



Analysis: Who's back-sliding in U.S.-Russia Trade.

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At a time of difficulty in the overall U.S.-Russia relationship, trade relations continue to chart a distinct course with both successes and problems often escaping public notice. U.S. concerns about Russia's recent political evolution and some of its external behavior are well-documented. But the economic relationship is not as sour. Mutually-advantageous trade and investment continue to grow (annual goods trade now exceeding \$25 billion), no sector-specific disputes are flaring out of control, progress toward Russia's WTO accession continues, and many economic tools used to help wage the Cold War have been de-commissioned. The United States is even treating Russia as a "market economy" for trade purposes.

Or is it? Pending U.S. Commerce Department proceedings provide a useful window.

Five years ago, in accordance with U.S. statutory criteria and in recognition of market reforms achieved, the United States formally designated Russia a "market economy." Previously, Russian (and earlier, Soviet) products caught up in U.S. antidumping proceedings were subjected to a special non-market economy or "NME" analysis that relied on "surrogate" costs. Instead of analyzing what it actually cost to make a product, Commerce treated Russian manufacturers' costs as presumptively meaningless and focused instead on what those costs "should have been" -- specifically, on what they *would have been* if each input had been purchased in a market-economy setting. The "graduation" to normal (market economy) status meant that Russian companies were to be treated like companies in Korea, Brazil, Italy, or any other market-oriented economy; their own costs and price data would be used to assess dumping.

The trade and foreign policy communities lauded this shift. But Commerce has balked at giving it full effect. In a 2004 case involving magnesium, and in a pending case involving urea fertilizer, Commerce has asserted the right to disregard Russian producers' costs for natural gas, based on perceived distortions in Russia's domestic market for that commodity. The premise for this (market distortions) is debatable: gradual reforms, urged upon Russia by trading partners and international institutions, have already moved the regulated domestic pricing of Russia's main natural gas supplier, Gazprom, toward full cost coverage. But even if further increases are appropriate, that has no legitimate bearing on dumping calculations for Gazprom's customers. Dumping calculations are not meant to offset subsidies. And setting aside actual energy costs in favor of higher, "surrogate" values can artificially create dumping margins where no dumping truly exists. It also resurrects the NME analysis thought to have been shelved in 2002.

Commerce's reluctance to accord fully-normal treatment to Russian products has implications both narrow and broad.

- *Agriculture:* The fertilizer case involves individual examination of Eurochem, as a "new shipper," under an antidumping order dating from the Soviet period. Based on its actual costs, Eurochem should receive a zero margin calculation enabling it to ship urea to the United States free of duties. This would be welcome news for U.S. farmers who face tight supplies and record-high fertilizer prices. They regard Russian fertilizer today as trapped behind a Berlin Wall.

- *Reform incentives:* Temporizing undermines the utility of market economy status as a motivator for economic reforms in countries transitioning from central planning. If graduation leads not to normal treatment but rather a middle ground, with elements of the NME methodology applied *ad hoc*, then the value of market economy status as a prize worthy of sacrifice will be diminished.
- *Self-regulation:* A key objective of the U.S. antidumping system is to encourage exporters to regulate their own behavior -- to avoid (or stop) dumping. Self-regulation probably prevents much more injurious dumping than does imposition of duties. But the NME methodology makes margins hard to predict; companies often cannot tell whether they are dumping or how to stop. Everyone benefits when conditions in an exporting country evolve to the point where the normal analysis can be used, and self-regulation becomes available as a complementary means of obtaining the law's objectives. Resurrecting elements of the NME approach dilutes this advantage.
- *Consistency:* A term often used to capture current U.S. concerns about Russia is "back-sliding." But in this instance the United States appears to be back-sliding. This is not a question of granting special favors, but of consistent application of the normal status for which Russia has qualified. Normal treatment will also be noticed by Russia's officials and corporate sector, and may help to set a positive tone in other economic dealings.

At a time of bilateral tensions, with a premium on getting all available mileage out of the economic part of the relationship, back-sliding in America's treatment of Russian exports is hard to justify.