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Changes in Russian trade regime and their implications for Ukraine

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Changes in Russian trade regime and their implications for Ukraine

Executive Summary

Russia has always been a strategic trade partner of Ukraine. Recently, it regained the role as the largest trade partner of Ukraine moving the EU to the second rank. However, trade relations with Russia remained at a suboptimal level suffering from limited scope and exemptions from free trade, as well as numerous trade conflicts.

Currently, the Russian Federation has been going through very important changes in its trade regime that could significantly impact its trade partners, including Ukraine. On the one hand, the CIS regional integration processes have been facilitated by the establishment of the Customs Union between Russia, Belarus and Kazakhstan, and signature of the CIS FTA in October 2011. On the other, in December 2011 Russia has successfully completed the WTO accession negotiations and it is expected to become a full member by end-August at latest.

The analysis of the impact of these changes on Ukraine's trade relations with its eastern neighbour showed that Russia's joining the WTO will bring the greatest benefit for Ukraine. Trade will Russia should become more transparent and predictable, less discretionary, aligned with international standards and practices, also shared by Ukraine. Moreover, Russia's WTO membership will establish common independent platform for resolution of trade disputes, currently quite frequent in relations between countries.

The impact of the CIS regional integration initiatives on Ukraine seems to be less straightforward. The CIS FTA bears a lot of positive features including increased clarity and predictability of trade regime and adherence to the WTO principles. However, the Agreement is not fully balanced, and some of its provisions – if ratified – could penalize Ukraine's participation in other regional trade integration initiatives, like the EU DCFTA.

As of the RBK CU, existence of bilateral FTAs – as well as forthcoming CIS FTA – largely neutralizes the impact of its establishment on Ukraine. At the same time, Ukraine suffers from expansion of trade defence measures applied by one party of the CU toward all parties, as well as from insistent invitation to join the CU. Though, Russia's membership in the WTO is likely to make the CU more stable and predictable trade partner.

Thus, altogether Russia's trade regime changes are more likely to benefit than damage Ukraine.

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1. Introduction

The Russian Federation has always been a highly important trade partner of Ukraine. Recently, Russia regained its role as the largest trade partner of Ukraine moving the EU to the second rank. This happened largely because of the high value of Ukraine's imports of mineral products, the price of which has increased significantly after the introduction of a formula in gas trade. However, Russia has taken a lead also as a main destination of Ukrainian exports, partly because it recovered from the crisis faster than the EU.

The trade regime with Russia has been governed by bilateral free trade agreement (FTA) signed in 1993, as well as several sector agreements. Nevertheless, the trade relations between countries have remained at a suboptimal level suffering from limited scope and exemptions from free trade, as well as numerous trade conflicts.

Currently, Russia has been going through very important changes in its trade regime that could significantly impact its trade partners, including Ukraine. These changes comprise:

- Establishment of Customs Union between Belarus, Kazakhstan and Russia
- Signature of the CIS FTA
- Forthcoming membership in the WTO

The aim of this paper is to make a first assessment of the impact of these changes on trade relations with Ukraine and develop policy recommendations.

The rest of the paper is organized as follows. Section 2 is devoted to overview of current trade relations, including trade trends and description of trade regime. Section 3 focuses on changes in trade regime and their potential impact on Ukraine. Section 4 summarizes findings and presents policy recommendations.

2. Overview of Ukraine-Russia trade relations

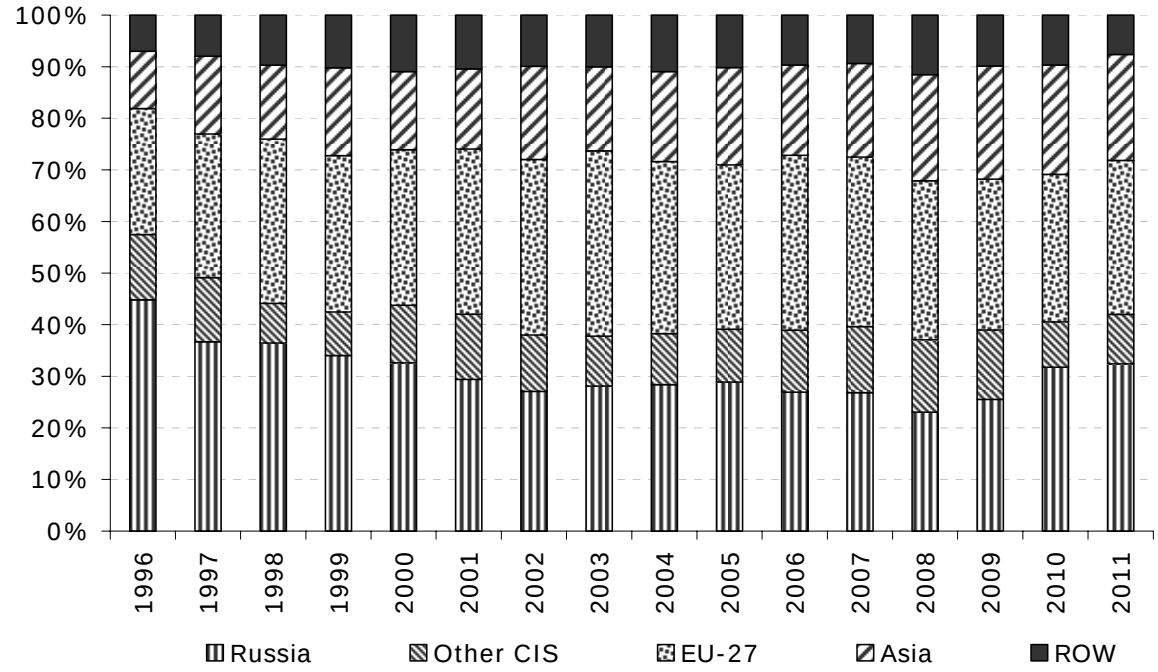
2.1 Trade trends

Since 2008, the relative importance of Russia as trade partner of Ukraine has been growing (Figure 1). According to the State Statistics Service of Ukraine, the growth rate of commodity trade turnover with Russia in 2011 was 37%, and Russia's share reached 32.4% of the total turnover of Ukraine. It is the largest share of commodity trade with the Russian Federation after 2000. For comparison, trade turnover of Ukraine with the EU-27 increased by 40% in 2011 and the share of EU in total trade in 2011 was 29.9%, ranking the second after trade with Russia.

In 2011, exports to and imports from Russia decelerated as compared to a previous year, although remained above historical trend (Figure 2). Growth rate of commodity exports was 47.6% yoy in 2011 as compared to 58.1% yoy in 2010. In imports, the deceleration was much more noticeable – from 67.7% yoy in 2010 to 31.2% yoy in 2011, primarily due to slower growth in imports of mineral fuels, particularly natural gas.

Commodity trade structure with Russia remained stable in 2010-2011. Exports were dominated by machinery and equipment, constituting more than one third of total. The main export product category was railway or tramway locomotives, rolling-stock and parts thereof [HS 86] accounting 16% of total commodity exports to Russia or almost a half of total machinery and equipment exports. Other important export product categories were manufacturing goods, mainly metals and products thereof, and petroleum processing products (Table 1). Mineral fuels comprised two thirds of commodity imports.

Figure 1. Geographical trade structure of Ukraine in 1996-2011



Source: Ukrstat

Figure 2. Growth rates of exports and imports of goods in trade with Russia in 1997-2011



Source: Ukrstat

Table 1. Commodity structure in trade with Russia in 2010-2011

	Exports to Russia			*Imports from Russia*		
	2010	***2011***	***2011***	***2010***	***2011***	***2011***
	% of total		*% growth rate*	*% of total*		*% growth rate*
Total	**100.0**	**100.0**	**47.6**	**100.0**	**100.0**	**31.2**
including						
Food and live animals	10.1	8.2	21.0	2.0	1.9	26.4
Beverages and tobacco	1.9	1.0	-22.9	0.7	0.5	3.0
Crude materials, inedible, except fuels	4.7	4.8	51.5	2.0	1.7	11.7
Mineral fuels, lubricants and related materials	9.5	14.1	118.1	66.7	67.6	33.1
Animal and vegetable oils, fats and waxes	1.7	0.8	-27.2	0.0	0.0	38.4
Chemicals and related products, n.e.s.	4.8	5.2	59.3	6.2	6.5	37.2
Manufactured goods classified chiefly by material	27.2	26.2	41.8	11.1	10.5	23.6
Machinery and transport equipment	35.5	35.6	47.9	9.9	9.8	30.0
Miscellaneous manufactured articles	4.1	3.7	34.0	1.2	1.2	32.2

Source: UN Comtrade

The role of Russia in Ukraine's trade in services has been also very important. In 2011, service turnover with the Russian Federation was the second largest in Ukraine, surpassed only by service turnover with the EU. Russia was the largest partner in exports, mostly thanks to high transport (pipeline) services, while the share of Russia in service imports is quite small.

Table 2. Structure of Ukraine's trade in services in 2010-2011, % of total

	Exports of services		*Imports of services*		*Service turnover*	
	2010	***2011***	***2010***	***2011***	***2010***	***2011***
Russia	44.2	41.1	14.5	15.2	34.8	32.9
EU-27	26.8	26.1	54.0	53.6	35.5	34.7

Source: Ukrstat

Russia accounted for 7.3% of total inward stock of FDI in Ukraine in the end of 2011, while the share of the EU was about 80% of total. Two third of Russian FDI has been in the financial sector.

2.2 Trade regime

The current trade regime between Ukraine and Russia is governed by the provisions of a bilateral Free Trade Agreement (FTA) signed in 1993 [1] and several other sector agreements.

The FTA is focused in trade in goods, and aimed at the establishment of duty-free trade, while allowing for some exemptions. Products removed from the free trade regime are subject to the most favoured nation (MFN) regime.

The Agreement allows for two types of exemptions. First, reciprocal exemptions are applied as an answer to export duties, quotas and licenses set by a trading partner. In Russia, the list of goods subject to export duties in 2011 included 23 headings and more than 500 tariff lines at ten-digit Russia's Trade Nomenclature. The list included fish products, mineral products, including oil and gas, fertilizers, timber, scrap of ferrous and nonferrous metals and others.[2] In Ukraine, export duties are applied to cattle, leather, natural gas, scrap of ferrous and non-ferrous metals and sunflower seeds.

Second, there are exemptions listed in separate protocols of the Agreement. According to the Protocol on 4 October 2001, sugar, alcohol, cigarettes and cigars, as well as selected confectionery are exempted from free trade regime between Ukraine and Russia.

Trade defence instruments constitute another important component of trade regime with Russia. As of March 2012, seven trade defence measures including four anti-dumping and three safeguard measures have been applied towards Ukrainian products in the Customs Union of Russia, Belarus and Kazakhstan (RBK CU). Initially, all these measures were introduced by Russia, but in the end of 2011–early 2012 their coverage has been extended to all countries of the RBK CU.

Also, there is one safeguard investigation into the graphite electrodes initiated by the RBK CU against Ukrainian producers. The investigation began in August 2011 and is expected to be completed in May 2012.

As of May 2012, Ukraine has applied six antidumping measures against Russian products and two safeguard measures that partly affect Russia. In addition, Ukrainian producers initiated several investigation that involve Russian producers, including one anti-dumping investigation regarding imports of flat float glass from Belarus, Russia, Bulgaria, Poland and Turkey, and one safeguard investigation regarding imports of passenger cars regardless of country of origin.

Table 3. Trade defence measures applied in trade between Ukraine and Russia as of May 2012

	Ukraine		Russia / RBK CU	
	Trade defence measures	Trade defence investigations	Trade defence measures	Trade defence investigations
Antidumping	6	1	4	0
Safeguard	2	1	3	1
Total	8	2	7	1

Source: Ministry of Economic Development and Trade, available at http://www.me.gov.ua/control/uk/publish/category/main?cat_id=34786

[1] Agreement between the Government of Ukraine and Government of the Russian Federation on free trade, the signing date - June 24, 1993, effective date - February 21, 1994. Available at: http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=643_009

[2] Export duties as of December 3, 2011. Available at: http://base.garant.ru/108095/

A special component of trade relations between Ukraine and Russia constitute trade conflicts. The most recent erupted in winter 2012 in relation to Ukrainian dairy products. In February, Russia suspended imports of cheese from seven Ukrainian manufactures.[3] The formal reason for trade restrictions was ensuring food safety and quality. In particular, Russian authorities reported about availability of palm oil in Ukrainian cheese. As of mid-May, Rospotrebnadzor conducted several inspections of the Ukrainian establishments, but exports of cheeses to Russia have revolved only partly. In 2006, there was the similar conflict, and then Ukrainian cheese producers lost significant share of the Russian market.

Summing up, Russia has been very important partner of Ukraine both in trade in goods and in services. Formally, trade regime between countries has been liberal thanks to the FTA signed in 1993. However, actual trade relations have been marred by limited scope of the FTA, exemptions, as well as trade conflicts. Recent changes in Russia's trade regime, especially forthcoming membership in the WTO, create great opportunities for improving trade relations and facilitating trade.

3. Recent changes in Russia's trade regime and implications for Ukraine

3.1 Customs Union between Russia, Belarus and Kazakhstan

3.1.1 Overview

Russia, Belarus and Kazakhstan have concluded the Treaty on the Establishment of the Common Customs Territory and the Formation of the Customs Union (hereinafter, the Treaty) in October 2007 within the framework of the Eurasian Economic Community (EurAsEC) integration process. In 2009, the EurAsEC Interstate Council used the Treaty and other international agreements concluded by Russia, Belarus and Kazakhstan to form the legal basis for a Customs Union[4] as a single undertaking.[5]

The CU Agreements as international treaties would prevail, in the event of a conflict, over the provisions of Federal laws and other normative legal acts of Russia, with the exception of the Constitution of the Russian Federation and Federal constitutional laws.

The formation of the RBK CU started on January 1, 2010 with the implementation of the common tariff scheme. The next major step took place on July 1, 2010, when the Customs Code of the CU came into force,[6] the CU Commission became active, and customs clearance of goods originated in countries-members were abolished. Finally, in mid-2011, a common border control in the CU has been established.

The RBK CU is governed by the following bodies:

- the Interstate Council of EurAsEC, which had two boards: the Board of Heads of States and the Board of Heads of Governments;
- the EurAsEC Court;
- the CU Commission, the permanent regulatory Body of the CU; and
- the Secretariat of the CU Commission.

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[3] Nivievskyi, O. "Dairy Trade Dispute: The beginning of a new trade war?" MEMU Highlight of the month: Trade war, No.3 (137), March 2012

[4] EurAsEC Interstate Council Decision No. 14 of 27 November 2009

[5] Single undertaking means that withdrawal from any of these agreements would automatically result in withdrawal from all of these agreements

[6] Available at: http://tsouz.ru/news/Documents/Custom_Union_Glaziev1.pdf

In accordance with Article 7 of the Treaty, the decisions of the CU Commission are binding on CU Parties. The CU Commission decisions could be taken by a two-thirds majority of votes or by consensus when the international treaties comprising the legal basis of the CU are provided for a decision.

The RBK CU Parties have the following vote shares: Russia – 57% of votes, Kazakhstan – 21.5%, Belarus – 21.5%. If a CU Party disagreed with an adopted decision of the CU Commission, the Interstate Council (Board of Heads of State) would reconsider the decision upon written request of that CU Party and take a final decision by consensus.

The provisions of WTO Agreements and Russia's WTO commitments will be embedded into the CU legal framework and become a part of the single undertaking. It is done in accord to a Treaty on the Functioning of the Customs Union in the Framework of the Multilateral Trading System, concluded and ratified by Russia, Belarus and Kazakhstan in 2011. Under this Treaty, CU Parties were obligated when making an international treaty in the framework of the CU to ensure that the CU agreement was consistent with the WTO commitments of each CU Party. Similarly, when CU Bodies adopted and applied CU acts, those acts had to comply with those commitments.

In line with the Treaty, the RBK CU's parties unified trade-related regulation in several major areas including:

1) Tariffs on foreign trade;

2) Non-tariff measures for trade in goods with third countries, including establishment of quantitative measures, licensing, trade defence instruments, development of common technical regulations, and sanitary and phyto-sanitary standards etc.;

3) Unified customs regulation and customs procedures; and

4) Establishment of a unified regime for trade with third countries.

The RBK CU focuses on trade in goods primarily, leaving aside trade in services and other trade-related issues. Further harmonisation of regulatory issues has been envisaged at the next stage of regional integration of Russia, Belarus and Kazakhstan.

Russia, Belarus and Kazakhstan declared their intension to establish the Single Economic Space since January 1, 2012. This level of integration is expected to encompass common policies in such spheres as macroeconomic policy, competition policy, state aid, protection of intellectual property rights, exchange rate policy, migration policy, etc.

Currently, bilateral FTAs concluded by Russia, Belarus and Kazakhstan with the third parties remain in force until they are renegotiated by the CU Commission.

3.1.2 Implications for Ukraine

Trade impact of the establishment of the RBK CU on Ukraine is rather limited, as trade relations with signatory parties of the CU are governed first of all by bilateral FTAs. However, the RBK CU has created some benefits and costs for Ukraine. The country has benefited from the following:

A. **Establishment of a single trade partner** thanks to common customs territory and unified commodity trade regime among Russia, Belarus and Kazakhstan. This action simplified trade relations and reduced translation costs, especially in trade with Kazakhstan.

B. **Expansion of WTO Agreements and Russia's WTO commitments on the entire RBK CU.** As a result, not only Russia, but also Belarus and Kazakhstan will apply WTO rules and practices in their trade-related legislation in the areas covered by the CU legal framework, increasing predictability and transparency of trade-related environment in these countries for Ukraine.

At the same time, Ukraine bears costs of the CU establishment including:

A. **Expansion of existing and any future trade defence measures applied by one signatory party of the CU towards all parties.** In particular, in the end of 2011 – early 2012, antidumping and safeguard measures applied by Russia against the Ukrainian products have been established as the CU measures.

B. **Reduced price competitiveness of Ukrainian producers** vis-à-vis their Belarusian and Kazakh competitors due to the fact that Russia provided export duty privileges to the members of the RBK CU.

C. **Rather insistent invitation to join the RBK CU** in pursuance of the principle *Qui non est nobiscum, adversus nos est.* At the same time, for Ukraine the membership in the CU is not in line with strategic goal of regional integration.[7]

Current aggregate economic impact of the RBK CU on Ukraine seems to be small and close to zero as benefits counterweight costs.

3.2 CIS Free Trade Agreement

3.2.1 Overview

A necessity to sign a new FTA among the CIS countries to facilitate economic and trade relations has been discussed for a long time. The first CIS FTA was signed in April 1994. But it has never worked properly as several signatory parties including the Russian Federation have not ratified it.

The low efficiency of a 'wide' integration within the CIS resulted in the active sub-regional integration processes.[8] The single CIS FTA was substituted by a network of bilateral FTAs. These FTAs have been focused on trade in goods, and aimed at the establishment of duty-free trade, but allowing for exemptions. None of these bilateral FTAs covers service sectors or majority of other trade-related topics.

In October 2011, the new CIS FTA was signed by eight out of eleven CIS countries-members, while Azerbaijan, Uzbekistan and Turkmenistan did not join. To come into force, the CIS FTA is to be ratified by all signatories. As of mid-May, the complete text of the CIS FTA with all annexes has been ratified by the Russian Federation.[9]

Provisions of the 2011 CIS FTA have been more elaborated as compared to the 1994 CIS FTA, but major features of existing bilateral FTAs have been preserved. As bilateral FTAs, the CIS FTA is focused on trade in goods, not covering trade in services and paying limited attention to other trade-related questions. Also, the CIS FTA has retained most – although not all – of existing trade exemptions related to import and export duties.

Still, there are several specific features of the new CIS FTA. First, it does not support reciprocity principle in exemptions. For instance, in bilateral FTA between Ukraine and Russia, exemption of certain product from free trade regime by one signatory party would mean that other party would apply MFN regime to this product. It is not the case in the new CIS FTA. Namely, products subject to export duty in one country will remain eligible to free trade treatment in another signatory country, facilitating trade liberalisation.

Second, the CIS FTA contains explicit list of import and export duties, and commitment not to increase them. Moreover, any reduction in export duties provided to the third party is to be applied to all signatory parties of the CIS FTA, unless this advantage is

[7] See discussion in Quantitative Assessment of Ukraine's Regional Integration Options: DCFTA with European Union vs. Customs Union with Russia, Belarus and Kazakhstan, by Veronika Movchan and Ricardo Giucci, Policy Paper 05, November 2011. Available at: http://www.ier.com.ua/en/publications/consultancy_work/archive_2011/?pid=3107

[8] Burakovsky I. (2003) Economic Integration and Security in the Post-Soviet Space // *Swords and Sustenance: The Economics of Security in Belarus and Ukraine*. Edited by Robert Legvold and Celeste A. Wallander

[9] See http://ntc.duma.gov.ru/duma_na/asozd/asozd_text.php?nm=21-%D4%C7&dt=2012

provided in the framework of other regional trade agreement. In addition, the signatory parties agreed to establish regular dialog regarding reduction and elimination of export duties. These provisions increase transparency in trade relations and provide clear legal grounds for dialog regarding further trade liberalisation.

Third, the CIS FTA postulates that the trade in goods within the CIS would be governed on the WTO rules and practices. References to respective WTO Agreements are embedded in the CIS FTA provisions related to national treatment, quantitative restrictions, freedom of transit, antidumping and safeguard measures, subsidies and countervailing measures, technical barriers to trade, sanitary and phyto-sanitary measures. It anchors the CIS FTA with the global trading system, establishing common playing field among WTO members and non-members.

Finally, the CIS FTA provides a mechanism for solving trade disputes, including timeline for trade dispute resolution. It also increases quality of the Agreement and its potential efficiency.

However, some provisions of the 2011 CIS FTA could mar ratification of the Agreement. It concerns, first of all, Annex 6 of the CIS FTA that postulates:

"In case if participation of the [signatory] Party in the agreement specified in Paragraph 1 of Article 18 [that is, in another regional trade agreement] leads to an increase in imports from such Party in such quantities as to cause damage or threaten to damage the industry of the Customs Union, the countries - members of the Customs Union, without prejudice to the application of Articles 8 and 9 this Agreement [these articles relate to application of antidumping, safeguard and countervailing measures] and after appropriate consultations, reserve the right to impose duties on importing the goods from such first Party in the amount of MFN rates".

There are several concerns that arise regarding provisions of Annex 6:

A. Right to apply outlined mechanism is given only to the Customs Union, not to any signatory parties of the CIS FTA.

B. Mechanism to identify causality relation between participation of signatory party in another regional trade agreement and imports to the Customs Union is not identified, raising concerns about possible biases.

C. Right to impose MFN import duty appears after consultations, and not after formal investigation.

D. Establishment of additional trade defence procedure tailored to the Customs Union seems odd given the fact that the CIS FTA proposes extensive list of standard trade defence instruments including application of antidumping, safeguard and countervailing measures in line with the WTO rules (Articles 8 and 9) and a mechanism for resolving trade disputes (Article 19).

In sum, provisions of Annex 6 seem to be unbalanced serving interests of countries-members of the RBK CU, and could be used as a mechanism deterring the signatory parties of the CIS FTA from signing other regional trade agreements like EU FTA.

3.2.2 Implications for Ukraine

There are several important benefits that Ukraine can derive from the membership in the CIS FTA, if ratified by all parties and enter into force. These benefits are the following:

A. **Adherence to WTO principles and norms**. The CIS FTA links trade environment within the CIS to WTO rules and norms, to which Ukraine has been already committed.

B. **Additional pledge for free trade**. The Agreement could serve as additional guarantee against building up trade barriers within the CIS, reconfirming the interest of the member countries in free trade. Moreover, it results in some reduction of existing trade barriers.

C. **Predictability**. The CIS FTA provides clear list of import and export exemptions, increasing predictability of trade relations.

However, the CIS FTA is not fully balanced, proving additional right for the Customs Union – primarily the RBK CU – to implement MFN regime against imports from the country that signed another regional trade agreement, for instance against imports from Ukraine after it ratifies the EU DCFTA.

It is ambiguous whether the new CIS FTA in its current will be ratified by all signatory parties. For Ukraine, it is recommended to ratify the CIS FTA without Annex 6. Otherwise, the value of the CIS FTA for Ukraine could be significantly undermined.

3.3 WTO membership of Russia

3.3.1 Overview

After 18-year marathon, Russia successfully completed WTO membership negotiations with approval of its accession package by the Eighth Ministerial Conference in December 2011.[10] Russia will become the WTO member by end-August 2012. In line with standard procedures, full-fledge membership require two more steps. First, Russia should ratify its Accession Package, which should be done within 220 days as of the Ministerial decision, that is until about 22 July 2012. Second, the WTO Secretariat should be notified about the ratification. Russia will become a Member 30 days after notification.

Specific Russia's WTO commitments outlined in the Working Party Report include the following:

A. **Improved market access for goods**. On average, final legally binding tariff ceiling (MFN rates) will be about 20% lower than current MFN rates (Table 4). Final tariffs will be bound at zero for cotton and information technologies products (ITA).

   About one third of the final bound rates will be implemented on the date of accession. Transition periods for the rest of tariff lines constitute from three to eight years. The longest transition periods are set for pork (8 years) and motor cars, helicopters and civil aircraft (7 years).

   Tariff quotas will be applied to beef, pork, poultry and some whey products.

Table 4. Current and final legally binding import tariff rates in Russia

	Current rate, % on average	Final legally binding rate, % on average
All products	10.0	7.8
including		
Agricultural products	13.2	10.8
Manufacturing products	9.5	7.3

Source: WTO, http://www.wto.org/english/thewto_e/acc_e/a1_russie_e.htm

B. **Improved market access for services.** Russia has made specific commitments on 116 service sub-sectors embedded in 11 service sectors. In particular, foreign insurance companies will be allowed to establish branches 9 years after accession, and foreign banks will be allowed to establish subsidiaries. There will be no cap on

[10] Available at: http://www.wto.org/english/thewto_e/acc_e/a1_russie_e.htm

foreign equity in individual banking institutions, but the overall foreign capital in the banking system will be capped at 50%.

C. **Ceiling on export duties** for over 700 tariff lines, including certain fishery products, mineral fuels and oils, raw hides and skins, wood, pulp and paper, and base metals.

D. **Cap on trade distorting agricultural subsidies**. The Aggregate Measure of Support would not exceed USD 9 bn in 2012 and would be gradually reduced to USD 4.4 bn by 2018. Moreover, to avoid excessive concentration of support on individual products, till 2017 the annual support going to specific products would not exceed 30% of the agriculture support that is not for specific products. Russia committed not to apply agricultural export subsidies and eliminated VAT exemption applied to certain domestic agricultural products from the date of accession.

E. **Energy pricing based on normal commercial considerations** for operation of producers and distributors of natural gas. Price for households and other non-commercial users will remain regulated based on domestic social policy considerations.

F. **Alignment of development and application sanitary and phyto-sanitary (SPS) measures with the WTO SPS Agreement and other international norms**. In particular, Russia will develop and apply international standards on SPS measures through membership and active participation in the Codex Alimentarius, the World Organization for Animal Health (OIE) and the International Plant Protection Convention. The reasons for suspension, cancellation, or refusal of an import permit would be consistent with international standards, recommendations, and guidelines as well as the WTO SPS Agreement.

   Moreover Russia committed not to suspend imports from establishments based on the results of on-site inspection before it had given the exporting country the opportunity to propose corrective measures, unless imports pose serious risks of animal or human health.

G. **Alignment of technical regulation system with the WTO TBT Agreement**. The Russian Federation committed that all legislation related to technical regulations, standards and conformity assessment procedures complies with the WTO TBT Agreement. Russia took an obligation to use international standards for the development of technical regulations unless they were an ineffective or inappropriate means for achieving the pursued objectives.

H. **Improved protection of trade-related intellectual property rights**. The Russian Federation would fully apply the provisions of the WTO TRIPS Agreement including provisions for enforcement from the date of accession.

I. **Increased transparency**. Russia committed to publish all trade-related legislation promptly, prior to their adoption and provide a reasonable period of time, no less than 30 days, for members to comment, except for emergency cases. Also, Russia committed to create enquiry and notification authority to facilitate implementation of transparency principle.

Also, as all WTO members, Russia will be obliged to follow rules and practices established by the WTO multilateral agreements.

It is expected that WTO membership will be beneficial for Russian economy, creating new opportunities for domestic and foreign investors. The World Bank estimates that joining the WTO may increase Russia's GDP by 3.7% in the period 2012-2016 and by 11% in the period 2012-2021.[11]

[11] Russia's WTO Membership Will Lead to Winners and Losers Among Domestic Non-Financial Corporates. Moody's Investors Service, March 14, 2012

3.3.2 Implications for Ukraine

Russia's WTO membership is expected to have a positive cumulative impact on trade relations between Ukraine and Russia.

Due to existence of FTA between Ukraine and Russia, Ukraine's benefits from liberalisation of Russia' import duties will be rather limited and related mostly to tariff lines exempted from free trade regime.

However, Ukraine could gain from other changes in trade regime. Benefits for Ukraine will be linked to the following:

A. **Increased predictability of trade environment**. Since joining the WTO, Russia will built its trade legislation in line with the WTO Agreement, its export and import duties will be bound, and it will apply TBT and SPS measures in line with international and WTO standards, recommendations and guidelines.

B. **Alignment of countries' trade-related legislation with same international principles**. Russia's membership in the WTO means that Ukraine and Russia will belong to global trading system and become committed to build their national trade-related legislation on same principles embedded into this system.

C. **Emergence of independent platform for solving trade disputes**. Trade relations between Ukraine and Russia are frequently marred by trade conflicts. The WTO membership of both parties of trade conflict provides opportunity to resolve it using WTO Trade Dispute Settlement facilities.

D. **Improved access to services**. Growing importance of trade in services and rather extensive Russian commitments on liberalisation of trade in service sector create new business opportunities for Ukraine as well as for other WTO members.

Also, as discussed above, Russia's membership in the WTO will mean alignment of trade-related legislation and practices in the RBK CU to WTO rules, although Belarus and Kazakhstan has been still negotiating their accession.

4. Conclusions

The Russian Federation – currently the largest trade partner of Ukraine – is in the process of changing its trade regime. On the one hand, regional integration processes in the framework of the CIS have been facilitated by the establishment of the RBK CU and signature of the 2011 CIS FTA. On the other, Russia is only two formal steps away from a full-fledged WTO membership and it is expected to become a full member by end-August at latest.

The analysis of these changes showed that Russia's joining the WTO will bring the greatest benefit of all changes for Ukraine. In particular, trade will Russia should become more transparent and predictable, less discretionary, aligned with international standards and practices, also shared by Ukraine. Moreover, Russia's WTO membership will establish common independent platform for resolution of trade disputes, currently quite frequent in relations between countries.

The impact of regional integration initiatives within the CIS on Ukraine seems to be less straightforward. The CIS FTA bears a lot of positive features including increased clarity and predictability of trade regime and adherence to the WTO principles. However, the Agreement is not fully balanced, and some of its provisions – if ratified – could penalize Ukraine's participation in other regional trade integration initiatives, like the EU DCFTA.

As of the RBK CU, existence of bilateral FTAs – as well as forthcoming CIS FTA – largely neutralizes the impact of its establishment on Ukraine. At the same time, Ukraine suffers from expansion of trade defence measures applied by one party of the CU toward all parties, as well as from insistent invitation to join the CU. Though, Russia's membership in the WTO is likely to make the CU more stable and predictable trade partner.

Thus, altogether Russia's trade regime changes are more likely to benefit than damage Ukraine.

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