a similar way. As we heard from Mr. Osakwe, it's the Russian tariff which is the tariff structure of this new customs union, and it was essentially the tariff of this old customs union. And what happens is that, in countries like Kazakhstan and Kyrgyzstan, they might initially sign on to this agreement, but they learn from their importers what their economic interests are, and so very quickly, Kazakhstan suspended the tariff on automobiles.

Their importers said, well, we'd rather buy Korean cars and not have to pay these high tariffs on Korean cars, which force us to buy Russian cars. And so they suspend the tariff and they did that tariff line by tariff line until ultimately, outside of Russia, the ostensibly common external tariff was applied on only 50 to 60 percent of the tariff lines. So it takes time, but eventually they learn it's not in their interest to apply this common external tariff, because it's a tariff which protects Russian industries and it doesn't protect their industries.

So they're asked to bear all what we call the trade diversion costs of this customs union. And as we heard from Mr. Osakwe, Kazakhstan would have to raise tariffs on 3,000 tariff lines relative to what they have agreed in their bilateral agreements in order to be consistent with the agreements of Russia – or the agreement of the customs union tariff. And will they do it? The leaders sign on, but ultimately, they get pressure from their industries, who lobby them. And eventually, they suspend them.

But it is a problem for them in their WTO negotiations. If they're really going to try to accede, in my view, they'll have to renegotiate those bilaterals. And that's going to be very tough and could delay their accession for many years. But of course, if Russia's going to wait until Belarus accedes, they're in for a long wait anyway. So there's real problems there, and I don't see this in either Russia's interest or Kazakhstan's interest to wait until Belarus accedes.

Now, with respect to Belarus, the question was well, signing onto this Russian tariff might lower their own tariffs and would not be in their interest. Well, as we saw, any acceding country gets enormous pressure from working parties and ends up with a liberal tariff offer. So compared to just the normal accession process, they would lower their tariffs. And whether they really will apply the common external tariff, I'm skeptical for the reasons I just mentioned in Kazakhstan.

If they don't accede to the WTO, will they apply the Russian tariff? They'll apply it where it's convenient to do so, but I don't think they'll apply it where they find their industries tell them, we'd rather import goods from someplace else and not have to pay these high Russian tariffs on our imports.

Okay, in conclusion, let me make one other point. Well, frankly, I'm worried about the whole process. We heard back in early June, it looked like maybe the end of 2009, Russia would be in if they had real motivation to do so. But this customs union issue is really complicating things. We hear Mr. Putin saying that our highest priority is establishment of the customs union. And you know, this makes it really worrisome as to whether it's on their highest priority list, which it would have to be in order to really

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achieve accession. And so if they do go this customs union route, waiting for Belarus to accede, then I'm worried about when we'll get Russia in the WTO.

MR. DADUSH: Thank you, David. And Chiedu, last remarks?

MR. OSAKWE: Thank you, Uri. A specific answer to the question from, I believe, Mr. Charap, at the Center for American Progress, and then, very briefly, three – (inaudible) – comments. I do not know the position that members will take on the Minsk agreements of 27th of November – whether they will wait until implementation evolves and concludes before they focus on the question of the individual working parties. I don't know. It will be a determination of all WTO members to make, would be the answer that I would give to that very specific question.

Three final comments: The only member of the panel I had met before this panel, or had ever spoken to, was Uri, who's a longtime friend. But I'm struck by the degree of convergence on the part of all the panelists, including Aleksey, by the way – it's true – who, to repeat, agrees with 90 percent – and I'm quoting him – of all the points made, he said, with only a few exceptions. And those are out of my realm – the political – he said.

I think the question that we are faced with overall is, what needs to be done to bring the accession of the Russia Federation to closure? I think that's what we've been trying to grapple with. And David correctly says that the customs union issue has introduced a complicating factor. And on my understanding, Ambassador Collins' point is a critical one. The longer the process takes, the more you'll have simply an infinity of difficulties arising.

The current chief negotiator, who was not the starting chief negotiator – the first one died. Government's change; priorities evolve. You have a recent global financial and economic crisis. And so there are lots of things that are going on. And remember, even the process, per se – and we think it's a very good process and we're convinced it's a good process – but even the process itself is a complex one.

You're looking at several negotiations that are going on all the time. On the domestic level, the acceding government is trying to convince its people and stop domestic resistance from rent-seekers and lobbies and special interests, and it's also working with its parliamentarians to enact WTO-conforming legislation. That's going on at the domestic level.

At the same time, at the multilateral level, where I am, you have two other negotiations that are turning all the time – the bilateral ones, in confidence – in silos – and the multilateral one that we cover. It's almost a bit like a juggler's trick. It's not easy, but it has to be done. We've delivered before. We've had 25 governments and/or separate customs territories accede between 1995 and now. So it's not that it's something that's undoable; it can be done. But it needs to be done on the basis of the advice that my boss gave Minister Elvira Nabiullina on the 1st of December, on the margins of our seventh WTO ministerial meeting.

One, describe the customs union – provide information – full, precise and clear terms. Secondly, say how this impacts on your individual working party process. Three, the list of issues that David and Aleksey and Ambassador Collins and I have spoken about – crack those nuts; they're crackable. And then the final thing – I revert to the point by Ambassador Collins – structure a calendar driven end game. You have to bite the bullet. And we've done it before with 25 other accessions. Eventually, it has to be done.

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And then members, who will need to also decide, and as you're doing that, implement – this was the point from the gentleman from the World Bank Institute – implement these things.

One final point: The Doha round is – (chuckles) – is not dead. I mean, I wanted to say this at the very beginning and Uri had asked me to mention it. It has an important role to play. And even as we discuss specific trade negotiations like the accession of the Russian Federation, the Doha round has an important role to play in global economic recovery and sustained growth, and I'm also very pleased to say to you that we got a very significant boost, not just from the London G-20 summit, but also recently from our seventh WTO ministerial meeting, that concluded on the 2nd of December.

I think that the role – the platform that Carnegie has given, and Uri have his colleagues – have, I believe, set a good platform for taking ahead some of these public policy debates. And I'd like to say that we're very happy to participate, and if you keep it going, we'll keep coming. Thank you.

MR. DADUSH: (Chuckles.) Thank you very much. First of all, I'd like to extend my appreciation to those of you who stayed until the bitter end. We did manage to lose only about 40 percent of the audience as we went along. (Laughter.) Let me say, if I may, that you heard, today, not just profound, profound technical knowledge of the question, but I think you'll agree with me that you heard a tremendous amount of wisdom today. I typically have technically strong people, but it's rare that I have both technically strong people and so much wisdom in the same place. So I wanted to underscore that.

And the last point I want to make is that, you know, as our speakers were explaining what was involved in WTO accession, I remembered the saying, "Rome was not built in a day." You really have to think of WTO accession as the building – the rebuilding of a whole legal, commercial infrastructure, both inside Russia and in the relationships of Russia with the rest of the world. So this is a complicated process, and like all great things, it takes time. And it's done with great difficulty and with many ups and downs. But one is left with little doubt that we are in the right direction. Let me, then, on your behalf as well, thank the panel. Thank you very much. (Applause.)

(END)