

Alerts

Russia WTO Accession: Opportunities for Trading Partners and Compensatory Measures for Russian Industries

July 2012

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On 7 June 2012, Russia took a major step forward in its effort to join the World Trade Organization (WTO) when the Russian Government submitted to the Russian Duma a draft federal law ratifying the WTO Accession Package. Ratification must take place by 22 July 2012. Russia will become a member of the WTO 30 days after it notifies the WTO of the Duma's ratification of the Accession Package.

While recent administrative and legislative actions highlighted below indicate that Russia will seek to support domestic industries, the Accession Package includes many commitments that will create opportunities for Russia's trading partners.

Opportunities for Russia's Trading Partners

All WTO agreements and commitments will apply to Russia from the date of accession, with a small number of transitional periods in areas of particular sensitivity (e.g., financial services and insurance). The opportunities created by Russia's WTO accession include:

- Russia has made commitments on trade in services in eleven major sectors: (i) business services, (ii) communication services, (iii) construction and related engineering services, (iv) distribution services, (v) educational services, (vi) environmental services, (vii) financial services, (viii) health related and social services, (ix) tourism and travel related services, (x) recreational, cultural, and sporting services, and (xi) transport services.
- The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) applies immediately and in full upon accession.
- Russia has made significant commitments on the reduction and binding of tariffs and the elimination or reduction of many industrial and agricultural subsidies.
- From the date of accession, importers of alcohol, pharmaceuticals and some products with encryption technology would no longer need import licenses for these goods.
- Russia has made commitments on key policies including trade-related investment measures.
- Russia will be subject to the binding WTO dispute settlement mechanism.

More generally, Russia will be obligated to provide both foreign and domestic companies transparent, predictable and non-discriminatory treatment across the full range of laws and regulations covered by the WTO Agreements.

Compensatory Measures for Russian Industries

On the basis of concerns raised by Russian industries, the Duma Committee for Economic Policy, Innovative Development and Entrepreneurship has submitted a number of recommendations to the Government and the Duma on actions that should be taken to address the impact of accession on Russian industries. For example, it has been reported that the Government has pledged to adopt a range of "compensatory" measures aimed at protecting the domestic industries expected to be most affected by intensified competition as Russia adopts its WTO obligations. Observers indicate that these "compensatory" measures will likely include subsidies and preferences in government procurement.

Russia has not signed the WTO Agreement on Government Procurement (GPA) which means it is not bound by the GPA norms and disciplines, but has committed to initiate negotiations for membership in the GPA within four years of its accession. In the meantime, the Russian Government reportedly intends to rely heavily on state procurement to support domestic producers. Recent actions reflect this policy shift. The Ministry of Economic Development recently extended the so-called "preferential" government procurement regime to numerous domestic industries such as pork, paper and sugar. The

"preference" is given to domestic producers in the form of a 15 percent price differential between foreign sourced bids and those that rely on Russian goods.

With respect to subsidies, the Russian Government has indicated that it will amend existing programs in an effort to make them WTO-consistent while expanding their effectiveness. For example, in its search for WTO-consistent alternatives to support domestic producers, the Ministry of Agriculture reportedly plans to shift transportation subsidies for domestic producers from the federal budget to the regional level, improve infrastructure to decrease transportation costs and identify agriculturally "disadvantaged" areas which would qualify for subsidies permitted under the WTO. Reports indicate that nearly half of Russia could eventually be designated as disadvantaged areas eligible for these additional subsidies.

Conclusion

Submission of the Accession Package to the Duma represents one of the final steps in Russia's 18-year odyssey to join the WTO. The accession will create new business opportunities in one of the key markets in the global trading community. But it will also pose potential challenges as Russia seeks to ease the transition for its domestic industries.

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