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Kazakhstan's Accession to the WTO: Overview and Implications for the Eurasian Economic Union

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Kazakhstan's Accession to the WTO: Overview and Implications for the Eurasian Economic Union

Executive summary

In November 2015, Kazakhstan became the Member of the World Trade Organization. After joining the WTO, Kazakhstan's bound rate commitments appeared to be lower than the rates of the Single Customs Tariff for around 3,500 type of goods. The average final bound rate in the accession schedule of Kazakhstan is 6.9%, while Russia's finally binding tariff, and therefore average SCT, should be 7.8%. The final bound rates for agriculture products and manufacture goods are noticeably different as well. The average Kazakhstan's tariff ceiling for agriculture products is 7.6% and for non-agricultural goods is 6%, while Russia committed to final bound rates of 10.8% and 7.3% respectively. Hence, after implementation of Kazakhstan's final bound rate in 5 years more than one third of tariff lines will be lower than SCT and therefore commodities will be imported at reduced customs duty rates. In addition, Kazakhstan's market access commitments in banking and insurance services is more liberal than Russia's obligations. It may affect Belarus in different ways. First, EAEU will have to conduct compensatory negotiations with the affected WTO members and may offer different types of compensation such as a reduction of duties on the same tariff line by member states or a reduction in customs duties on other tariff lines. In both cases this may lead to decrease of SCT and impact Belarus. Second, there is a risk of re-exporting of goods from third countries with lower tariff rates from Kazakhstan's territory to the Eurasian Economic Union market. It especially relates to apparel and footwear, meat products, sugar, pharmaceutical goods, agricultural machinery. EAEU countries agreed to apply the exemptions from SCT for 3,500 commodity items (around one third of EAEU total tariff lines), as well as elaborate and introduce a mechanism of internal customs control. However, the existence of a plenty of exemptions from SCT is not conducive to the development of integration processes in EAEU. Third, Belarus are currently exporting to Kazakhstan goods for which tariff rates will be lowered or may be potentially export them. The decrease in tariff rates under Kazakhstan's WTO commitments will lead to a rise in a competition with foreign firms in Kazakhstan's market. Forth, as Kazakhstan starts decreasing tariffs on one third of SCT lines it will reduce the volume of collected customs duties, and therefore, lower the inflow of customs duties obtained by Belarus according to the agreement between Russia, Belarus and Kazakhstan on the distribution of import customs duties within the Customs Union. Fifth, Kazakhstan's WTO commitments in services and liberalization of trade in financial services may have an impact on the process of financial integration within EAEU and increase competition in financial sector of the member states.

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1 Introduction

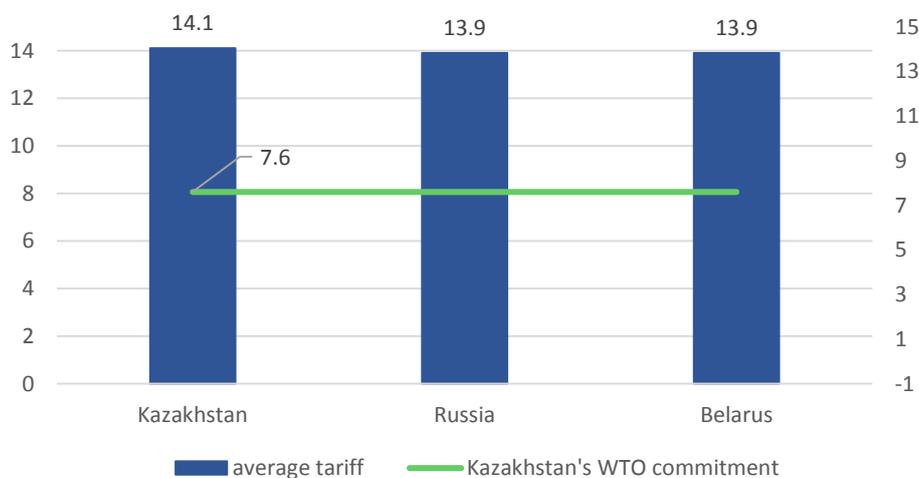
On November 30 2015, Kazakhstan became the 162nd Member of the World Trade Organization (WTO). The country's negotiations lasted around 20 years and was the longest in the history of the WTO. Kazakhstan's accession to the WTO will have an economic impact on Eurasian Economic Union (EAEU) and Belarus as its member. When Russia joined the WTO, the rates of the Single Customs Tariff (SCT) of the Customs Union and then EAEU were adjusted (and some of them are still adjusting) to import duty rates that are listed in the Schedule of concessions and commitments on market access for goods, which is annexed to Russia's Protocol of Accession to the WTO. Kazakhstan, as a member of the EAEU, had to follow the above mentioned rates as well, but it applied temporary exemptions from SCT for around 400 types of goods. However, after joining the WTO, Kazakhstan's bound rate commitments appeared to be lower than the rates of the Single Customs Tariff for around 3,500 type of goods. The average final bound rate (FBR) in the accession schedule of Kazakhstan is 6.9%, while Russia's finally binding tariff, and therefore average SCT, should be 7.8%. On average, the final bound rates for agriculture products and manufacture goods are noticeably different as well. The average Kazakhstan's tariff ceiling for agriculture products is 7.6% and for non-agricultural goods is 6%, while Russia committed to final bound rates of 10.8% and 7.3% respectively.

Hence, after implementation of Kazakhstan's final bound rate in 5 years more than one third of tariff lines will be lower than SCT and therefore commodities will be imported at reduced customs duty rates. It may affect Belarus in different ways, e.g. increase competition with foreign goods in Kazakhstan's market, reduce the inflow of customs duties accrued according to the agreement between Russia, Belarus and Kazakhstan on the distribution of import customs duties within the Customs Union, and create schemes of re-exporting goods with lower tariffs to Russian and Belarus. Bearing this in mind, this paper aims to provide an overview of Kazakhstan's WTO commitments. The paper is organized as follows: Chapter 2 examines Kazakhstan's WTO accession commitments in agriculture goods. Chapter 3 describes commitments in manufactured products. Chapter 4 discusses commitments in market access for services. The final section contains conclusions and briefly discuss the possible implications to Belarus.

2 Kazakhstan's WTO accession commitments in agriculture, agricultural goods and food

In respect to trade in agricultural goods, Kazakhstan committed to decrease tariff to 7.6%, while Russia, as it was mentioned above, to 10.8%. It is much lower than current rate, average level of which amounted to 14.1% in Kazakhstan, and 13.9% in Russia and Belarus. Figure 1 shows that tariff cut for agriculture products will be substantial, and that the rate of reduction will account for 46%.

Figure 1. Average applied tariff level for agricultural products



Source: MacMap ITC, Overview of the Kazakhstan's commitments, WTO

Table 1 compares the tariffs for some categories of Kazakhstan's agricultural products with Russia's WTO final bound rates, as rates of the Single Customs Tariff should be aligned with the

latter. As can be seen from the Table 1, import tariffs for milk products, chees and curd, as well as beer are the same for both countries. However, for eggs and vegetables Kazakhstan will have lower tariffs. Sugar is another product, for which customs duty rate are differ. Russia's tariff is a specific and for beet and cane sugar it is USD 250 per 1000 kg and USD 213 per 1000 kg respectively, while Kazakhstan will apply ad valorem tariffs for both types of sugar. Moreover, Kazakhstan's customs duty rate for cane sugar is quite low and accounted for 5% started from the date of accession. The final bound rate for beet sugar of 20% is also lower than Russia's if it is recalculated from specific to ad valorem.

Table 1. Import tariff on some food products, %

Products	Russia's WTO final bound rate	Bound rate at date of accession	Final bound rate	Implementation period
Milk and cream, yogurt, kefir (HS 0401-0403)	15 ¹	16.8	15	2016
Butter and other fats and oils (HS 0405)	15, but not less than EUR 0.22 per kg	15 but not less than EUR 0.22 per kg		
Cheese and curd (HS 04061-04063)	15, but not less than EUR 0.3 per kg	15, but not less than EUR 0.19-0.3 per kg		
Eggs (HS 0407)	7.5	11.5	5	2020
Cane Sugar (170111)	USD 213 per 1000 kg	5 ²		
Beet sugar (170112)	USD 250 per 1000 kg	25	20	2020
Vegetables (HS 07)	12	10.5	10.4	2017-2020
of which potato (HS 0701)	10 (seed 5%)	10 (seed 5%)		
Beer made from malt	EUR 0.18 per L	EUR 0.203 per L	EUR 0.018 per L	2018
Cigarettes containing tobacco	EUR 2 per 1000 pc	EUR 2 per 1000 pc	EUR 2 per 1000 pc	

Source: Information about Kazakhstan's WTO commitment, WTO

Yet, the most noticeable differences can be spotted in tariff rates for meet products (see Table 2):

- For beef imports within the quota Kazakhstan will have the same final bound rate as Russia, while out-of-quota it will be lower by 15 percentage points. For high-quality beef a customs duty rate is the same for Kazakhstan and Russia and amount to 15%.
- For poultry Kazakhstan's final bound rate will be lower than Russia's within the quota by 10 percentage points, while out of quota the difference between customs duty level is quite substantial. Russia's out-of-quota tariff is almost prohibitive in its nature and account for 80% whereas Kazakhstan's only 40%.
- For pork Russia applies tariff-rate quota, where out-of-quota tariff of 65% is rather high. In its turn, Kazakhstan committed to decrease ad valorem tariff from 30% at the date of accession to 25% in 2020.

The other commodities for which the discrepancy between Russia's and Kazakhstan's tariff is quite big are fish and products from fish. For example, Kazakhstan will decrease the tariff on fish and crustaceans, molluscs and other and bound it in 2018-2020 at 0% (except for trout 3%, smoked and salted pacific salmon 10%), while Russia's bound rate for this group of goods is around 6.4%. For prepared or preserved fish, caviar Kazakhstan's final bound rate will be 0% as well in 2020, whereas Russia's bound rate should be around 13.2%.

With regard to agriculture, Kazakhstan committed to eliminate agricultural export subsidies, and abolish by 1 January 2018 VAT exemption for domestic agricultural producers. Kazakhstan's total Aggregate Measurement of Support (AMS) under the terms of the entry to the WTO is

¹ For yogurt 15%, but not less than EUR 0.18 per kg.

² Also depends on an average monthly price in USD per 1 ton.

bound at zero, and the *de minimis* level is set at 8.5% of the value of total agricultural production. This is lower than permitted amount of state support of agriculture provided for in the Agreement on EAEU, which is set at the level of 10% of total agricultural production.

Table 2. Tariff rates on beef, pork, and poultry

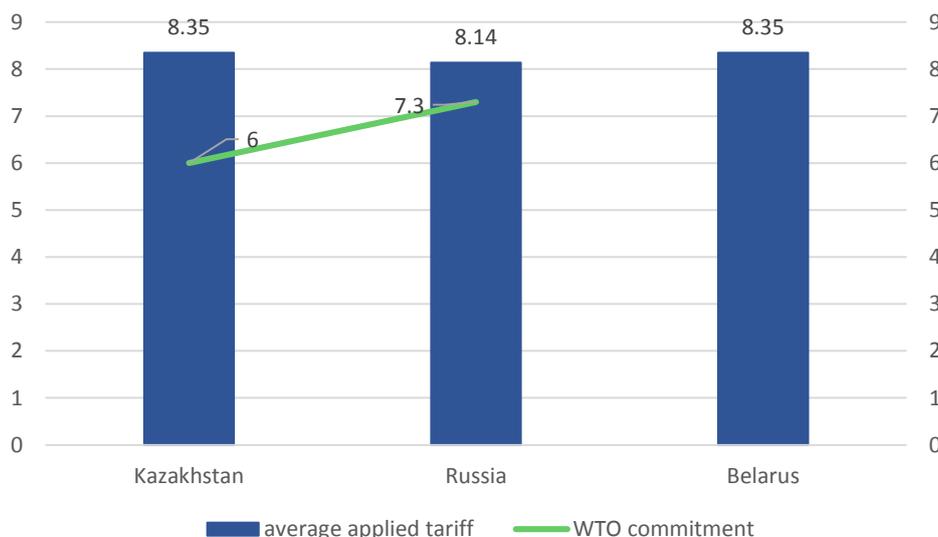
Products	Final bound rate	Bound rate on the date of accession	Final bound rate (2020)
HS0201-0202 fresh or chilled beef, frozen beef	15%, within the quota (530 thousands ton), 55% outside the quota ³	23.3%	15% in-quota ⁴ rate (21 thousand ton), 40% out-of-quota
HS0203 fresh, chilled or frozen pork	15%, within the quota, 65% outside the quota	30%	25%
HS 0207 fresh, chilled or frozen poultry	25%, within the quota, 80% outside the quota ⁵	55%	15%, within the quota, 40% out-of-quota, but not less than 0,65 EUR/kg out of quota

Source: Information about Kazakhstan’s WTO commitment, WTO

3 Kazakhstan's commitments in manufactured products

According to WTO accession agreement Kazakhstan’s average tariff for non-agricultural goods should be decreased to 6%, which is lower than Russia’s bound rate commitment of 7.3%. Figure 2 shows that Kazakhstan will have to reduce tariff on manufactured goods by 25%

Figure 2. Average applied tariff level for non-agricultural products, 2014



Source: MacMap ITC, Overview of the Kazakhstan’s commitments, WTO

The goods that most likely will be seriously affected by tariff reduction are products of automotive industry and agricultural machinery, especially combines, and tractors. Table 3 contains the data on Kazakhstan’s bound rate at the date of accession and final bound rate as well as Russia’s WTO final bound rate.

³ Imports of beef will be controlled by Russia during indefinite period of time. When the quota is abolished, the flat tariff rate of 27,5% shall be applied.

⁴ 128 thousand tonnes for halves and quarters, and 12 thousand tonnes other.

⁵ Imports of poultry will be controlled by Russia during indefinite period of time. When the quota is abolished, the common customs tariff rate of 37,5% shall apply.

Table 3. Tariff rates on machine building products, %

Products	Russia's final bound	Bound rate on the date of accession	Final bound rate
Buses more than 120 seats			
new	10	10	10
used			
less than 5 years	10	10	10
more than 5 less 7 years	10	10	10
more than 7 years	EUR 3 per m3	15	10 (2020)
Trucks new (exceeding 20 tonnes)	5	5	5
less than 5 years	10	10	10
more than 5 years	10	10	10
more than 7 years	EUR 1 per m3	15	10 (2018)
Truck tractors new	10	10	10
more than 5, but less than 7	10	10	10
more than 7 years	EUR 1 per m3	10-15	10 (2018)
HS 870190 Agricultural tractors	10	5	0 (2018)
HS 8433 harvesting or threshing machinery	5	5	0 (2020)
HS 8429 road machinery and construction engineering	5	5	0

Source: Information about Kazakhstan's WTO commitment, WTO

According to the Table, the final bound rates for new buses, trucks, and truck tractors are the same for Kazakhstan and Russia. However, for used vehicles there is the difference in tariffs depending on their age. Thus for buses, trucks (in particular with gross weight exceeding 20 ton) and truck tractors older than 7 years Kazakhstan will have final bound rate of 10% in 2018-2020, while Russia according to the WTO commitment has a specific rate that range from EUR 1 per m³ to EUR 3 per m³ and therefore it is higher if it is recalculated in ad valorem equivalent. Yet, the most significant difference in customs duty rate exists in agriculture machinery, as well as road machinery and contraction engineering. Kazakhstan committed to decrease tariffs for agricultural tractors and harvesting or threshing machinery to zero in 2018-2020, while Russia's final bound rate is 10% and 5% respectively. The same difference exists in the level of tariff of road machinery and construction engineering, i.e. Kazakhstan's final bound rate will be zero, while Russia's 5%.

It also worthy to mention pharmaceutical goods for which according to the accession agreement, Kazakhstan will decrease tariffs to zero after implementation period (2017-2020), while Russia's rate is around 5%. For information technology products final rate also is bound at zero.

For apparel Kazakhstan's WTO accession rates will be lower than Russia's as well. The latter have specific tariff at the amount of EUR 1.75-2.2 per kg within some product groups, e.g. men's or boy's, and women's or girls' suits, overcoat, ensembles, jackets, blazers, trousers/skirts, dresses, shirts and blouses (HS 6204-6206). Kazakhstan's specific tariff ranges from EUR 1.4 to 1.88 per kg. The same is true for footwear, e.g. Kazakhstan's tariff for footwear with upper of leather or composition leather will be 0.28 EUR per pair in 2016 (HS 6405) whereas Russia's rate is 0.34 EUR per pair.

Other products that have noticeable differences in tariffs are:

- plastics (HS 39), for which the final bound rate is 6%, while Russia's final bound rate 6.5%,
- practical board (HS 4410), for which tariff is bound at 5%, while Russia's final bound is 7.3%,

- woven fabric of flax (HS 5309), for which final bound will be 5% in 2020, while Russia's final bound rate is 8.2%,
- refrigerator (HS 8418), for most products within this group final bound rate will be 5-10% in 2020, while Russia's is 10%-15%.

It should be mentioned that Belarus are currently exporting to Kazakhstan many of the above mentioned goods or may be potentially export them. Therefore, lowering the tariff rates under the WTO commitments will result an increase in a competition with foreign firms in Kazakhstan's market.

Kazakhstan's other WTO commitments that should be mentioned are as follows:

- Elimination of preferential tariffs applied in relation to the existing automobile investment programs by July 1, 2018.
- Removal of local content requirement regarding oil and gas projects⁶ by 2021.
- Requesting of the status of "observer" of non-mandatory plurilateral WTO Government Procurement Agreement (GPA) and within four years after accession to the WTO submit an application for membership. It means that the country will open GPA market for competition between domestic and foreign companies.
- Joining upon accession the WTO plurilateral Information Technology Agreement (ITA) and therefore elimination of custom duties on IT products covered by the ITA.
- Applying of price controls on products and services in a manner consistent with the WTO Agreement
- Removal of preferential tariff and tax regimes for Special Economic Zones (SEZ) and industrial parks. WTO rules will be applied in all Kazakhstan's SEZ. The only exceptions are companies registered in the SEZ before January 1, 2012, for which tariff exemption will last until 2017.
- Non-usage for customs valuation of goods reference prices or fixed valuation schedule (forms of minimum value).
- Making purchases and sales (excluding purchases intended for governmental use) by state-owned and state-controlled enterprises as well as enterprises with special and exclusive privileges based on commercial considerations.

4 Kazakhstan's WTO commitments in services

As a part of its WTO accession agreement Kazakhstan will commit to increase market access to its services sector⁷:

Telecommunications

Kazakhstan has agreed to open its telecommunication sector to foreign companies in two and a half year after accession. In particular, upon completion of transition period in telecommunication companies that provide long distance and (or) international telecommunication services and supplying services as operator of fixed line communication networks (cable, including optical fibre, radio relay) the limitation of foreign ownership to 49 percent will be removed. However, this limitation will be maintained for JSC KazakhTeleCom and its possible successors.

After WTO accession, Kazakhstan also permits provision of services by foreign satellite operators to juridical persons of the Republic of Kazakhstan holding a licence for telecommunication services.

Financial Services

⁶ On the date of WTO accession this requirement was 50%.

⁷ Report of the Working Party on the accession of the Republic of Kazakhstan. Schedule of Specific Commitments on Services, WTO, June 23, 2015.

Kazakhstan has agreed to permit establishment of branches of foreign insurance companies (life and non-life insurance) and reinsurance organizations in five years after the WTO accession. Until that time commercial presence is allowed only through establishment of a joint-stock company with Kazakhstan's companies. Yet, non-resident insurance or reinsurance company that will submit application for opening of a branch should meet certain requirements. First, the minimum amount of its total assets must be not less than USD 5 bn US dollars. Second, parent non-resident companies should have at least 10 year experience in sectors and classes of insurance (life insurance or non-life insurance) or reinsurance, where it intend to provide services. For insurance intermediation, such as brokerage and agency, foreign company is permitted to establish branch in five years after the WTO accession without any additional requirements. For services auxiliary to insurance, such as consultancy, actuarial, risk assessment and claim settlement services, there is no any restrictions on foreign companies' operations or establishment of branches.

Direct branching will be also permitted in banking sector in five years after the country's WTO accession. However, foreign bank branch should meet at least two requirements. First relates to the minimum amount of total assets of the non-resident bank that will submit an application for opening of a branch. This amount must be not less than USD 20 bn. According to second requirement foreign bank branches will be allowed to accept deposits from natural persons at the minimum amount not less than USD 120,000.

Hence, Kazakhstan's market access commitments in banking and insurance services appeared to be more liberal than Russia's obligations. Russia agreed that foreign insurance companies would be permitted to establish branches nine years after accession, while foreign banks would not be allowed to set up branches. Moreover, overall foreign capital participation in the banking system of Russia is limited to 50%.

According to Kazakhstan's the WTO commitments in such financial services as participation in issues of all kinds of securities, including underwriting and placement as agent (whether publicly or privately) and provision of services related to such issues; money broking; assets management, including pension funds management; and custodial activity commercial presence is allowed only through establishment of a joint-stock company in Kazakhsta

News agency services

The commercial presence of the organizations that provides news services is permitted only in a form of a legal entity of Kazakhstan. In addition, Kazakhstan put a limit on total foreign capital participation. It must not exceed 20% of stocks (shares) of the juridical person of the Kazakhstan that own a mass media entity in the country. Foreign news agencies also could be accredited with the Ministry of Foreign Affairs for a period not exceeding one year, and should prolong this accreditation on an annual basis.

Business services

For such business services as accounting, bookkeeping, taxation, legal services (excluding notary services and criminal law) can be provided without any limitation on the form of commercial presence, i.e. also by branches of foreign companies.

Kazakhstan also permits wholesale distribution of pharmaceutical, para-pharmaceutical and medical goods in five years after accession, and cross-boarder supply of travel agency and tour operator services in two years after accession.

5 Conclusions

Accession of Kazakhstan to the WTO will affect Belarus in several ways. First, as it was discussed above, Kazakhstan's bound rate tariffs will be lower than the rates of the Single Customs Tariff for around 3,500 type of agricultural and non-agricultural commodities. Therefore, Kazakhstan's customs duties should be aligned with those of the Eurasian Economic Union. In it turn EAEU will conduct compensatory negotiations with the WTO members concerned on the basis of WTO rules in order to reach mutually satisfactory resolution. EAEU may offer different types of compensation for affected members, e.g. a reduction of duties on the same tariff line by member states or a reduction in customs duties on other tariff lines. In both cases this may impact Belarus.

It worth to mention that Maksim Medvedkov, the Head of the Department for Trade Negotiations of the Ministry of Economic Development of Russia, stressed that EAEU countries will be able to

maintain the Single Customs Tariff for at least six and a half years after Kazakhstan's accession to the WTO.⁸ During this period Kazakhstan will apply rates committed at tariff schedule, and EAEU will conduct compensatory negotiations. If agreement about compensatory adjustment will not be reached between Eurasian Economic Union and affected WTO members, Kazakhstan will continue to apply rates in the schedule.

Second, EAEU member states should elaborate measures to avoid re-exporting of goods with lower tariff rates from Kazakhstan's territory to the Eurasian Economic Union market. It especially relates to apparel and footwear, meat products, sugar, pharmaceutical goods, agricultural machinery. At the summit of the EAEC, held in Kazakhstan on October 16, 2015, the EAEU countries agreed to apply the exemptions from SCT for 3,500 commodity items (around one third of EAEU total tariff lines). In this regard a mechanism of internal customs control should be elaborated and introduced in order to minimize the risk of bypassing EAEU customs duties and importing of goods from third countries with lower tariffs into the customs territory of the member states. However, the existence of a plenty of exemptions from SCT is not conducive to the development of integration processes in EAEU.

Third, as it was already mentioned Belarus are currently exporting to Kazakhstan goods for which tariff rates will be lowered or may be potentially export them. Therefore, decrease in tariff rates under Kazakhstan's WTO commitments will lead to an increase in a competition with foreign firms in Kazakhstan's market.

Fourth, as Kazakhstan starts decreasing tariffs on one third of SCT lines it will reduce the volume of collected customs duties. Therefore, it will lower the inflow of customs duties obtained by Belarus according to the agreement between Russia, Belarus and Kazakhstan on the distribution of import customs duties within the Customs Union.

Finally, Treaty on creation of the Eurasian Economic Union envisages the creation of a common financial market, and in particular permission of direct branching in insurance, banking sector and brokerage. Kazakhstan's WTO commitments in services and liberalization of trade in financial services may have an impact on the process of financial integration within EAEU and increase competition in financial sector of the member states.

⁸ <http://www.finmarket.ru/database/news/4073286>