



Global Counsel

# Russia in the WTO: one year on

20 June 2013



## Summary: Russia's first year of WTO membership

- How is WTO membership seen in Russia one year on? To assess how both negative and positive attitudes have evolved in Russia after a year of WTO membership, Global Counsel conducted a series of in-depth interviews with the representatives of Russian and foreign businesses and professional services firms.
- The majority of Russian businesses have felt little or no change following Russian accession to the WTO in 2012. This reflects a range of factors including the transition periods for tariff and market access changes and the slow process of restructuring supply chains to reflect changed market conditions. A depressed European economy and other barriers to entering the Russian market have almost certainly also limited any initial flows of inward investment. The Russian authorities expect that the impact of new competition will begin to be felt after three to five years, but the full impact could take much of this decade to emerge.
- The agricultural sector is perhaps the one major exception to this perception of limited impact, where WTO entry has to some degree exposed a lack of price competitiveness and a dependence on state support. The pork industry in particular has felt the impact of a reduction in in-quota tariffs to zero by some Russian companies.
- Many Russian businesses do not fully understand the implications and potential benefits of WTO membership in terms of a more level global competitive playing field. This has often encouraged a defensive position in which WTO entry is seen as something for which industry must be compensated with domestic protection or subsidy. In some cases, the Russian government seems to see the problem the same way.
- WTO accession has had little impact at this early stage on perceptions of Russia as a place to do business, in part because of the Russian government's often defensive stance on WTO membership. However, a slowly evolving regulatory culture and a wider market for professional services firms has the clear potential in time to improve business perceptions of Russia as a place to invest and do business. Russia needs to use WTO membership as the first step in a longer process of global economic leadership, engagement and reform.
- Both in government and in the private sector, the first year of Russian WTO membership has highlighted a clear shortage of qualified experts on WTO law and procedures. This limits the Russian government's ability to navigate legislative dossiers linked to WTO issues effectively, and forces Russian firms to procure expensive advice from foreign legal and consultancy firms.
- Russia's first year in the WTO has been defined by some high profile disputes and a perception that Russia will be a combative WTO partner. While Russia should clearly take a strong line on its interests, it could remove tension by proactively meeting its WTO obligations with respect to barriers to trade. It would benefit from bringing Custom's Union practice quickly into line with WTO practice, and bring both Kazakhstan and Belarus into the WTO as soon as possible.

---

**WTO entry is sometimes seen as something for which Russian industry must be compensated with domestic protection. In some cases, the Russian government seems to see the problem the same way.**

## Russia's long road to the WTO

Russia's accession to the World Trade Organisation was approved by the full WTO membership in December 2011. After ratification by the Russian parliament, Russia became a full member of the WTO on 22 August 2012. This marked the end of the 18-year-long process that began with the request by the USSR for observer status at the GATT in 1986 and the launch of formal negotiations for membership of the GATT in 1993.

WTO membership transforms the international legal framework in which Russia conducts trade policy. It acts as a considerable check on Russia's ability to alter or limit unilaterally the terms on which goods and services are imported into its market. WTO entry has equalised Russia's competitive position on third country markets where it competes with products from major producers and exporters, such as China.

Russia's trade policy will now be subjected to regular public peer reviews, as is the trade policy of Russia's WTO partners. Like its WTO peers, Russia is now, in principle, obliged to conduct its trade policy and the management of the flow of goods and services across its borders in a transparent, predictable and open manner. Its failure to do this can now, in principle, be challenged in the WTO.

WTO entry has also begun to change the terms on which foreign businesses compete in Russia. It will reduce many of Russia's external tariffs, generally over the course of a number of years. Russia has also agreed to bind in law a revision of the conditions on which it permits foreign services businesses to invest and operate in Russia. This has important implications for all sectors, but for the financial services sector in particular. It obliges Russia to treat foreign traders selling goods in its market identically to their Russian counterparts, except in certain areas where exemptions have been explicitly permitted, such as the ownership of land.

Most of the evidence suggests that this new web of obligations and rules should be - especially in the long-term - a good deal for Russia and Russian businesses. For advocates of Russian WTO membership inside Russia, joining the WTO was an important step on the road to normalising Russia's

economic engagement with the rest of the world. Russia was, until 2012, the only economy of any size outside the WTO. Joining the Geneva-based body has ended this unusual isolation.

---

**For Russian advocates of WTO membership, joining the WTO was an important step on the road to normalising Russia's economic engagement with the rest of the world.**

Studies of the impact of Russian WTO accession have identified clear economic medium and long term gains. The World Bank and its advisers concluded in advance of the accession package that most sectors of the Russian economy would benefit from greater competition and greater market access, especially the export-oriented iron industry and nonferrous-metals industry, and will create more jobs. Widening prospects for FDI had the potential to attract new investment to all Russian regions, but particularly the North West and Far East.

Despite these long term opportunities, by the time of accession, the wider public perception of WTO membership in Russia was far from positive. According to a Levada Centre poll, the attitude of the Russian people towards the WTO gradually became more hostile. While in May 2003 59% of Russians said that Russia's WTO accession was in line with Russian national interests and only 14% thought it was against its national interests, by June 2011 these figures moved to 44% and 27% respectively.<sup>1</sup> By June 2012 when the Russian Duma debated the accession and coverage of the question ensured that two thirds of Russians told pollsters that they were aware of the issue, the supporters and opponents were almost evenly split. Critics of membership associated the step with declining output, higher prices and a rise in low quality imports.<sup>2</sup>

Russian business was also notably ambivalent about membership, lobbying the Russian government in some cases for special measures to 'compensate'

industry for the greater competition that membership would expose them to. With notable exceptions, there was a striking sense among Russian business that Russian WTO membership was to the detriment of Russian corporates rather than an opportunity. Since accession, Russian industry has applied for 25 different quota measures to protect its interests.<sup>3</sup>

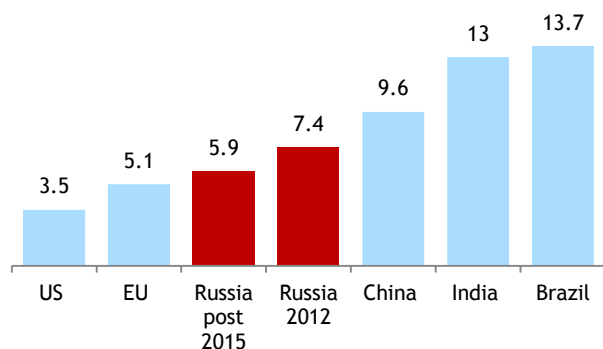


Fig 1: Average trade weighted tariff (%)  
Source: Russian Audit Chamber Report April 2013

### One year on

If most Russian businesses detect little or no change following WTO membership this is largely a question of timing. The medium and long term phasing in of the Russian accession terms means that there has been no flood of new imports and retail prices have not changed overnight. The longer process of reviewing supply chains and sourcing policy and adapting to new competition inevitably means that the real effects of WTO membership often only start to be felt after three to five years. The spill over effects can take even longer.

In Russia's case, with tariff reductions heavily phased over time and a range of other obstacles to market entry and investment, the benefits in price competition, jobs or new business could take even

longer to materialise. The Russian authorities themselves believe the full impact of WTO membership could take a decade to be properly felt. There have been some early impacts in isolated markets such as farm machinery and pork meat, but in general perceptions are of little substantive change.

These conclusions are in line with other research conducted on the impact of WTO membership in Russia. In spring 2013, The Strategy Partners Group (part of Sberbank) published an analysis of 2,000 responses from owners and top managers of Russian companies with annual turnover of more than \$100m. In 2012, more than half of them expected a positive impact of WTO accession on the Russian economy. Now more than 50% think that there has been no impact at all, with 32% thinking that the impact was negative. 75% said that WTO accession had had no impact on their company or business so far.<sup>4</sup>

Russian corporates could be forgiven a sense of anti-climax. Yet Russian WTO membership has nevertheless moved the Russian economy in a new direction and it will, over time, continue to change the parameters of foreign competition for both imports and exports. For both Russian government and business, understanding this longer process and the opportunities and challenges it will bring remains vitally important.

---

**Russian corporates could be forgiven a sense of anti-climax on WTO entry. Yet Russian WTO membership has nevertheless moved the Russian economy in a new direction.**

## The view from Moscow

Recent Russian governments have often seemed ambivalent about WTO membership, and this ambivalence has been carried over into the first year of Russian WTO membership. Preoccupied with the design and implementation of the Customs Union with Belarus and Kazakhstan, it is a common observation that Moscow has not prioritised resources for follow-up, implementation and culture change in response to WTO accession.

Some high profile conduct has also provided fuel for critics of Russia's approach to WTO membership. The European Union has had a long term commitment to ensuring that Russia joined the WTO, not least as a platform for closer economic integration between the EU and Russia. Yet EU officials came close to prosecuting new Russian car recycling levies in the WTO in 2012 and were dismayed by heavy-handed meat import bans that suggest that little has changed in the Moscow mindset towards WTO membership. EU Trade Commissioner, Karel De Gucht said in 2012 that on WTO membership, Russia is "doing exactly the opposite of what they are supposed to do".

### **"The opposite of what they are supposed to do"?**

Yet is this the whole picture? WTO membership imposes a significant discipline on any government and constrains states in important ways. Despite high-profile irritations such as the discriminatory automotive levy, it is possible to see evidence of the Russian system and regulatory environment adapting to the realities of WTO membership. Some of these adaptations were undertaken before membership; some are identifiable in subsequent practice and policy:

- From 2012, Russia has committed to the IPR protection and enforcement provisions of the Trade Related Aspects of Intellectual Property Rights (TRIPs) Agreement. For example, in 2010, Russia passed amendments to Part IV of the Civil Code for compliance with the TRIPs agreement.
- Russia has amended its Customs legislation to include ex-officio authority for Russian Customs officials.
- In January 2013, Moscow created a special Intellectual Property court made up of 30 specialist judges to deal specifically with IP infringement cases and appeals. This has followed from a small but significant improvement in the enforcement of Russian anti-counterfeiting and online piracy law to meet its WTO TRIPS obligations. In particular, Moscow has tightened its commitments to extending liability for online piracy to Internet Service Providers and Internet Service Operators.
- In 2012, the Russian Ministry of Labour and Social Security published significant new legislation opening the Russian market for highly skilled workers, in part to meet its WTO Mode 4 commitments on cross-border movement of workers.
- In 2012, Moscow abolished discriminatory fees for foreign companies applying for patent protection and registration of trademarks, licenses and assignments.
- The new cinema exhibition bill introduced in Russian Duma in December 2012 was rejected after internal WTO compliance advice argued that proposed higher VAT rates for foreign films than for Russian ones would breach WTO rules.
- Russian authorities are still divided on the plans to implement a ban on PET-based plastic products including bottles in the Customs Union - in part because of a concern that such a ban might breach WTO rules. This is not a factor that has concerned Moscow in the past.
- In 2010, the Federal Law on Circulating of Medicines was changed to guarantee data protection for information provided to the Russian authorities by pharmaceutical companies in pre-clinical trials and authorisations for the WTO-mandated period of six years. However, the implementation mechanisms and enforcement standard operating procedures are yet to be fully established.

- In November 2012, the Russian Ministry of Industry and Trade reduced the level of subsidies provided to the Russian automotive sector by 15 billion roubles (25%) in a reflection of its WTO commitments.
- In spring 2013, Russia lifted a range of export barriers on Georgian wines and mineral waters, notably discriminatory rules that prevented the companies in question from registering product samples for export.

Individually, these are small steps. While overall IPR legislation has been strengthened and is WTO-compliant, and physical counterfeiting appears to be on the decline, copyright violations in particular remain highly vulnerable to poor or uneven enforcement, as do data protection standards. In some cases, progress is accompanied by parallel reversals. For example, the decision by the Russian MIT to support subsidies to the aircraft industry through Vnesheconombank has been labelled by some as an attempt to circumvent WTO rules on state subsidies and may yet be challenged.

Nevertheless, a year after WTO entry it is possible to identify a range of ways in which WTO membership has begun to operate as a significant parameter for Russian officials and technocrats. The suspicion remains that political expediency and intervention can easily trump these legal and policy frameworks for now, but in the longer term Russian regulatory frameworks are likely to have been reshaped for the better.

#### Internal Russian assessments of WTO-readiness

Despite the long process of negotiation - or perhaps because of it - there is a widespread acknowledgement among Russian officials that Moscow was not fully prepared for WTO entry. In April 2013, this view was strongly endorsed by a Russian Audit Chamber report on the WTO accession impact on the Russian economy.<sup>5</sup>

In particular, the Audit Chamber heavily criticised post-accession integration work, noting that only ten of thirty-six chapters of the government adaptation plan for 2012 had been implemented. The Russian government remains understaffed with officials with experience in handling WTO rules and an understanding of the implications of implementing

and adhering to WTO disciplines. Russia has also not yet opened a representation to the WTO headquarters in Geneva.

### It took the EU six years to threaten to launch its first WTO dispute against China; with Russia it took a matter of months.

But the Audit Chamber also turned its attention to the readiness of *Russia's trading partners* for Russia's WTO accession, noting that Russia remains subject to a wide range of anti-dumping measures and other trade restrictions from its key trading partners. The bulk of these are anti-dumping measures, but some, such as Polish and Chinese bans on transit by Russian trains and the US Jackson-Vanik legislation applying discriminatory checks on exports from Russia, are *prima facie* in breach of WTO rules. These three measures have subsequently been repealed, but Moscow remains aggressively alert to obstacles to Russian trade, and the Audit Chamber argued that Russia should consider launching a number of cases within the WTO Dispute Settlement architecture to protect its trade interests.

#### The threat of litigation

This combative tone seems likely to be one of the defining features of Russia's early years in the WTO. In comparison to China, where both Beijing and its partners took an exceptionally cautious approach to using the WTO dispute settlement machinery, Moscow, Brussels and Washington are taking a much more assertive line. It took the EU six years to threaten to launch its first dispute against China; with Russia it took a matter of months. Likewise, Russia was barely inside the WTO before it was threatening to use the WTO to test EU practice. In this respect, Russia looks set to follow the Ukrainian example of not wasting any time before taking advantage of the litigation arm of the WTO.

The high profile dispute over Russian automobile recycling levies has set the tone. The EU protested sharply in September 2012 when Moscow introduced a car recycling levy for all non-Russian made cars. This levy was widely regarded as intended to offset in the short-term the reduction of customs tariffs for EU car

imports to Russia from 30% to 25%. EU Trade Commissioner Karel De Gucht reproached Russia in late 2012 for not properly complying with WTO rules and threatened Russia with a WTO case. Moscow subsequently legislated to equalise levy conditions for imported and Russian-made cars. Russian car-makers will start paying recycling levies from 1 July.

Other disputes are likely to follow. In April 2013, the US lodged an official notice at the WTO with twenty nine questions for Russia highlighting the difference in terminology and procedures between the WTO and the Russia/Belarus/Kazakhstan Customs Union. This could potentially lead to a new demand to harmonise all the Customs Union norms with the WTO. New Russian rules permitting export tariffs on certain kinds of oil may also breach commitments not to raise tariffs on oil, and could yet be challenged if implemented.

The most likely candidate for formal WTO dispute proceedings is probably Russian restrictions on European meat exports. The EU has complained at the WTO about the Russian ban of February 2013 on German beef, pork and poultry and may yet convert this complaint into full WTO consultations and a dispute settlement case. Other simmering possible cases include Russian bans on US and Canadian meat

imports and seed potato imports from the EU. There is also pressure from Helsinki for the EU to consider stronger action against export restrictions on unprocessed timber exports.

Moscow has its own complaints. In May 2013, Russia's chief WTO negotiator Maxim Medvedkov said that Russia has noted about a hundred and twenty different instances of non-compliance of the WTO rules by other countries, but the focus of wider trade-related criticism has been on relations with the EU. In April 2013, Russia and Mauritania failed to reach an agreement on fisheries because of alleged royalty subsidies for EU fishery operations in Mauritanian waters. With Russian fishery businesses liable for all royalty fees themselves, the Russian Ministry for Economic Development says it is currently assessing whether EU practice is compatible with WTO rules.

Another significant stumbling block with Moscow is the EU Third Energy Package. Russia is still trying to exempt the OPAL Nordstream pipeline branch from the Third EU Energy Package, which caps the use of the pipeline by Gazprom to 50%. Moscow has threatened that if the two sides cannot agree a mutually acceptable solution by October 2013 it will launch a complaint against it.

## The view from the market

A year after WTO accession, most Russian businesses identify little or no impact from WTO accession. With long phase-in timeframes for tariff cuts and market access commitments, it is unsurprising that little has appeared to have changed after just a year for most Russian businesses.

### Agriculture and forestry

Russian agriculture and forestry are two sectors where the impacts of WTO membership have been felt comparatively quickly. Farm tariffs and subsidies have always been one of the most sensitive areas of multilateral trade negotiation. With farming constituencies often dependent on subsidy or import protection for income, the impact of liberalisation is often felt quickly and seriously in these sectors. Many Russian agriculture producers claim to have been unprepared for WTO accession and badly affected by it. The sectors which have felt significant impact are seed potato, poultry and dairy. However, the most affected sector is the pork farming industry.

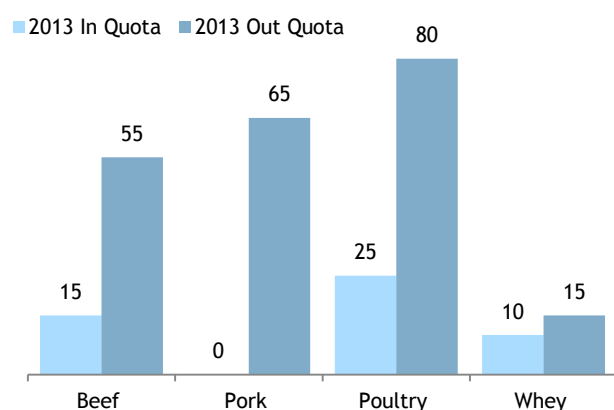


Fig 2: Falls in in-quota tariffs for key farm goods  
Source: Russian WTO Accession schedule

Before WTO accession, pork farming was one of the most profitable sectors of the Russian economy with EBITDA profitability of around 40%. Russian-produced pork counted up for 95% of the pork market in Russia. After accession, the import tariffs were lowered from 15% to zero within the quota and from 75% to 65% outside the quota.<sup>6</sup>

In other sectors such as meat and dairy, anecdotal evidence suggests that despite the transition period

for lowering tariffs on agricultural products, major Russian producers and retailers have seen some decline in prices and rise in imports (for example, retail dairy prices fell in Q1 2013 by 3-5% amidst 20% increase in dairy imports with overall annualised import volumes increase varies from 10 to 33% depending on the category of products).<sup>7</sup> This is widely suspected to be the leading motivation factor behind Russian bans on European, US and Canadian meat imports.

The Russian WTO accession agreement eliminates export subsidies for agricultural products and caps, reduces or eliminates exports duties for a range of products. Russian exports of birch timber to Finland have increased in 2012 by 20% after export tariffs on timber were abolished or significantly lowered with Russian accession to the WTO.<sup>8</sup> This trend is expected to continue, providing benefits both for Russian timber exporters and for the Finnish paper industry. A new tariff system has also changed the structure of timber exports from Russia with the share of processed timber having increased threefold recently.

There are also claims of significant impacts on the Russian farm machinery industry. Since Russia's accession to the WTO, Russian agricultural machinery producers report a fall in production volumes of around 7% and a small, but significant, expansion of foreign market share. Domestic sales of various types of machinery in Q1 2013 were about half of similar Q1 sales in 2011 and 2012.

Russian manufacturers such as Rostselmash report that they are struggling to compete with the prices of foreign-made vehicles and have cuts jobs and production as a result. Foreign manufacturers of agricultural machinery are also transferring production lines into Russia to avoid import duties. In 2010, US equipment and machinery producer, John Deere, opened a production facility and warehouse at Domodedovo, outside Moscow, partly to service demand in the Russian market.

### Banking, insurance and business services

The Ukrainian WTO accession experience after 2008 showed that the sectors which benefited most from



the surge in foreign investments after the WTO accession were banking, insurance and business services. Widening market access for foreign business services providers was seen by many advocates of Russian WTO membership as an important way of injecting higher levels of professionalism into Russian business services markets.

retrenching, it may be some time before serious consideration is given to Russian market-entry strategies. In some subsectors of financial services such as asset management, the large scale off-shoring of Russian financial assets has also meant that there is limited interest at this stage in entering the Russian domestic market by western asset managers.

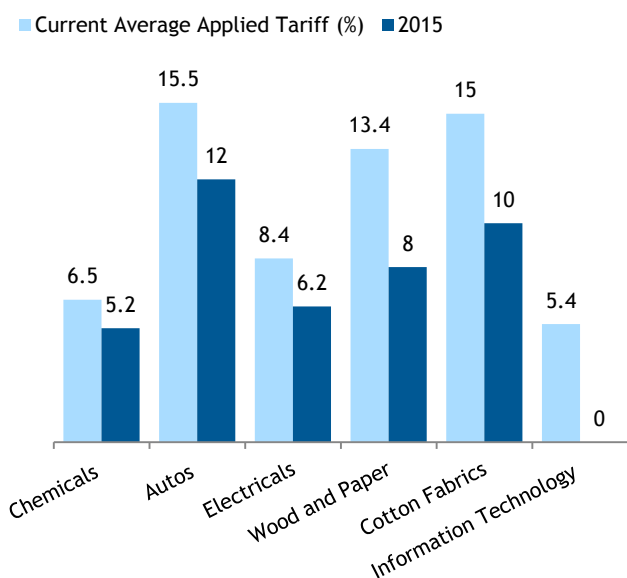


Fig 3: Falls in Russian average key manufactured goods tariffs  
Source: Russian WTO Accession schedule

Russia's WTO accession agreement opens the Russian market for foreign investment in banking further, although it retains a cap of 50% for both foreign ownership of retail banks and the total foreign capitalisation of the Russian banking sector. Foreign banks are still barred from opening branches in Russia, although they can establish subsidiaries in representative offices. Foreign insurers will, however, be allowed to open direct branches in Russia from 2021.

Despite the loosening of conditions for cross-border establishment of financial services companies in Russia there is so far limited evidence that this has had any significant effect. With European retail banks

**In some subsectors of financial services such as asset management, the large scale off-shoring of Russian financial assets has meant that there is limited interest at this stage in entering the Russian domestic market**

The slowdown in capital markets has affected demand for audit, advisory and consultancy services, but WTO accession is widely expected to lead to an inevitable rise in the consultancy services market, especially from abroad. However, the professional services sector has so far noticed very little impact from WTO accession. In some areas such as legal services, this is likely to be a reflection of the fact that the Russian legal industry is not heavily regulated and was comparatively open to foreign lawyers even before WTO entry, unlike, for example, India.

### The growing need for WTO expertise

As in government, there is still comparatively little private sector expertise in Russia in handling WTO issues and advising firms on WTO procedures. This means that Russian and Russia-based companies will need to pay premium prices to foreign specialists, lawyers and advisers unless they train their own experts. Legal costs for a WTO dispute case are estimated to amount to around \$2m.<sup>9</sup>

## Moving forward: Russia's first decade in the WTO

After a year, Russian WTO membership continues to present a range of opportunities and challenges for Russian business.

- **Russian WTO membership remains potentially a powerful signal of change in Russian markets - a 'good governance' brand.** Russia has not leveraged this brand the way it might have - sending mixed signals on its commitment to WTO rules. Nevertheless there remains a good story to tell on its power to drive reform and change in Russia and this should be leveraged with external partners. Firms should be considering ways to leverage WTO entry in their own external marketing, corporate promotion and networking or inward investor search.
- **Changes in tariff barriers in Russia are in many cases spread over extended timeframes.** However, firms should be reviewing tariff barrier changes carefully. They should be reviewing changes in potential export markets and assessing whether changes to input tariffs incentivise changes in their supply chains. They should be reviewing tariff burdens imports and assessing likely changes in competitive pressure for their business over the years ahead. The pork and agricultural machinery markets are useful reminders of the challenges they may face.
- **WTO membership ensures improved transparency and predictability of treatment in third markets for Russian exports.** This is useful for exporters and should be promoted more clearly as a key benefit of WTO membership. Russia businesses could also encourage their own government to set high standards in this respect, to limit the risk of retaliation.
- **WTO membership constrains the Russian state in certain ways with respect to subsidies and industrial policy.** We have already seen this in the automotive industry and in agriculture. Despite the pressure to compensate WTO entry with further subsidy and support, the most likely trend for state support in Russia is downwards. Firms must understand the impact of this.
- **WTO membership offers access to new sources of direct inward investment for Russia,** but will also present new competition in sectors where conditions of investment have been eased. The weakness of the European economy and the retrenching of European businesses has limited the immediate benefits from this, but this will change as the European economy recovers and confidence returns.
- **WTO membership offers access to WTO dispute settlement machinery as leverage in trade disputes.** WTO membership is about a lot more than litigation. Nevertheless, Russian firms should be assessing the viability of using WTO dispute settlement to resolve long standing trade disputes, subject to the serious caveat that it is likely to take a considerable period of time before the Russian system is fully confident and effective in doing this and recognising that trade disputes are confrontational, political sensitive and do not guarantee constructive outcomes.

# Foreign investment provisions in Russia's WTO accession schedule

## General Horizontal Provisions

<b>Subsidies and State Support</b>	Subsidies and other forms of state support may be granted only to juridical persons of the Russian Federation, established within the territory of the Russian Federation.
<b>Land Transactions</b>	Foreign ownership is prohibited for agricultural land and border territories and may be limited for other forms of land. Rent of land plots to foreigners shall not be greater than 49 years (with possible prolongation).
<b>Participation in Privatisations</b>	Commercial participation of foreigners in privatisation may be limited.
<b>Public utilities</b>	Services considered public utilities may be subject to public monopolies, or to exclusive rights granted to private operators.
<b>Production sharing agreements for raw materials</b>	Juridical persons of the Russian Federation have priority rights to take part in such agreements. No less than 80% of all employed personnel employed in the realisation of a production-sharing agreement should be citizens of the Russian Federation.
<b>Presence of natural persons</b>	Intra-company Transfers shall be permitted for a maximum period of three years, provided that the personnel in question are 1) key personnel 2) temporarily transferred into a commercial presence constituted in the Russian Federation 3) no less than one year immediately prior employed by a juridical person of another WTO member performing such intra-company transfer.

## Sectoral Restrictions on establishment in Russia

<b>Legal Services</b>	None, although all foreign advocates operating in Russia must obtain Russian advocate status.
<b>Accounting Services</b>	Commercial presence permitted only in the form of a Russian legal person, and not in the form of an open joint stock company. Auditors must employ a minimum of five qualified auditors and persons engaged in auditing may not perform any other business not associated with auditing. 75% of staff of an auditing firm headed by a foreigner must be Russian nationals.
<b>Engineering Services</b>	None.
<b>Computer Services</b>	None.
<b>Advertising Services</b>	None.
<b>Telecoms services</b>	49% cap on foreign ownership eliminated four years after accession. After three years, none with respect to satellite services. Commercial presence only permitted in the form of a Russian legal person. Foreign participation in the charter capital of incumbent operators may be limited to 49% for a period of up to four years following accession.
<b>Audio-visual Services</b>	Movie and television production, distribution and projection, commercial presence only permitted in the form of a Russian legal person. No commitments on provision of artistic or cultural subsidies, which may be reserved for local providers.
<b>Construction Services</b>	None.
<b>Environmental Services</b>	Commercial presence only permitted in the form of a Russian legal person.
<b>Retailing Services</b>	Commercial presence only permitted in the form of a Russian legal person.
<b>Insurance Services</b>	Commercial presence only permitted in the form of a Russian legal person, with branching permitted after 2021 for life and non-life insurance excluding any insurance made mandatory by the Russian state except civil liability insurance for car owners. Such insurers must have been authorised for no less than 5 years (8 years for life insurance) and hold \$5bn in assets. Branches must be separately capitalised. Licenses for such branches may be refused if shareholders are more than 50% non-Russian. For brokerage or intermediation, none, but commercial presence only permitted in the form of a Russian legal person.

## Financial Services Sector restrictions on establishment in Russia

<p><b>Deposit-taking</b></p> <p><b>Lending</b></p>	<p>Commercial presence is permitted only in the form of a legal person of the Russian Federation and in the form of a representative office of a foreign bank. Subsidiary parent must qualify as a bank in its country of location.</p> <p>Foreign capital participation in the Russian banking system limited to 50%.</p> <p>Approval from the Russian Central Bank is required to establish a credit organisation with foreign participation, enlarge charter capital of an existing credit organisation with foreign capital, or sell existing equity shares in a credit organisation to a foreign buyer.</p> <p>The chief accountant of any credit organisation that is a subsidiary of a foreign bank must speak Russian.</p>
<p><b>Financial Leasing</b></p> <p><b>Payment services</b></p> <p><b>Trading, including all money market instruments, forex, derivatives, forwards, swaps and bullion</b></p> <p><b>Underwriting</b></p> <p><b>Money broking</b></p> <p><b>Asset Management</b></p> <p><b>Settlement and Clearing</b></p> <p><b>Provision and Transfer of financial information</b></p> <p><b>Advisory and intermediation services</b></p>	<p>Commercial presence is permitted only in the form of a legal person of the Russian Federation and in the form of a representative office.</p> <p>The share of votes of non-residents and their affiliates participating in the capital of a firm keeping share registers shall not exceed 25%. Such firms must hold at least 50 registers of more than 500 shareholders.</p> <p>All new instruments and assets traded by category (x) firms must be authorised by the Russian authorities.</p> <p>The share of a foreign individual participating in the capital of a stock exchange shall not exceed 20%.</p> <p>The share of votes of non-residents and their affiliates participating in the capital of specialised depositories of investment funds and non-State pension funds shall not exceed 25%. Restriction expires at accession +3 years.</p> <p>Only juridical persons of the Russian Federation may participate in clearing on the securities market.</p> <p>All actions leading to the increase in share of votes, or the share of capital held by foreigner in any keeper of share registers, depositary operations under transactions made through trade arrangers or specialised depositories require the advance approval of the Russian authorities.</p> <p>Only brokers may conduct operations on the Russian securities market, including with derivatives. Foreigners who are not floor traders can participate in exchange trade only through brokers.</p>

## Notes

1. Levada Poll on Russian public attitude towards international institutions, 4 July 2012 <http://www.levada.ru/04-07-2012/otnosheniya-vlasti-i-naroda-v-rossii-sotrudnichestvo-s-mezhdunarodnymi-organizatsiyami>
2. FOM Poll, 5 August 2012 <http://fom.ru/Ekonomika/10580>
3. Maxim Medvedkov interview, MK newspaper, 17 April 2013 <http://www.mk.ru/economics/article/2013/04/17/843410-evrosoyuz-ne-podast-na-rossiyu-v-sud-v-ramkah-vto.html>
4. Strategy Partners Group “CEO Agenda” research, 2013, quoted by RBC <http://quote.rbc.ru/topnews/2013/04/22/33932562.html>
5. Russian Audit Chamber report “*Analysis of the measures taken by bodies of state power for fulfilment of obligations and realization of the rights of the Russian Federation, related to joining the WTO, to assess the influence of the WTO regulations and rules on the budget system and sectors of economy*”, April 2013 (in Russian) [http://www.ach.gov.ru/userfiles/bulletins/03-buleten\\_doc\\_files-fl-2360.pdf](http://www.ach.gov.ru/userfiles/bulletins/03-buleten_doc_files-fl-2360.pdf)
6. Krestyanskie Vedomosti, 20 December 2012 [http://www.agronews.ru/news/detail/123747/?sphrase\\_id=50812](http://www.agronews.ru/news/detail/123747/?sphrase_id=50812)
7. Rossiyskaya Gazeta citing the data from the Association of retail trade, 7 May 2013 <http://www.rg.ru/2013/05/07/produkty-site.html>
8. Finnish-Russian Chamber of Commerce [http://www.svkk.ru/ru/novosti/razdely\\_novostej/ekonomika/lesnaya\\_otrasl\\_uzhe\\_oschutila\\_vygodu\\_ot\\_vstupleniya\\_rossii\\_v\\_vto.15977.news](http://www.svkk.ru/ru/novosti/razdely_novostej/ekonomika/lesnaya_otrasl_uzhe_oschutila_vygodu_ot_vstupleniya_rossii_v_vto.15977.news)
9. Russian Audit Chamber report, p.102 (in Russian) [http://www.ach.gov.ru/userfiles/bulletins/03-buleten\\_doc\\_files-fl-2360.pdf](http://www.ach.gov.ru/userfiles/bulletins/03-buleten_doc_files-fl-2360.pdf)

**Cover Photo: ©iStockphoto.com/Petr Malyshev**

© Global Counsel 2013

38 Wigmore Street  
London  
SW1U 2HA  
info@global-counsel.co.uk  
+44 (0)203 667 6500

Although Global Counsel Advisory makes every attempt to obtain information from sources that we believe to be reliable; we do not guarantee its accuracy, completeness or fairness. Unless we have good reason not to do so, Global Counsel Advisory has assumed without independent verification, the accuracy of all information available from official public sources. No representation, warranty or undertaking, express or implied, is or will be given by Global Counsel Advisory or its members, employees and/or agents as to or in relation to the accuracy, completeness or reliability of the information contained herein (or otherwise provided by Global Counsel Advisory) or as to the reasonableness of any assumption contained herein. Forecasts contained herein (or otherwise provided by Global Counsel Advisory) are provisional and subject to change. Nothing contained herein (or otherwise provided by Global Counsel Advisory) is, or shall be relied upon as, a promise or representation as to the past or future. Any case studies and examples herein (or otherwise provided by Global Counsel Advisory) are intended for illustrative purposes only. This information discusses general industry or sector trends, general market activity and other broad economic, market or political conditions. It is not research or investment advice. This document has been prepared solely for informational purposes and is not to be construed as a solicitation, invitation or an offer by Global Counsel Advisory or any of its members, employees or agents to buy or sell any securities or related financial instruments. No investment, divestment or other financial decisions or actions should be based on the information contained herein (or otherwise provided by Global Counsel Advisory). Global Counsel Advisory is not liable for any action undertaken on the basis of the information contained herein. No part of this material may be reproduced without Global Counsel Advisory's consent.