

PUBLICATION

Are You Prepared to Take Full Advantage of the Coming Trade Boom With Russia?

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Now that the controversial Russian election is over, with only tertiary U.S. criticism, only a few hurdles remain to Russian accession to the World Trade Organization (WTO). In December 2011, the WTO Ministerial Conference formally approved Russia's terms of accession and extended the invitation to Russia to join the WTO. Russia's legislature needs to ratify the WTO Accession Agreement, which is expected to happen as early as May 2012, and formal accession is likely in June.

What Can This Mean for U.S. Exporters?

This represents normalization of trade between Russia and other WTO member countries, including recognized administrative and judicial procedures to resolve trade issues. Of no less importance, as part of the Accession Agreement, there are more than 1,000 pages of detailed, market opening concessions that Russia is making, including substantial tariff reductions on products entering Russia, in order to open its markets to WTO member countries. These concessions are not yet available to U.S. exporters upon Russia's formal accession until the U.S. grants Most Favored Nation (MFN) status to Russia.

What Can This Mean for U.S. Importers?

The full benefits of Russia's accession to the WTO for U.S. importers and businesses seeking alternative sources of product will likewise not be fully realized until the U.S. grants MFN status to Russia. When this happens, goods imported to the U.S. from Russia will enjoy the benefits of the low tariff rates that have been a boon to American consumers for years and will provide a huge new source of low cost raw materials, particularly lumber and precious metals, that Russia has available. A low cost, highly educated, work force in Russia stands prepared for new industrialization.

The Hurdle of MFN Status

In order for Congress to grant MFN status to Russia, the Jackson-Vanick Amendment needs to be repealed by Congress with respect to Russia. The Obama Administration has initiated discussion in the Senate, consistent with its signaled commitment to graduate Russia from the Jackson-Vanick Amendment before Russia formally joins the WTO. Jackson-Vanick, which was enacted in 1975 to encourage the Soviet Union to lift restrictions of the emigration of Jews, has remained in effect with respect to Russia, even though Russia has been judged to be in compliance since the 1990s. Opposition is expected from members of both parties given Russia's poor record on human rights, an anti-trade sentiment since China's WTO accession and MFN status in 2001, and general election year politics. Nonetheless, the strong argument that the failure to grant MFN status will put U.S. businesses at a competitive disadvantage vis-à-vis other WTO member states, will likely generate creative ways to get this done.

If you have any questions regarding the normalization of trade relations with Russia or Russia's potential as a new supply source or market for your products, please contact Ray Sullivan in the Firm's Washington office at rsullivan@bakerdonelson.com or (202) 508-3466, or any member of the Firm's International practice.

