



# Client Alert

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## Russia's Accession to the WTO: Benefits and Risks

On August 22, 2012, the World Trade Organization welcomed Russia as its 156th member. As a result, Russia will lower its tariffs on imports of goods across all sectors of the economy and will reduce trade barriers. This will create new business opportunities for foreign countries by opening access to Russia's vast population and rapidly growing middle class.

However, American companies may not experience any benefits if the United States fails to repeal the Cold War-era Jackson-Vanik amendment that denies Russia most favored nation status. In fact, if Russia is not granted "permanent normal trade relations," U.S. businesses face the threat of paying higher tariffs than other WTO members importing goods to Russia. The WTO requires that any country wanting to benefit from membership must apply the same rules to all member countries.

If Congress does legislate a change in Russia's trading status, U.S. companies will most likely see new opportunities in the pharmaceutical, aviation, heavy manufacturing, and consumer goods industries.

As a result of its new WTO status, Russia will undertake certain commitments in many sectors of the economy and international trade. This includes the country's continuing efforts to simplify its technical regulations and bring them in conformance with international standards. It will also be able to resolve disputes with other members under the WTO dispute settlement mechanism.

Key changes to Russia's trading policies due to WTO membership are as follows:

### 1. Reduction of Import Tariffs:

- Agricultural goods, 15.6 to 11.2 percent
- Industrial goods, 9.3 to 6.4 percent
- Pharmaceuticals, 15 to 6.5 percent
- Medical equipment, 15 to 2 percent
- Light vehicles, 25 to 15 percent
- Home appliances, 25 to 7-9 percent
- Computers and components, tariffs to be eliminated within next three years
- Civil aircraft, 20 to 7.5 percent.

### 2. Financial Sector:

- Russia will allow foreign banks to provide on-shore banking services through their Russian licensed subsidiaries in which non-residents may own only a 50 percent share of capital.
- Foreign insurance companies will be permitted to open branches in Russia starting in 2021.
- Russia will increase the quota of foreign participation in the country's insurance sector from 25 to 50 percent.
- Russia will lift restrictions on issuing licenses to provide life insurance/reinsurance to insurance companies with foreign ownership of 51 percent and greater within five years of the WTO accession.
- Russia will introduce a cap of 25 percent on foreign ownership of securities registrars and depositaries. However, within three years of the accession, Russia will lift this restriction for specialized depositaries servicing Russian private pension and mutual investment funds.

### 3. Agriculture:

- State subsidies for the agricultural sector will be \$9 billion in 2012 and will decrease to \$4.4 billion in 2018.

### 4. Pharmaceuticals:

- Third-party use of clinical trial data will be restricted for six years upon registration of pharmaceuticals with the

local public health authority.

- Price regulation measures will no longer be used to protect local manufacturers. However, for the next four years, locally produced pharmaceuticals will enjoy preferences in the public procurement bidding process.

**5. Intellectual Property:**

- Patent application fees and other fees in connection with registration of intellectual property rights will be equalized for both Russian and foreign applicants.

**To discuss Russia's accession to the WTO or doing business in Russia, Armstrong Teasdale LLP invites you to contact:**

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