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## **APEC Individual Action Plan Peer Review of Russia 2009**

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# APEC Individual Action Plan Peer Review of Russia 2009

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## 1. EXECUTIVE SUMMARY

Five key issues dominate the current debate about the Russian economy, its management and future directions, and all of these questions have a profound impact on the ways in which Russia is approaching its relationships with other members of APEC and its ability to meet the Bogor goals.

- First, and perhaps most fundamentally, Russia is attempting to create a ‘new economy’: one that is based more on the market, is less constrained by over bureaucratisation and unnecessary control, but is most importantly more productive, technologically sophisticated and internationally competitive.
- Secondly, the economy still rests upon a dangerously narrow export base. More than 80 per cent of export income is currently derived from only three major products - petroleum, gas and metals – with the oil and gas industry alone responsible for more than 68 per cent of the total.
- Thirdly, while the need to meet its APEC commitments has provided some incentive to accelerate the economic reform process, much more significant have been the negotiations for Russia to become a full member of the World Trade Organisation.
- Fourthly, Russia is faced with a significant problem of wide disparities in development and living standards between its various far-flung regions. Of particular interest to APEC are the efforts being made to develop the Russian Far East, which of course borders the Pacific Ocean as well as a number of individual APEC members.
- Fifthly, the current financial crisis has hit Russia particularly hard and the government programs to mitigate these impacts and lift the economy out of recession will have major consequences for the management of the economy, in the short-term as well as from a longer perspective.

Creating a “new economy” will be a very long and difficult task and the most important elements here, as identified by the government, are: the diversification of the export base of the economy; increasing the level of life expectancy, which today is very low by the standards of modern economies – one in every two men does not live to the age of 60; decreasing the existing disparities in incomes, which are far too wide, and need to be bridged by creating far better educational and career development paths; increasing levels of labour productivity; the development of new economic sectors in which Russia can be competitive on the international market and which need to be nurtured; the improvement of the national infrastructure – a key requirement in such a vast economy; the development of an effective, well run and properly regulated financial system; the continued fostering of market institutions in all parts of the economy; the fundamental reform of the system of public administration; and the articulation of an effective regional policy to deal with the increasing economic and social disparities between different parts of the economy. All of this will require massive new investments in the health and education systems.

Of particular interest to the member economies of APEC are the ambitious plans to develop Siberia and the Russian Far East, part of which include the hosting of the APEC

Leaders' meeting in Vladivostok in 2012. The strategy for the Far East is based on the need to increase living standards, and the aim is to harness the natural and geographical advantages of this vast region. The development of the region's infrastructure and integrating it more closely with the European part of the economy will be an essential first step. Improved transportation links with neighbouring economies such as China, Japan and Korea area also needed, giving more scope for trade and for joint industrial ventures.

The financial crisis has had a particularly harsh impact on Russia. Russia ended 2008 with its 10<sup>th</sup> straight year of strong growth, with an average of 7 per cent expansion annually. Growth in investment and in personal incomes was rapid during this decade, and poverty levels declined significantly. Thanks largely to the high prices of oil and gas; Russia was able to improve its international financial position significantly, running strong surpluses. Particularly significant was the creation of two sovereign wealth funds valued at some \$US 300 billion. A Reserve Fund was established to support the budget in case of declines in the price of oil, and a National Welfare Fund was set up to fund infrastructure development and pensions. Foreign reserves increased to \$US 597 billion in August 2008, the third largest in the world. However, since then declines in the price of oil and the more general impact of the crisis have eroded this strong position. In response Russia has put in place a 10 trillion roubles (nearly \$US 300 billion) anti-crisis package. In part this is designed of course to deal with the immediate impacts of the crisis on various parts of the economy, but significantly this very large investment is also being used to move towards the goals outlined in the 2020 development plan. Thus, as in a number of other economies the crisis is being used to stimulate large scale investment in projects of high national priority.

In the last peer review of Russia's IAP the overall conclusion was that considerable progress had been made in liberalising the economy, and that these advances had been the result of three major processes: the negotiations for WTO accession; the progressive development of free trade arrangements within the CIS and the Eurasian Economic Community; and the voluntary liberalisation that has taken place as a result of APEC membership. Our overall conclusion is that while a good deal of work still remains to be done a laudable amount of further progress has been achieved, and the three major drivers of reform are still very relevant. But it is also clear, as outlined above, that both the international environment and the internal policy priorities have changed markedly since the last report and this is having a great deal of influence on how Russia is now approaching the tasks of reform and liberalisation.

In the past decade, the Russian Federation had undertaken an ambitious process of reform of its economy progressively adopting laws and regulations consistent with multilateral rules and disciplines. However, Russia is quick to recognise that while they are confronted with a new international environment, many of the old internal problems remain. Russia remains a relatively closed economy in terms of both trade and investment. In particular, targets for attracting foreign investment have not been fully met, although there have been some successes. Similarly, while there has been significant liberalisation of trade policy there is still much more to be done. The trade-weighted average tariff rates were reduced from 17.7 per cent to 10.0 per cent between 1996 and 2007, but Russia still has

relatively few duty-free tariff lines, makes relatively frequent use of compound tariff rates, and quite often uses export duties, limited import tariff rate quotas and similar measures. The economy also has a high level of state involvement in the economy, with strong control powers. Even though there is a stated policy to de-bureaucratise and deregulate the economy, the current financial crisis has ensured that strong government intervention remains the norm. In investment, Russia maintains several deviations from national treatment and the MFN principle. There are significant barriers to foreign ownership and to the form of doing business in Russia for outside companies, for example in the banking and insurance industries. In the natural resources sector there is strong market concentration, with very significant entry barriers. Russia has identified a number of key private and state-owned enterprises as “strategic corporation” and has limited foreign ownership in these entities. The automobile industry is also protected with high tariffs. A further problem recognised by government is that a special law regarding state immunity in cases of legal disputes is yet to be adopted.

In the move towards its reform goals, Russia has been keen to emphasise the role that APEC membership can play as a component of its reform program, and has identified a number of areas in which it believes it has played a particular role in supporting key APEC objectives:

- In trade, Russia believes it has cooperated closely with other APEC members to enhance two-way flows, particularly in the area of trade facilitation.
- Russian proposals on the creation of an e-government procurement system and the establishment of a paperless trading hub have been well received within APEC.
- As one of the largest gas and oil suppliers in the world Russia has been at the forefront of discussions about the creation of a more secure, diversified and integrated energy system in the Asia Pacific region.
- Environmental protection is an area of great concern within APEC and Russia stresses that has tried to make a strong contribution here. The achievement of national targets for energy efficiency – with the aim of reducing power consumption per unit of GDP by 40 per cent between 2007 and 2020 - are seen an important contribution to these broader international efforts.
- Russia believes that the economy has a very large potential as a food producer and that it can play a major role in reducing food shortages and prices in the region.
- Russia has correctly pointed out that close cooperation between the state and the private sector has been one of the hallmarks of the spectacularly successful development model that has emerged within Asia. Within Russia, as we have seen, the state sector has been and remains a vital part of the economy. Given that in response to the economic crisis governments in every economy have been obliged to assume a leading role in stimulating and managing the economy, and that many of the old assumptions about the effectiveness of unfettered free markets, a new debate has been initiated on the appropriate role of the state as an economic actor and in particular as a regulator. Russia is well placed to contribute to this discussion, both within APEC and in the global fora.

## 2. INTRODUCTION

Five key issues dominate the current debate about the Russian economy, its management and future directions, and all of these questions have a profound impact on the ways in which Russia is approaching its relationships with other members of APEC and its ability to meet the Bogor goals. First, and perhaps most fundamentally, Russia is attempting to create a ‘new economy’: one that is based more on the market, is less constrained by overbureaucratisation and unnecessary control, but is most importantly more productive, technologically sophisticated and internationally competitive. Secondly, the economy still rests upon a dangerously narrow export base. More than 80 per cent of export income is currently derived from only three major products - petroleum, gas and metals – with the oil and gas industry alone responsible for more than 68 per cent of the total. Thirdly, while the need to meet its APEC commitments has provided some incentive to accelerate the economic reform process, much more significant have been the negotiations for Russia to become a full member of the World Trade Organisation. Fourthly, Russia is faced with a significant problem of wide disparities in development and living standards between its various far-flung regions. Of particular interest to APEC are the efforts being made to develop the Russian Far East, which of course borders the Pacific Ocean as well as a number of individual APEC members. Fifthly, the current financial crisis has hit Russia particularly hard and the government programs to mitigate these impacts and lift the economy out of recession will have major consequences for the management of the economy, in the short-term as well as from a longer perspective.

### *Creating a ‘New Economy’*

Recently Russia has been involved in an intensive effort to prepare a comprehensive development plan through to 2020, addressing the basic underlying problems seen to be holding Russia back, and in particular focussing on the creation of a new kind of economy. In the last 10 years the economy has grown very healthily (Table 1), thanks largely to the rapid rises in the prices of oil and gas. However in a speech to the State

Council Prime Minister Vladimir Putin has outlined some key problems as he sees them – some of which are longstanding and others which resulted from “the chaos, economic ruin and breakdown of the old system in the 1990s” - and enunciated some priority targets, which have been developed in the first year in office of President Medvedev:

- The economy is overly dependent on the export of energy resources, and while there is nothing wrong in utilising these exports there is an urgent need to diversify the economy as a whole and the export base by creating the basis for economic activities based on higher technology and more innovative development. This will involve massive investments in the education and training systems and greater attention to research and development activities especially in the private sector, building on the existing strong scientific base in the universities and a range of scientific organisations.



**Table 1: Basic Economic Indicators of the Russian Federation**  
(1998 – 2008, per balance of payments methodology)

	1998	1999	2001	2003	2005	2006	2007	2008
Real GDP growth	-5.3	6.4	5.1	7.3	6.4	7.7	8.1	5.6
Gross Fixed Capital Formation growth	-12.4	6.4	10.2	13.9	10.6	18.0	21.1	10.0
CPI Inflation (Dec. / Dec.)	84.5	36.6	18.6	12.0	10.9	9.0	11.9	13.3
Unemployment (ILO-type measure, end year, percentage of labour force)	13.2	13.0	9.0	8.6	7.6	7.2	6.1	6.4
Exports of Goods (USD billion)	74.4	75.6	101.9	135.9	243.8	303.6	354.4	471.6
Imports of Goods (USD billion)	58.0	39.5	53.8	76.1	125.4	164.3	223.5	291.9
Current Account (USD billion)	0.2	24.6	33.9	35.9	84.4	94.3	76.2	98.9
- as % of GDP	0.1	12.6	11.1	8.3	11.0	9.7	5.9	5.6
Budget Balance (federal Government, % of GDP)	-6.2	-1.0	3.0	1.7	7.5	7.4	5.4	3.0
CBR Gross FX-Reserves (USD billion, end of period)	12.2	12.5	36.6	76.9	182.2	303.7	478.8	427.1

**Sources:** OECD, MED of Russia, MoF of Russia, Central Bank of Russia (CBR)

- Life expectancy in Russia today is very low by the standards of modern economies – one in every two men does not live to the age of 60. As a result the Russian population has been in serious decline for a number of years and continues to fall. The aim is to stabilise the population in the next four years, and to raise the average life expectancy to 75 years by 2020. This will involve radical changes in the health system as well as the introduction of more effective family support policies. Improvements in housing conditions are also urgently needed.
- Disparities in incomes – currently around 15-fold - are far too wide, and need to be bridged by creating far better educational and career development paths. By 2020, Mr. Putin believes, the middle class should constitute some 60-70 per cent of the total. Wages at all levels need to be improved, and support for pensioners and disabled people must be increased.
- Low labour productivity is a continuing problem in all parts of the economy. Production facilities must be modernised, the quality of human capital increased and management skills improved. A particular need is to improve the efficiency of energy use.
- New sectors in which Russia can be competitive on the international market need to be identified and nurtured. The high technology areas in which Russia appears to have some comparative advantage include aircraft manufacture, shipbuilding and energy.

- The national infrastructure must be improved – a key requirement in such a vast economy. Roads, railways, ports and airports are all being improved, along with the communications system.
- A key need in the modern economy is to create an effective, well run and properly regulated financial system – something that has been brought home to us in recent months. Mr. Putin has articulated the aim of making Russia on the key global financial centres – something which he argues is appropriate given Russia’s very large gold and foreign currency reserves – and this includes enhancement of the role of the rouble in international transactions.
- Market institutions must be developed along with the creation of a competitive environment, providing the basis for many other kinds of developments. Central here will also be the encouragement of small and medium enterprises and the promotion of ongoing learning and professional training.
- The achievement of all of the goals will require the creation of a more effective system of public administration. Currently some 25 million people, or more than one-third of the labour force, are employed at various levels in the state system, but it is “weighed down by bureaucracy and corruption and does not have the motivation for positive change, much less dynamic development”. A key need is to overhaul and simplify the tax system to minimise the possibilities for arbitrary interpretations of the law, and this will also involve some fundamental modernisation of the overall judicial system.
- An effective regional policy needs to be implemented to deal with the increasing economic and social disparities between different parts of the economy. This must include new social and economic development centres in regions such as Siberia and the Far East.

Mr. Putin has clearly recognised that this is an ambitious plan and that it will be difficult to attain all of the targets, but he has emphasised the absolute importance of moving in these directions:

Yes this is the more complicated road. It is a more ambitious undertaking and it requires the state, the business community and the whole of society to make the utmost effort, but we really do not have a choice. What choice can there be between the opportunity to become a leader in economic and social development, a leader in ensuring our national security, and the threat of losing our economic standing, losing our security and ultimately even losing our sovereignty?

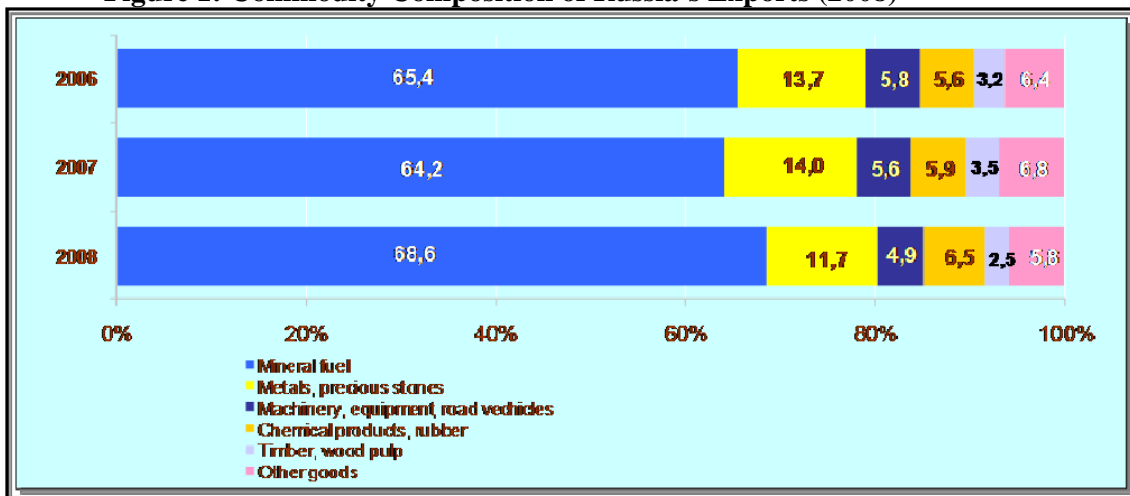
### ***Diversifying the Export Base***

The dangers of relying on such a narrow export base have been highlighted in recent months as the price of oil has fallen dramatically. As is clearly demonstrated in Figure 1 this reliance on mineral fuels is extreme. The composition of imports shows a much more balanced picture (Figure 2), and it is this kind of balance that is now sought in exports.

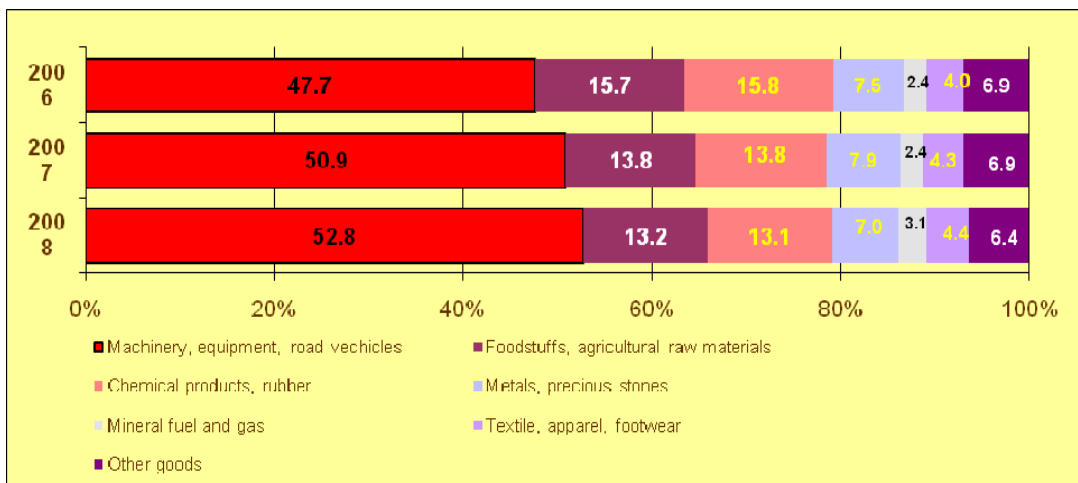
Three major strategies have been introduced in an attempt to promote a wider range of export sectors: the promotion of new growth industries, the identification and fostering of new markets, and the enhancement of support services for exporters.

The development plan to the year 2020 introduced earlier identifies a series of sectors that will be given special support, either because of their particular export potential or because of their strategic importance to the Russian economy and society. Included here are the aviation and space industries, shipbuilding, defence armaments, nuclear power construction, information technology, nanotechnology, automobile construction, agriculture and food production, and the machinery industries. Each of these growth sectors will be supported in the long term through a set of integrated industrial policies.

**Figure 1: Commodity Composition of Russia's Exports (2008)**



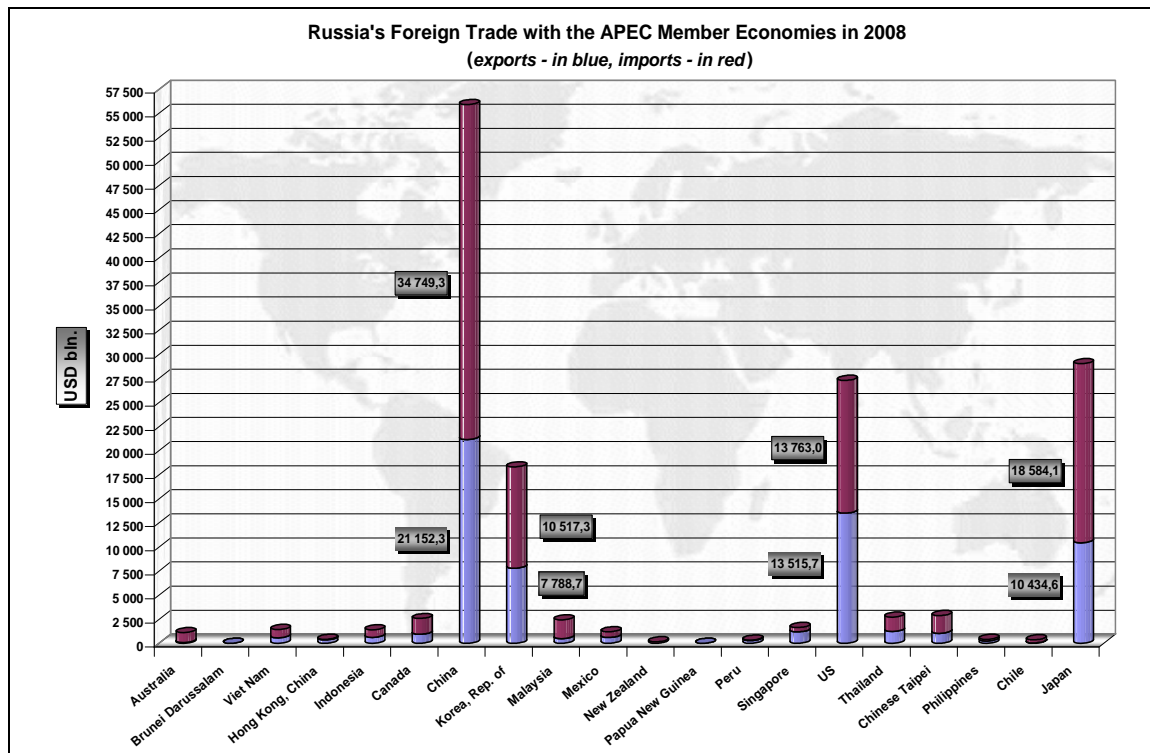
**Figure 2: Commodity Composition of Russia's Imports (2008)**



At present Russia's exports are also concentrated into a number of key markets, and efforts are being made to develop new outlets. The European Union currently accounts for more than 52 per cent of all exports, while just over 20 per cent go to APEC economies, and 14.5 per cent are destined for the other economies of the Commonwealth of Independent States (CIS). In total, more than 65 per cent of exports go to OECD economies. In identifying potential new export markets the APEC economies are being given particular priority. At present Russia has significant trade with China – which for the first time has just become Russia's number one trading partner - the United States, Japan and South Korea (Figure 3), but the goal is to broaden the market into the rest of the region. Meeting this target will involve close attention to a number of transport and other infrastructure issues. Russia aims to build up its role as a land bridge between Asia and Europe but this will involve significant investments in intermodal connections and container handling systems. Options for the development of transpolar connections are also being examined.

Significant resources are also being devoted to support for Russian exporters. In 2009 around \$US 1 billion will be provided as state guarantees through the Russian Export Import Bank, while the Bank for Development and Foreign Economic Affairs (Vnesheconombank) will organise state insurance of export credits. A further \$US 240 million will be given as

**Figure 3**



partial compensation of interest rates on export credits. In all of these programs special attention will be given to the needs of small and medium enterprises.

**Negotiating WTO Accession**

In discussions on all aspects of Russia's economic reform program, officials have stressed the importance of WTO negotiations in helping to change the Russian approach to a wide range of policy and legislative issues. Since 1995 when the WTO established a Working Party on Russian accession, Russia has been negotiating with WTO members at various levels. Some 30 working groups have been in operation, and bilateral negotiations have been successfully concluded on goods and services with all Working Party members. There are a few problems still to be resolved on systemic issues, including agriculture. However, as will be clear in the discussion of individual issues below, Russia's progress towards meeting the Bogor Goals has been considerably enhanced through this WTO negotiation process.

### ***Ameliorating Regional Disparities and Developing the Russian Far East***

As was noted above, a major target for Russia is to reduce existing disparities in living standards between the regions of the Russian Federation. As was discussed in a recent article by Michael Bradshaw (2008) there is a clear need for the Russian government to intervene more to support some of the ailing regions of the Federation. Bradshaw has suggested that regional planning in Russia has passed through three major stages of development. First, during the Soviet period there was a direct concern with particular industrial sectors of the economy, and the regional dimensions of the resultant economic system was of only minor concern. However it is true that the economic geography of the Soviet period saw a much more dispersed pattern of settlement and economic activity than would have been the case under a market system. One consequence was that the growth of the largest cities was somewhat inhibited, and a whole tier of larger cities is almost absent in the national hierarchy of urban centres, with serious consequences for the modern economy and the government's attempts to develop a more modern and innovative system. Secondly, following the collapse of the Soviet Union the period of "transitional recession" saw some attempts by local governments to diminish the influence of Moscow over the local economy, but the inheritance that each region received from the Soviet era was still a dominant influence, and the boom in oil and natural gas skewed the economy in a particular direction – one that did not benefit local industries and in particular small and medium enterprises. Thirdly, in the modern period a new kind of political economy is emerging, one that Bradshaw characterises as a "dual economy". Large incomes have been derived in recent years from resource development in outlying regions but these finances have generally flowed to the headquarters of the companies involved in the largest cities, and to Moscow in particular, resulting in the expansion of consumer oriented industries. Thus, while most resources are produced in the peripheral regions, the income pattern is very much to the benefit of central regions of the spatial economy. Thus the Central Region, which includes Moscow now constitutes on 3.8 per cent of the national territory, but has 26 per cent of the total population, 34 per cent of the gross regional product and draws in 54 per cent of the imports. Also, Bradshaw suggest, the re-nationalisation of many of the resource industries has reinstated the level of central control that characterised the Soviet period, with potentially serious consequences for the regions, and the more remote ones in particular. The

challenge for Russia – and one which as we have seen it seems determined to address – is to reduce the income gaps between regions and support the most vulnerable regional economies.

Of particular interest to the member economies of APEC are the ambitious plans to develop Siberia and the Russian Far East, part of which include the hosting of the APEC Leaders' meeting in Vladivostok in 2012. The strategy for the Far East is based on the need to increase living standards, and the aim is to harness the natural and geographical advantages of this vast region. The development of the region's infrastructure and integrating it more closely with the European part of the economy will be an essential first step. Improved transportation links with neighbouring economies such as China, Japan and Korea area also needed. These will allow - Russia hopes - more scope for trade and for joint industrial ventures on Russian territory. The sparse population of the Far East – currently only 7 million Russians live in this very large region – is seen as a major handicap, but given the declining national population it would appear difficult to attract people from other parts of the economy. Efforts will need to be made to at least hold on to the current population. This will involve investments in regional job creation and in human resource development. The construction of the complex that will host the APEC Leaders' meeting and will then become a new regional university is one part of the strategy.

### ***Dealing with the Current Financial Crisis***

The financial crisis has had a particularly harsh impact on Russia. Russia ended 2008 with its 10<sup>th</sup> straight year of strong growth, with an average of 7 per cent expansion annually. Growth in investment and in personal incomes was rapid during this decade, and poverty levels declined significantly. Thanks largely to the high prices of oil and gas Russia was able to improve its international financial position significantly, running strong surpluses. Particularly significant was the creation of two sovereign wealth funds valued at some \$US 300 billion. A Reserve Fund was established to support the budget in case of declines in the price of oil, and a National Welfare Fund was set up to fund infrastructure development and pensions. Foreign reserves increased to \$US 597 billion in August 2008, the third largest in the world. However, since then declines in the price of oil and the more general impact of the crisis have eroded this strong position. The Russian stock market has declined by around 70 per cent, and significant foreign currency reserves have been used to defend the value of the rouble.

A recent report by the World Bank (2009) has explored the impact of the crisis in more detail. It shows that in December 2008 industrial production declined by some 10.3 per cent compared to a year earlier, followed by falls of 16 per cent in January and 13 per cent in February 2009. Total fixed capital investment fell by 2.3 per cent (year-on-year) in the fourth quarter of 2008 largely in response to the liquidity crisis in the financial sector. Virtually all sectors of the economy have suffered declines. The construction sector contracted by 18.8 per cent in January – February 2009 compared with the previous year. Manufacturing industry declined sharply in late 2008, and the World Bank predicts even sharper falls in 2009. Overall, manufacturing output in January 2009 was 24.1 per cent lower than a year earlier, with particularly rapid falls in electro-technical and optical equipment (- 46.6 per

cent), other non-metal products (- 33.3 per cent) and transport and transportation equipment (-31 per cent). As a result, real incomes have dropped sharply as unemployment has grown. Real disposable income dropped 5.8 per cent (year-on-year) in the fourth quarter of 2008 and 10.2 per cent in January 2009. The Russian labour market is a relatively flexible one; therefore the pressures resulting from the crisis have resulted in declines in wage rates as well as increases in unemployment, spreading the costs more evenly throughout the population than would be the case in more rigid labour markets. Even so, the World Bank expects unemployment to increase by some 2.7 million people in 2009, with particularly severe impacts in the manufacturing, construction and retail sectors. Particularly worrying, the Bank suggests, is that the number of people in poverty will grow by 2.75 million, wiping out the gains in reducing poverty in the last few years. The rural population seems to be particularly vulnerable here: in many rural areas many incomes are in any case close to the poverty line, increasing the vulnerability to any deterioration in economic conditions. Pensioners are also likely to be affected very seriously.

In response, Russia has put in place a 10 trillion roubles (nearly \$US 300 billion) anti-crisis package. In part this is designed of course to deal with the immediate impacts of the crisis on various parts of the economy, but significantly this very large investment is also being used to move towards the goals outlined in the 2020 development plan. Thus, as in a number of other economies the crisis is being used to stimulate large scale investment in projects of high national priority. The major components of this crisis amelioration and accelerated investment package include support for the banking sector – involving loans to individual banks and the enhanced funding of a deposit insurance agency – assistance to the financial markets to encourage the flow of credit, reduction of tax rates, development of a range of employment support programs, special loans for small businesses, assistance to the housing market, and loans to specific sectors such as retail services, agribusiness, automobile manufacturing and air transport. But it is the harmonisation of the crisis amelioration program with the broader structural goals that is of most significance in the longer term. These initiatives include:

- Enhancement of the social welfare and health systems, with the long term goal of increasing life expectancy.
- Increasing support for labour market stabilisation programs, upgrading unemployment benefits and expanding retraining services with the aim of improving labour productivity.
- Upgrading the educational system and giving greater financial support to students.
- Supporting small and medium enterprises, and in particular allowing them to become much larger employers of labour.
- Programs to make staple goods, particularly food, more plentiful and at cheaper prices, partly through greater competition in the retail industry.
- Policies to speed up the process of structural change allow the orderly closure of unviable enterprises – including financial and retraining support for displaced workers - and encourage the emergence of more competitive industries.

- The selection of priority investment projects that are based on enhanced technologies and are likely to be internationally competitive, and the provision of seed funds and loans for these new activities.
- A range of measures to encourage energy efficiency in all parts of the Russian economy.
- Policies to modernise the agricultural sector.
- Assistance for the development of the automobile industry.
- Investment in the modernisation of the defence industry.
- Support for industrial modernisation across a number of sectors.
- Investment in improved rail systems, especially for freight.
- Support for the housing construction industry and for some mortgage holders.
- A range of measures to reduce administrative measures on businesses, policies also aimed to prevent interference in business affairs by corrupt bureaucrats.
- Policies designed to reduce the cost burdens on the private sector, and especially small businesses. Power costs have been reduced, and a 20 per cent quota has been established for small business in all state and municipal contracting entities. Special support systems have been established for small business in the more backward regions.
- Measures to support the stability and long-term development of the financial system. These include efforts to fight the dollarization of the economy and increase trust in the rouble as a savings tool.
- An overhaul of the whole system of macroeconomic management to enhance stability, reduce inflation and reduce government deficits.
- A new set of regional policies that will include support for regional budgets and for efforts to increase regional employment, industrial development, human resource enhancement, health system upgrading and housing improvements.

The World Bank has been broadly supportive of the scale and focus of the early responses by Russia to the crisis but has argued that more attention may now need to be given to support for households and family income. The early focus was certainly in the banks and the financial sector, and in particular supporting and strengthening the financial sector and providing fiscal support for economic enterprises. As the crisis spread from the financial sector into the real economy policy focus has inevitably moved in this direction as well. Support for the real economy through tax cuts and direct financial support has been concentrated on 295 strategically important and 1148 regionally important enterprises. In all some 276 billion roubles (US\$ 8.1 billion) from state budgets and a further 300 billion roubles (US\$ 8.5 billion) in state guarantees will be made available to these firms. The Bank has argued that this list of firms may be too large to give a proper focus to the assistance, and has criticised a lack of transparency in the allocation process. Also the focus seems to be on large established firms in traditional sectors, with much less help available for smaller companies and for those seeking to establish themselves in newer and more innovative industries. Also now may be the time, as the impact of the crisis deepens and broadens, to concentrate more on cushioning the impact on the poor and vulnerable. Russia announced in



March 2009 that a special policy priority would be to emphasise social protection but, the Bank argues, there may be a need to channel more money directly to the most vulnerable households through increased low-end pensions, child allowances and unemployment benefits.

In summary, the pursuit of these five key policy objectives has significant implications for the ways in which Russia is approaching the process of economic reform, both in general terms and in specific areas, and it is these more specific reforms that provide the focus for the rest of this report.

### 3. OVERVIEW: RUSSIA'S APPROACHES TO REFORM

The key policy issues discussed above are essential to an understanding of Russia's stance on a whole series of reforms, but it is also vital to stand back and examine Russia's policy positions on a number of proposals for global reform, and to understand how these broader perspectives interact with the local policy agenda.

One interesting development in the last few years has been the emergence of a group of so called "developing economies", and particularly important has been the rise to prominence of the loose grouping of four emerging powers – Brazil, Russia, China and India – often referred to as BRIC. This grouping and its acronym were first discussed in 2003 in a report by the US financial firm Goldman Sachs (Wilson & Purushothaman, 2003), and since then a number of more detailed publications have explored its workings, aims and further development (for example, Goldman Sachs, 2007). This is clearly a rather diverse collection of economies, but as Andrew Hurrell (2006) has noted they do have some important common features and basis for concerted action:

- They all have at their disposal a range of economic, military and political resources that enhance their power and standing in the world.
- They are all involved in various attempts to reform the international order, regionally and globally, and have the resources to play significant parts in these dialogues.
- They all have some important degree of internal cohesion and capacity for effective state action.
- They all share a belief in their entitlement to play a more prominent and influential role in world affairs, and their growing power gives credence to these claims.
- While BRIC is far from being an institutionalised grouping there are growing levels of interaction and cooperation.

In what is being seen as an increasingly multi-polar world this challenge to the existing power structures is very important. For example, BRIC Finance Ministers met at the time of the G20 meetings in London and issued a joint communiqué on policies to deal with the global financial crisis. More importantly, a BRIC Summit was held in Russia in June this year, and ideas for a new world reserve currency were among those discussed.

This is not the place to develop a detailed discussion of these interesting developments in the global system, but it is important to mention some of the implications for the future policy agenda in Russia. The place of Russia within the grouping is particularly interesting. For a number of years after the collapse of the Soviet Union, Russia's standing and power were in decline, but more recently there has been a dramatic turnaround. Russia is now seen as very much an emerging power alongside the other members of BRIC, and like them, the Russian government sees that role of the state in setting and implementing the national agenda as absolutely central. Since the end of the Yeltsin period state power has been clawed back from the regions and from the coterie of very rich businessmen generally referred to as the "oligarchs" (Lane, 2008; MacFarlane, 2006; Robinson, 2008; Sakwa, 2008). This centralisation of power in the hands of the state is of enormous importance in

understanding the directions of the reform process. Like many Asian economies that used state power and co-ordination to achieve rapid development, Russia and the other BRICs have moved decisively away from what became known as the Washington Consensus in their policy formulations, a stance which now appears much less radical given the blow to the credibility of neo-liberal position by the financial crisis.

In the last peer review of Russia's IAP the overall conclusion was that considerable progress had been made in liberalising the economy, and that these advances had been the result of three major processes: the negotiations for WTO accession; the progressive development of free trade arrangements within the CIS and the Eurasian Economic Community; and the voluntary liberalisation that has taken place as a result of APEC membership. Our overall conclusion is that while a good deal of work still remains to be done a laudable amount of further progress has been achieved, and the three major drivers of reform are still very relevant. But it is also clear, as outlined above, that both the international environment and the internal policy priorities have changed markedly since the last report and this is having a great deal of influence on how Russia is now approaching the tasks of reform and liberalisation.

However, Russia is quick to recognise that while that are confronted with a new international environment many of the old internal problems remain. Russia remains a relatively closed economy in terms of both trade and investment. In particular, targets for attracting foreign investment have not been fully met, although there have been some successes. Similarly, while there has been significant liberalisation of trade policy there is still much more to be done, as will be outlined below. The trade-weighted average tariff rates were reduced from 17.7 per cent to 10.0 per cent between 1996 and 2007, but Russia still has relatively few duty-free tariff lines, makes relatively frequent use of compound tariff rates, and quite often uses export duties, limited import tariff rate quotas and similar measures. The economy also has a high level of state involvement in the economy, with strong control powers. Even though there is a stated policy to de-bureaucratise and deregulate the economy, the current financial crisis has ensured that strong government intervention remains the norm. In investment, Russia maintains several deviations from national treatment and the MFN principle. There are significant barriers to foreign ownership and to the form of doing business in Russia for outside companies, for example in the banking and insurance industries. In the natural resources sector there is strong market concentration, with very significant entry barriers. Russia has identified a number of key private and state-owned enterprises as "strategic corporations" and has limited foreign ownership in these entities. The automobile industry is also protected with high tariffs. A further problem recognised by government is that a special law regarding state immunity in cases of legal disputes is yet to be adopted. The clear aim here is to ensure protection of the national interests and at the same time develop the conditions for the creation of a predictable and transparent business climate for foreign investors.

Distilling some of the major elements from the discussion in the previous section of this report, a series of major priorities and overall policy approaches to reform can be identified. The government's philosophy stresses the imperatives of modernisation, while at

the same time trying to create a healthier, more inclusive and egalitarian society as well as a more skilled and productive labour force.

Clearly the most critical item in the modernisation agenda is to reduce the dependence on oil and gas and create a more innovative, productive and technologically advanced set of economic activities. The further development of Russia's considerable energy resources will remain central to the economy, and the revenues generated will be essential for providing investment in new areas of activity (Rutland, 2008), but the clear aim is diversification. As has already been noted, this will involve large investments in education, human resource development as well as in infrastructure and the nurturing of new priority sectors in which Russia can establish international competitiveness. But the government is at pains to stress that it will not waste its financial resources trying to prop up old uncompetitive activities. Indeed, the financial crisis provides an opportunity to weed out unviable concerns, although mechanisms need to be in place to look after and retrain displaced workers. Similarly, Russia has stressed that the crisis must not be used as an excuse to give up or delay long-term priorities for restructuring and modernisation. Thus, as we have seen, the anti-crisis package put in place by the Russian government contains many measures to support these longer term priorities rather than simply dealing with immediate problems. The crisis has also illustrated the dangers of over-reliance on external demand, and a major priority at the moment is to stimulate domestic demand for both goods and services, and ensure that this becomes the foundation for post-crisis recovery. The development of a more modern and stable financial system is also critical, allowing credit to flow more easily and efficiently. Similarly, it is recognised that improvements in macro-economic management must be made. A further problem, and one which goes back to the old Communist system, is the high level of centralisation both in terms of the role of the state in the economy and high degree of concentration of key economic activities in a few core geographical regions of the Federation.

The development of a more inclusive and egalitarian society with a higher standard of living, better education, improved housing conditions, easier access to modern health services and with much enhanced levels of productivity is also an overarching priority in the design of the reform program. These priorities are of course also essential to the achievement of the key modernisation goals such as the development of a more innovative industrial sector and the enhanced role of domestic demand.

In the move towards these key goals, Russia has been keen to emphasise the role that APEC membership can play as a component of its reform program, and has identified a number of areas in which it believes it has played a particular role in supporting key APEC objectives:

- In trade, Russia believes it has cooperated closely with other APEC members to enhance two-way flows, particularly in the area of trade facilitation.
- Russian proposals on the creation of an e-government procurement system and the establishment of a paperless trading hub have been well received within APEC.
- Important contributions have been made to APEC discussions of the key issue of energy security in the region. There are general concerns about fluctuations in

energy prices, and as one of the largest gas and oil suppliers in the world Russia shares these worries. Russia has been at the forefront of discussions about the creation of a more secure, diversified and integrated energy system in the Asia Pacific region.

- Environmental protection is an area of great concern within APEC and Russia stresses that has tried to make a strong contribution here. The achievement of national targets for energy efficiency – with the aim of reducing power consumption per unit of GDP by 40 per cent between 2007 and 2020 - are seen an important contribution to these broader international efforts.
- Russia believes that the economy has a very large potential as a food producer and that it can play a major role in reducing food shortages and in stabilising food prices in the region.
- Russia has correctly pointed out that close cooperation between the state and the private sector has been one of the hallmarks of the spectacularly successful development model that has emerged within Asia. Within Russia, as we have seen, the state sector has been and remains a vital part of the economy. Given that in response to the economic crisis governments in every economy have been obliged to assume a leading role in stimulating and managing the economy, and that many of the old assumptions about the effectiveness of unfettered free markets, a new debate has been initiated on the appropriate role of the state as an economic actor and in particular as a regulator. Russia is well placed to contribute to this discussion, both within APEC and in the global fora.

## 4. INDIVIDUAL ISSUE AREAS

### 4.1 Tariffs

It was noted in the last IAP Peer Review that Russia has made considerable progress in reforming its tariff structures but that there is still some way to go to meet the Bogor goals in this area. The situation is very much the same in 2009, but the influences on the Russian government from a variety of policy priorities, often producing contradictory pressures for change in particular directions, are even more complicated than they were five years ago. This is an area in which there is considerable scope still for reform, but a range of policy targets as well as the harsh realities of the current situation, and in particular the impact of the current global financial crisis, make decisions in this area very problematic.

At a general level a number of government policy statements have recognised that the creation of a modern, innovative and internationally competitive economy - a key policy goal discussed above - requires the development of improved market institutions and a more competitive business environment that will encourage companies to cut costs and modernise their production facilities and be more responsive to changing demand. However, as was also noted earlier, Russia is attempting to diversify its export base and encourage the emergence of new, internationally competitive manufacturing industries in particular. Thus in some areas continued tariff protection is seen as essential for some emerging infant industries, at least for the time being. The government also sees that in its program to improve national health standards and to reverse the alarming national population decline through improvements in average life expectancies, improved food supplies with enhanced nutritional qualities need to be achieved. This entails a dramatic modernisation of the local agricultural base, and to give time for this to be achieved continued protection is needed for Russian farmers. Also, as was again noted in the last IAP Review, revenues from tariffs remain an important component of government finances, and this has become an even more pressing concern at a time when large amounts of money are being put into a variety of support and stimulus packages to ward off some of the even more damaging impacts of the financial crisis. This is also seen as a time when economies need the capacity to respond quickly to changing policy demands; hence the Russian authorities used their legal rights to utilise tariff policy as part of the response to external challenges. For some time Russia has been reluctant to embrace the principles of bound tariffs, but as in many other areas the situation is in the process of being changed dramatically in order for Russia to meet the requirements of WTO accession. Overall it is undeniable that at present tariffs are still relatively high by the standards of most developed economies, a situation which has occasioned some adverse comments from other APEC member economies.

The tariff system is governed by Federal Law No. 5003-1 of May 1993 "On Customs Tariff", last amended in November, 2006 and the Customs Code of the Russian Federation (Federal Law No. 61-FZ of May 2003). Import tariffs are now based on the 2007 Harmonized Commodity Description and Code System of the World Customs Organization. However the basic features of the system are in fact little changed in the last 5 years. The customs tariff consists of 11,154 lines, and of these 9,209 (82.6 per cent) are subject to *ad valorem* tariffs,

while a further 1,945 (17.4 per cent) face combined or mixed tariffs, and a further 303 (0.3 per cent) are subject to specific tariffs. Most of the mixed tariffs are applied to agricultural items such as meat, butter, cheese, preserved salmon and shrimps, caviar, and to a range of manufactured goods where the government is seeking to protect local producers in areas such as footwear, apparel, home electronics, cars and furniture. Similarly specific tariffs are applied to items such as apples, chocolate, beer, and strong alcoholic beverages. This tariff structure is similar to that outlined in the previous IAP, however the number of zero rate tariff lines has increased substantially, from 0.5per cent to 9.5per cent.

A key example of the use of tariffs as an instrument of industrial policy is provided by the automobile assembly industry. In its attempts to modernise its economy and diversify its export base this sector is of particular importance to Russia. The Russian car market is currently the most rapidly growing in Europe, and there seems to be great scope for export into Eastern Europe and beyond. In March 2005 the Government Decree “Concerning Amendments to the Customs Tariff in Respect of Automobile Parts Imported for Industrial Assembly” permitted companies that have concluded investment agreements and are engaged in the industrial assembly of automobiles to import parts into Russia duty-free or at a rate of 3% (instead of usual 15%) for a certain time period after establishing local assembly plants. So far 53 agreements have been signed between the Ministry of Economic Development and leading world producers of passenger cars and spare parts on the construction of assembly facilities in the Russian Federation. Increases in tariff levels on imported new vehicles, a measure designed to stimulate local production, are still as low as 5%. The government argues that these initiatives were directed at countering the significant stimulus packages available to the major foreign car-producers, and to maintain employment rather than creating trade barriers, and does not consider them as an impediment to the process of achieving the Bogor goals. Also, this same decree resulted in the reduction of some tariffs. In particular, cars meeting high ecological standards (manufactured in compliance with “Euro-4”) not produced in Russia were allowed in at reduced rates. For similar reasons tariffs on older second-hand motor vehicles were increased to reduce the impact of such ecologically damaging vehicles. All of these measures are non-discriminatory and have been introduced temporarily (for a period of 9 months only) and will be subjected to review and revision by the government.

Russia also imposes a number of export duties, particularly on oil related products, some metal related products and on logs. While the elimination of such tariffs is part of the Bogor goals, these measures can be justified in a number of ways. In the case of logs, for example, a major aim has been to reduce the environmental impact of illegal logging, especially in Siberia, and to create a higher value-added local industry in manufactured wooden products. Similar arguments about the creation of local industries have been put forward in the case of some metal products. In any case such measures are seen as only temporary, and as of January 2009 export duties on copper cathode and nickel were removed.

As part of the process of preparing for WTO accession, there was in 2000 a substantial overhaul and simplification of customs duties. Tariffs for nearly all categories of goods were grouped under broader headings - raw materials, semi-finished products, finished products, and foodstuffs - with duty levels of 5, 10, 15 and 20 per cent respectively. Other key aims here were to minimise corruption and improve the effectiveness of the customs payment system. More recently, to support the key aim of modernising the economy and improving levels of efficiency, duty rates on advanced technological equipment not produced in Russia have been reduced substantially. In 2008 alone 50 such decisions were made by the government.

Basic statistics on the tariff system in 2007 are shown in Table 2. As can be seen, the percentage of tariff lines that are duty free is quite small by developed economy standards – 10.5 per cent of non-agricultural products and only 5.3 per cent for agricultural items. The

**Table 2**  
**Tariff Summary, 2007**

	Average applied tariffs	Duty free lines as % of all lines
Electrical machinery	8.9	21.6
Non-electric machinery	4.6	56.2
Transport equipment	10.7	7.6
Mineral product, metals	10.3	3.1
Chemicals	7.0	1.6
Leather, footwear, rubber	10.9	1.7
Textiles, clothing	16.3	0.1
Wood, paper	15.3	4.9
Petroleum	4.5	10.0
Other manufactures	13.6	10.1
<b>Non-agricultural products</b>	<b>13.6</b>	<b>10.5</b>
Fish, fish products	12.8	0.8
<b>Agricultural products</b>	<b>14.6</b>	<b>5.3</b>
<b>All goods</b>	<b>11.0</b>	<b>9.5</b>

(Source: WTO statistics)

average applied tariff is 11.0 per cent, with a range from 4.5 per cent for petroleum and 4.6 per cent for non-electric machinery to 14.6 per cent for agricultural products and 15.3 per cent for wood and paper items. By far the most duty free lines are to be found in the machinery categories, reflecting the policy decision to allow in freely all items needed for the modernisation of the Russian economy. The statistics on tariff dispersion are shown in Table 3. This demonstrates that a large percentage of goods (40.3) are allowed into Russia duty free or with a tariff below 5 per cent. However, 29.7 per cent of lines are above 10 per cent, with 2.6 per cent being above 20 per cent. Also, 14.7 per cent of all total tariffs are in the



combined and specific category, reflecting in particular a desire on the part of Russia to protect local industries and encourage processes of structural change and export diversification.

As is discussed in more detail below in the section of the report on FTAs and RTAs, Russia has developed free trade arrangements with all of the other economies making up the Commonwealth of Independent States (CIS), and has been instrumental in the establishment

**Table 3**  
**Tariff Dispersion Statistics, 2007**  
(%)

Percentage of tariffs at or between	Agricultural products	non-agricultural products	All goods
0	5.3	10.3	9.5
0-5	33.7	33.5	30.8
5-10	10.8	15.9	15.3
10-15	31.7	19.9	20.2
15-20	9.4	16.6	6.8
20+	n.a.	n.a.	2.6
Combined & specific	9.1	1.8	4.7

(Source: WTO statistics)

of the Eurasian Economic Union. The framework of these arrangements is still being improved, and one of Russia's aims is to develop still further this system into a well functioning free economic area, but already goods originating from economies within this arrangement are exempt from duties. Goods from less developed economies also enjoy exemption from many tariffs. For less developed economies eligible for the Russian Federation's preference scheme tariffs are levied at 75 per cent of the MFN rates, while items from least developed economies enter Russia duty free.

Russia has made commendable efforts to improve the transparency of its tariff system, in line with APEC commitments in this area. All tariff regulations, plus any changes, are published on the internet sites of the Russian government and of the customs service. Since 1996 such information has been available in English in the quarterly bulletin of the All-Russia Market Research Institute (*VNIKI*) "Russia: Foreign Economic Relations, Trends and Prospects" in English. This presents the most up-to-date and comprehensive review of statistics, development and the legal position of Russia's foreign trade. A Russian-language version of the "Compendium of Opinions on Goods' Classification" was approved by the WTO in November 2002. The new commodity description and classification system based on HS 2007, which came into force on 1 January 2007, is available at the WTO Secretariat, in Russian, in electronic format. The Russian Federation has also provided such information to the Russian Federation's MFN partners and GSP recipients.

As can be seen, Russia has some way to go in meeting the Bogor goals in the area of tariffs. However, considerable progress has been made, and strong arguments can be made for the use of tariffs as part of the battery of policies that are needed to achieve the ambitious restructuring of the Russian economy that is now underway, particularly at a time of global financial turmoil. It is also clear that substantial reform will only take place when Russia finally accedes to the WTO, and the government is well prepared to meet its obligations once that happens.

#### 4.2 Non-Tariff Measures (NTMs)

Very few non-tariff measures are applied by Russia to either imports or exports. In line with recommended practice in this area, most NTMs have been converted to tariffs and, as we saw in the preceding section many of these tariffs will disappear in the foreseeable future, especially when accession to the WTO is achieved. As has already been noted, Russia has outlined a number of policy priorities in terms of restructuring and modernising the economy, but for the most part tariff measures are being used to move towards these goals rather than any forms of non-tariff measures.

On the import side non-tariff measures are currently applied to the import of a number of meats (poultry; frozen, chilled and fresh beef; and pork) in the form of a two-tier tariff (TRQ) limiting total annual imports. The amounts imported under this regime in 2006 and 2007 are shown in Table 4. This system is constantly under review and the government plans to progressively improve its operations over the coming years. No import levies, duties or

**Table 4**  
**Quantities of Meat Allowed Under TRQ Regime, 2006-2007**  
**(tonnes)**

Meat	2006	2007
Fresh and chilled beef	27,800	28,300
Frozen beef	435,000	440,000
Pork	476,100	484,800
Pork trimming	-	26,500
Poultry	1,130,800	1,171,200

charges (ODCs) within the meaning of Article II:1(b) of GATT 1994 are applied by the Russian government. The only restrictions which apply are those provided for under international conventions such as the Montreal Protocol or the Basel Convention or for the implementation of other measures justified under the WTO. As in many other economies, the Russian government licences and regulates the import of a range of items that for various

reasons are considered as sensitive. These include precious stones and metals as well as goods deemed to affect state security or the life and health of citizens, animals, plants or the environment generally: for example, radioactive materials, explosives, pharmaceuticals, military equipment, and information protection devices. Imports of ethyl alcohol and some strong alcoholic beverages exceeding 28 per cent by volume are also controlled by a licensing system.

Unlike many developed economies, Russia has not imposed any import limitations based on labor rights - such as ban on imports of goods produced by child labor – or based on any environmental issues.

On the export side NTMs are equally minimal. There are no export subsidies for Russian companies. Rather, as has been discussed above, exporters are supported by the government in a range of other ways, and in particular export financing schemes. Export regulation and licensing is in operation for much the same kinds of commodities as are controlled under the import regulations – goods such as radioactive material, explosives and firearms. There is also regulation of exports of alcoholic beverages, and fees are levied for companies given licences in this area. Russia has also concluded a number of voluntary export restraint agreements covering products such as steel and steel products, certain fertilizers, sports weapons, and nuclear materials, but as a common rule it is the intention of the government to terminate these as soon as WTO accession is achieved.

The mechanisms that have been used by the government to make available full information about tariffs and any changes in trade regulations have also been adopted for non-tariff measures. Thus all information is easily accessible in English as well as Russian.

In summary, non-tariff measures are not a significant part of Russia's trade regime, and such measures as do remain that conflict with WTO norms will be removed upon accession to that organisation.

### **4.3 Services**

As a number of commentators have noted, including the author of the last IAP Peer Review, in an economy such as Russia's making difficult transition from a centrally planned system, reform of the services sector represents a particular challenge. In that earlier APEC report particular problems were noted in a number of areas including: rules governing the licensing foreign investment; the general 'bureaucratisation' of many aspects of the regulation and administrative systems despite the declared aim to overcome these impediments: and doubts about the timing and full introduction of International Financial Reporting Standards (IFRS).

It has already been noted that Russia has launched a determined attack on corruption, inefficiency and over-regulation in all parts of the system. A number of new laws have been passed relating to the foreign investment regime, some of which are also discussed below in the section on foreign investment, but which have particular relevance for the services sector:

- In April 2008 a Federal Law was passed regulating foreign investment in economic areas that have special strategic importance for national security and defence, and dealing with changes in control of companies and organisations in these areas. Some 42 key activities were identified as being particularly important here.
- A Federal Law “On auditing activity” passed in December, 2008 provided for the abolition of the existing licensing system for auditing services and its replacement by a new self-regulatory body by 1 January, 2010
- A Federal Law “On patent agents” also introduced in December, 2008, established new regulation for patent agents, including requirements, definition of rights, duties and responsibilities, order of certification and registration. These new regulations also apply to all patent agents registered before 31 March, 2009.

These new laws were designed to increase of the transparency and predictability of the regulatory regime in the services sector in Russia.

As with so many other aspects of the Russian economy, WTO accession will be the key to further reform in this area. In a number of sectors Russia has agreed to review the discretionary foreign investment limit with a view to possible abolition of such rules. Commitments have also been made to provide greater market access for foreign companies in some strategically important service sectors, including in the key energy and telecommunication areas.

### *Sectoral Issues*

In the area of *financial services*, foreign banks cannot set up a direct branches in Russia but are able to provide banking services in the form of a subsidiary established in accordance with the Russian legislation. However this does mean that foreign investors are able to own all of the shares in such new commercial banks provided these banks are registered as legal entities in the Russian Federation, and will then be able to open bank branches. Alternatively foreign banks can operate through representative offices, but with clear limitations. According to the Federal Law “On banks and banking activity” a representative office of a credit organisation is assumed to be its isolated division located outside the location of the credit organisation, representing its interests and protecting them. A representative office of a credit organisation has no right to carry out banking operations.

Russia has agreed to offer, upon WTO accession, some liberalisation of the treatment of foreign bank subsidiaries allowing 100 per cent foreign ownership of some non-insurance Russian financial companies including banks and some securities companies. It will also allow foreign companies to own and trade the full range of securities, lead-manage the issue of Russian securities, and will consider bank branching upon joining the OECD or in the next multilateral round of negotiations, whichever comes first.

In the *insurance* sector, according to the current legislation, the maximum quota of foreign participation in the total capital of the insurance sector is limited to 25 per cent. This

is calculated as a percentage of the aggregate amount of capital in all insurance companies established in Russia. It is foreseen that upon WTO accession, Russia will provide a significantly enhanced level of market access and national treatment for foreign insurance companies, including 100% foreign ownership of non-life insurance companies. However, foreign participation could be limited if total foreign participation exceeds 50% (quota after accession). Limits on issuance of licenses to provide life insurance, reinsurance and retrocession of risks of life insurance, and some kinds of mandatory insurance services will be phased out five years from the date of accession. Nine years after accession, Russia will allow foreign insurance companies to open direct branches for life and non-life insurance, reinsurance, except for insurance of state procurement and mandatory insurance other than mandatory insurance of the civil liability of owners of cars.

In the *telecommunication services* sector, the Federal Law “On communications” has set in place a regime that is rather liberal with respect to foreign-owned telecommunication companies established in Russia. They may provide the whole range of telecommunication services and face no limitations on foreign investment. However Russia’s offer agreed in the context of WTO accession provides for certain temporary limitations with respect to foreign investments into the capital of incumbent operators. Russia has also promised to open its telecommunication services market both on a facilities and non-facilities basis to all registered foreign suppliers. Some restrictions remain in respect to the cross-border supply of telecommunication services. Sectoral coverage is comprehensive and Russia will allow registered foreign telecommunications companies to operate as 100 per cent foreign-owned enterprises. It has also accepted the pro-competitive WTO basic telecommunications reference paper by establishing an independent regulator, obligations to prevent anti-competitive behaviour by the dominant supplier, transparency obligations, and interconnection requirements.

In the *energy services* sector, due to the natural monopoly nature of many activities in this sphere and the need for a modernisation strategy in many areas, state ownership is still dominant, and any move towards privatisation is intended mainly for the benefit of domestic investors. Foreign investment in the energy sector has usually taken the form of joint projects with Russian partners. In principle, foreign investment in the large domestic entities is not excluded, however overall amounts of foreign investment involved have remained modest. Russia’s oil sector was privatized mainly through the loans-for-shares process in 1995-1997. Foreign investment in the energy sector has usually taken the form of joint projects with Russian partners, for example the BP-TNK joint venture, EON-Gazprom and Sakhalin Energy. Gazprom is the major gas supplier in the Russian Federation, responsible for 85% of production whereas foreign companies represent just 0.2% of production. The market structure in the oil sector is more dispersed: state-controlled companies and other Russian firms (Lukoil, Rosneft and Surgutneftgas) representing almost all production and foreign-owned companies just 2%. In 2006, foreign portfolio investment in the Russian oil and gas stocks was estimated at USD 50 billion, though the distinction between “foreign” and “local” is increasingly difficult in the context of global capital markets and given the existence of Russia’s large round-tripping flows. In 2005, there were 10 Russian companies among the 50

world largest oil and extraction companies ranked by total production, in particular Gazprom (the 2<sup>nd</sup> largest), Lukoil (in which Conoco Phillips owned some 20% of the shares, the remaining 80% being in hands of Russian partners), TNK-BP, Rosneft, Surgutneftegaz and Sibneft. Gazprom has the monopoly over the gas pipeline network. Two 100% state-owned energy transport companies (Transneft and Transnefteproduct) control oil and oil product pipelines. There is also a 20% limit on foreign ownership of entities which own regional gas supply or distribution assets.

In the *electricity* sector, the reform process has gone quite far in unbundling generation and supply companies from the previously integrated state electric companies. Transmission operation and regulation are to be separated from generation and distribution, and an independent energy regulator will ensure fair access and trading rules. Some 14 territorial generation companies have been created. Around 95% of electricity is still traded under the regulated regime and the government also sets the tariffs and charges for the transmission and distribution network.

Given the current state of Russia's electricity generation and distribution network and expected dynamic growth in domestic consumption, the sector will need considerable investment over the next twenty years. The objective of the ongoing reform of the electricity sector is, in part, to utilize market forces to spur investment. Since 2003, Russia has pursued a legislative and regulatory program to implement Decree No.526, "On Restructuring the Electric Power Industry of the Russian Federation". Prior to this reform Russia's electricity sector was highly vertically integrated with the state-owned RAO United Energy Systems (RAO-UES) controlling all large-capacity non-nuclear generation assets and the transmission system. It also controlled the 72 AO-*energ*os utilities with regional monopolies on distribution and supply. Under the reform package, generation assets are being unbundled from both RAO-UES and the *energ*os. Former RAO-UES thermal generation plants have been grouped together into 6 wholesale generation companies (WGCs) and their assets spread across multiple regions to reduce the possibility of market dominance (the 7<sup>th</sup> WGC consists of hydro-assets only and remains under majority government control). The *energ*os have been structurally unbundled, with their generation, heat, distribution and supply assets turned into individual companies. The 14 territorial generation companies (TGCs) have been created consisting of groups of generation plants separated from *energ*os. Once all the assets are packaged and the minority shareholders compensated, there will be, in addition to the WGCs and TGCs, a number of regional energy companies engaged in generation and supply, plus the government-owned Federal Grid Company, in which the remnant of RAO-UES will merge as well as several majority-government-owned distribution companies. By the end of 2007, nearly all newly created production units had been listed at the stock exchange and the state and the RAO-UES have already divested some of their holdings in these companies. The national system operator, Centralized Dispatching Administration, remains over 75% state-owned. While it is currently independent from the National Grid Company, in which the state also retains over 75% of ownership, the merging of the two entities is under consideration.

In the area of *air transport services* the international commercial transportation of passengers, cargo, post and luggage are carried out in strict conformity with the bilateral agreements made by the Russian Federation with foreign states. Access of foreign air carriers to the transportation of passengers, cargoes, post and luggage between points within the Russian Federation is forbidden according to Article 63.5 of the Air Code of Russian Federation.

As far as *maritime transport services* are concerned, under current legislation foreign investors can establish shipping companies provided they are registered as juridical persons in the Russian Federation. Similarly, foreign companies and individuals can participate in portfolio investments in the Russian shipping joint-stock companies. Foreign investors may also be full or part owners of Russian stevedoring and related companies operating in Russian ports, and also companies providing auxiliary services (agency services, forwarding, etc.).

#### **4.4 Investment**

Given the strong policy statements that have been made by Russia about the imperative to modernise the economy and increase its levels of productivity, the need to maintain and enhance a business environment that is conducive to investment both from within and from overseas is obviously of the utmost importance. In this regard, too, there is still much that needs to be done, but significant progress has been made.

Various measures have been put in place to improve the business practices within Russia. For example, amendments outlining improved procedures for the registration of legal entities were introduced in March 2008. Work is also continuing on improvements to the bankruptcy legislation, including: clarification of the rights and obligations of individuals and legal entities in terms of settlement of their debts; improving discharge procedures of individuals earlier declared bankrupt; strengthening the protection of the rights of workers whose employers have been declared bankrupt; and improvements in procedures for dealing with the bankruptcy of financial institutions. A new federal law has also been introduced clarifying and improving the legislation dealing with the rights and obligations of shareholders, the relationships between shareholders, the resolution of any conflicts that may arise, and the distribution of property in the case of liquidation.

Russia has also adopted a plan to privatise certain state-owned enterprises and to open up to competition some of the previously declared “natural monopolies”. In 2008 it was declared that shares owned by the state in 503 corporations, 442 federal government unitary enterprises and 13 corporations with limited liability would be sold to private investors, plus 1122 items of other types of property. In 2008 shares owned by the state were privatised in 209 corporations by sales of shares, and through bringing in authorised capital of state enterprises 233 holdings of shares in companies.

Legislation dealing with foreign investment has also been improved. The Foreign Exchange Law of 2004 outlines the progressive liberalisation of the regime in this area, removes many previous foreign exchange control measures and improves the degree of transparency. This legislation is now consistent with the *OECD Code of Liberalisation of Capital Movements*, and was recognised as such in the latest OECD Review in 2006. Various kinds of capital controls have also been removed.

In the area of capital movements, currency transactions between residents and non-residents can be made without any restrictions, except for prudential measures. This restriction is non-discriminative. The Russian Federation has consistently been pursuing liberalisation policies since the beginning of the decade, reducing and eventually eliminating the threshold for mandatory sales of foreign currency export revenues by national companies. Central Bank regulations on the obligatory reservation of rouble equivalents of foreign currency for the overseas operation of Russian entities have also been abolished. As of 2008 Russia had signed 67 bilateral investment treaties (BITs) of which 44 have come into force. The OECD has also noted that the Russian approach in this area meets their standards.

Under the Russian foreign investment regime, treatment of foreign investors generally cannot be less favourable than that given to local investors, although some exceptions have been established by specific federal laws. These exceptions have been designed for the protection of a number of constitutional interests as well as for some areas deemed essential for national defence and security. Some 42 areas have been reserved in this way covering areas such as industries dealing with nuclear and radioactive materials, activities ensuring aviation security, and the production of armaments and military equipment. The Federal Antimonopoly Service (FAS) is the authorised government authority in charge of executing control over investments in strategic sectors, and in order to undertake this task FAS has established the Department of Control over Foreign Investments.

Russia has improved and streamlined procedures for giving permits to labour immigrants, while at the same time strengthening measures to deal with employers or workers who breach the relevant laws.

In order to encourage production and attract investment in the automotive industry, Russia has created some privileges for manufacturers of cars and auto components. Amendments to the Customs Tariff of the Russian Federation allow companies to import auto components with a reduced customs duty. Customs duties are to decrease to 0-5 per cent, thus duties will average 12 per cent under the general regime of auto component imports and 3 per cent for auto components imported under an industrial assembly agreement.

As part of its economic development and modernisation policy Russia has created a number of Special Economic Zones (SEZs). In late 2005 six SEZs were established.

- Two manufacturing SEZs or “IPZs” were created. In the Lipetsk region the “Kalinka” IPZ 400 kilometres to the south of Moscow produces household electronics. In Yelabuga, in the Republic of Tatarstan, the “Alabuga” IPZ manufactures cars and their components and a number of high-tech chemicals.



- Four technological SEZs (TIZ) were created: the Dubna TIZ in the Moscow region is involved with the development of information and nuclear-physical technologies; the Zelenograd TIZ in the Moscow region specialises in the development of micro and nano-electronic products; two TIZs in St.-Petersburg specialise in the development of hi-tech production, computer software, and a range of analytical devices; the Tomsk TIZ in Siberia develops new materials, industrial and medical biotechnologies, alternative energy sources, and nano-materials.

In 2006 it was agreed to establish a new type of SEZ — tourist-and-recreational zones (TRZs) for businesses in tourism, health and cultural recreation, and 7 regions were identified in Siberia: in Stavropol region; Kaliningrad region; Irkutsk region; Krasnodar region; Altai Republic; Altai region; and the Republic of Buryatiya.

In 2007 it was also agreed to establish another new type of SEZ – port zones (PZs) for economic activity and investment in the sea, river and air ports opened for the international use, however so far none of these has been created.

There are also two special economic zones– in Kaliningrad and Magadan regions, the activity of which are regulated by the special Federal laws.

It is important to recognise that there are some differences regarding the definition of Special Economic Zones in the Russian Federation as compared with many other economies. In much of the world, the term SEZ is used for areas in which there is a completely free and open economy and a relaxation of many bureaucratic procedures. But in the Russian initiatives an SEZ is a pilot project to promote modernisation and diversification of the economy and support sustainable economic growth.

#### **4.5 Standards and Conformance**

In the last IAP Peer Review this important area was one in which it was noted that a great deal of progress had been made but that in certain dimensions there remained many shortcomings. Since then strenuous efforts have been made to improve both the system and its level of implementation. However some of the problems identified last time still remain, especially in the area of alignment with international norms.

Recently there has been a large effort devoted to the introduction of new regulations and standards. The Federal Law “On technical regulation” No. 184-FZ of 27<sup>th</sup> December 2002 remains the basic document governing this area, but a number of improvements and amendments have been made since then – notably on 1 July 2003 and 1 May 2007. The aim has been to provide a legal framework for technical regulations, standards and conformity assessment systems - ensuring health and safety, environmental protection, prevention of deceptive practices and so on, without unnecessarily creating trade barriers. The legislation was drawn up with the aims of the relevant WTO agreements in this area very much in mind.

Within this framework the development of a prioritised set of regulations for some 41 areas is being, with the aim of having these new norms in place by 2010. Particular attention is being given to 17 of these fields, covering for example machines and equipment, building materials and products, medicines, elevators, power stations and grids, chemical products, wheeled means of transport, foodstuff, devices operating on gas fuel, and packaging.

Lists of all products requiring mandatory certification, including the HS Codes, are set out in a number of government statements and decrees. Currently this whole process is based on Government Resolution No. 1013 of August 1997 "On the Approval of the List of Goods Subject to Mandatory Certification", and the list of products for which safety must be confirmed by conformity declaration is contained in Government Resolution No. 766 of July 1999 "On the Approval of the List of Products Whose Conformity May Be Confirmed by Conformity Declaration" (last amended in December 2005) and Government Resolution No. 255 of April 2006. In recent year such procedures have been applied to ever increasing numbers of products so that at present some 60 per cent of goods are subject to conformity declaration and 40 per cent to conformity certification. This is an area in which Russia is devoting a great deal of effort and a number of new draft laws are being prepared for consideration.

A process governing the recognition of conformity assessment certificates issued in foreign economies is being carried out in line with various international agreements and international certification systems to which the Russian Federation had acceded, removing the need for any other forms of mutual recognition. These include the Geneva Agreement of 1955 on Mechanical Vehicles, Brussels Convention on Reciprocal Recognition of Proof Marks of Handguns and Cartridges, the IEC Quality Assessment System for Electronic Components (IECQ), the IEC System for Conformity Testing and Certification of Electrical Equipment (IECEE), and the IEC Scheme for Certification to Standards for Electrical Equipment for Explosive Atmospheres (IECEx). In cases of importation and transit of goods regulated by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), a permit issued by a CITES agency in the exporting economy is accepted. Recognition of results of conformity assessment procedures is done through accreditation of foreign certification bodies within the national mandatory certification system. The procedures for recognizing foreign conformity assessment documents is also determined on the basis of relevant multilateral and bilateral agreements on the mutual recognition of certificates. In some cases, where there are differences in requirements for the products and procedures of accreditation between certification centres adopted in Russia and those in other economies, foreign certificates may not be recognized. A full list of multilateral and bilateral agreements to which Russia is a party, including those containing provisions on mutual recognition, is available on the relevant web site.

Progress has also been made in the adoption of international and regional standards in many areas. It is still the aim of the governments to revise some 10 per cent of their standards to bring them into line with international norms. However, while progress has been made in meeting some of the shortcomings pointed out in the last IAP Peer Review, some of the most striking problems still remain. The degree of alignment with international standards

in the aviation industry is still only 4 per cent, and only 10 per cent in rocket and space technology, while for equipment used in the gas industry it is still a modest 14 per cent. Given the areas of priority for future development outlined earlier, aimed at diversifying Russia's export base, these figures are somewhat surprising. Similarly there is considerable room for improvements in the nuclear industry – now standing at 37 per cent – another strategic priority area.

#### **4.6 Customs Procedures**

The last IAP Peer Review of Russia completed in 2005 expressed a number of concerns about the customs system and its implementation, questions that were raised by both the expert and other member economies of APEC. General issues were raised about the implementation of the existing laws and regulations, and the extent to which bureaucratic inefficiencies and corruption inhibited government reform efforts in this area. Doubts were also raised about the willingness of the government to introduce a pre-shipment inspection (PSI) regime, and the extent to which the Russian system of customs valuation and its implementation were consistent with WTO rules. If such a pre-shipment inspection scheme is perhaps to be introduced in the future, Russia would ensure that the pre-shipment inspection regime would comply with all requirements of all relevant WTO agreements, including the Agreement on Pre-shipment Inspection, and relevant provisions of the Agreement on the Implementation of Article VII of the GATT. *Inter alia*, the Russian Federation would ensure that the due process and transparency requirements of the WTO Agreements are respected, in particular: Article X of the GATT 1994 and the Agreement on the Implementation of Article VII of the GATT 1994; that charges and fees for pre-shipment inspection would comply with Article VIII of the GATT 1994; that pre-shipment entities would establish and maintain appeals procedures as foreseen by Article 2.21 of the Agreement on Pre-shipment Inspection; and that the scheme would not constitute an undue and additional burden on exporters to or importers of goods into Russia.

It has already been noted several times that Russia is well aware of the problem of excessive and arbitrary bureaucratisation and of the existence of corrupt officials, and is moving to reform this whole area. This certainly includes the customs system.

There has also been progress in the development of a whole raft of legislative initiatives related to customs procedures, including alignment with WTO rules. Especially important here are:

- Federal Law No. 5003-1 of May 1993 "On Customs Tariff" (as last amended in December 2007) which determined the customs tariff regulations for the imports and exports of goods and the methods for determining of the customs value of goods.

- In addition, Federal Law No. 144-FZ of November 2005 "On Amending the Law of the Russian Federation On Customs Tariffs", which entered into force from 1 July 2006, was elaborated in accordance with Article VII of the GATT 1994 and the Customs Valuation Agreement.
- The Customs Code of the Russian Federation (Federal Law No. 61-FZ of May 2003, which entered into force on 1 January 2004) constitutes the legal framework for the customs regime of the Russian Federation and was based on generally accepted international rules, including the Kyoto Convention.
- Federal Law No. 164-FZ of December 2003 "On the Fundamentals of State Regulation of Foreign Trade Activity" (as amended on 2 February 2006) removed any quantitative import restrictions, prohibitions or quotas in the meaning of Article XI of the GATT 1994.
- The import tariff currently applied in the Russian Federation was based on the 2007 Harmonized Commodity Description and Code System of the World Customs Organization. This system had been introduced on 1 January 2007 by Government Resolution No. 718 in replacement of the HS 2002 system previously used.
- A government order of June 2007 brought Russian rules and practices into compliance with the requirements of the TRIPS agreement.
- Regulations came into force in August 2008 bringing Russia into line with international practices on the advance classification ruling system.
- New technologies are being implemented to streamline customs procedures and to reduce clearance times. As of May 2008 electronic procedures were introduced for customs clearance and declaration via electronic systems. New systems allow the monitoring of goods before they cross the Russian border, and further improvements are being planned, including the continued development of a preliminary information system.
- Improvements in the level of transparency in all customs matters and the electronic posting and updating of information about all customs regulations and procedures.

#### **4.7 Intellectual Property Rights (IPRs)**

It was in the area of IPRs that the last IAP Peer Review was very critical of the practices then widely perceived to be rampant in Russia. While it was recognised that Russia had a long history of involvement with protection of intellectual property rights, having been a member of the World Intellectual Property Organization (WIPO) since 1970 as well as a party to almost all of the major international treaties governing cooperation in this area, the effectiveness of law enforcement was more questionable. It was reported at that time that a number of other APEC members were unhappy about the number of counterfeit articles available in Russia and the generally lax level of government supervision. However, since then it is clear that both the laws governing IPR's and the level of implementation have been upgraded, and in addition a very impressive program of research and public education has

been continued. This is perhaps not surprising since the development and encouragement of innovative economic activity was highlighted as a major priority of the 2020 development plan, and the protection of private property rights was seen as a major philosophical foundation of the government's approach.

Earlier legislation regulating IPRs was replaced in January 2008 by the new Part IV of the Civil Code of the Russian Federation, which relates to the products of all intellectual activity and the rights of those responsible for these products. The aim of the legislation was to codify all legal norms relating to IP, and to be fully compatible with all of the provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). To meet earlier criticisms, particular attention has also been given to the implementation of these new laws. The Federal Service for Intellectual Property, Patents and Trademarks (Rospatent) has set out 12 Administrative Regulations to give full legal protection of such rights. This includes the creation of a national register of all applications for patents, the certificates granted, all details of transfers of rights on protected items and so forth. Rospatent has also prepared the drafts of two new federal laws "On Patent Attorneys" and "On Transfer Technologies" and these are now under consideration in the State Duma of the Russian Federation. Amendments to the Criminal Code of the Russian Federation have been introduced to improve the protections given to IPRs. The Draft Law "On Introduction of Amendments into the Customs Code of the Russian Federation", aimed at enlarging the power of customs authorities to suspend the import of counterfeit goods, has been introduced to the State Duma. An agreement on cooperation between the Federal Customs Service and Federal Service for Intellectual Property, Patents and Trademarks, also designed to improve the efficiency of implementation of regulations in this area, was signed on July 30, 2007.

Attempts have been made to speed up the evaluation and approval processes involved in the granting of IP protection, and Rospatent has implemented a modern, automated system for recording and transferring all information relating to the new applications. When fully implemented this system will also allow much more rapid exchanges of information with international and with sister agencies in other economies.

Quite significant progress has been made by the Russian authorities in upgrading the implementation levels of all new laws and regulation in IP protection area. The Federal Customs Service identified and confiscated more than 10 million counterfeit articles last year, three times more than the year before. In recognition of these efforts, the Russian Customs Service was awarded a best practice award at the WCO session in July 2008, recognising progress made during the Year of Fighting Counterfeiting in 2007.

It has long been recognised that one key area for the guaranteeing of IPRs involves the implementation of community education programs outlining the benefits of such legal requirements, and in these areas of education, training and research, the work of the Russian State Educational Institute of Intellectual Property (RGIIS) makes an important contribution. This is one of the collaborating institutes in the WIPO Worldwide Academy program and offers a range of qualifications certified by this WIPO program. The Institute, which is now more than 40 years old, cooperates closely with the Russian IP office and with Rospatent, and

draws its teachers from the experienced staff of these organisations. It offers a range of short courses and special training programs as well as other courses taking 6 or 12 months to complete, and a three year diploma. Some courses are available in Moscow, but distance learning programs are available for people working in regional areas. There are two major streams in these courses: economic and legal. Total student numbers are around 1,000 per year, but there are plans to train enough teachers to expand these offerings. The aim of the overall program is to develop human resource capacity in this area, but also to increase public awareness of the system and its rationale. Special attention has been given to the training of the legal profession in this area, and in particular a specialist group of patent attorneys. The Institute also has an active program of research, with a number of studies being completed at the request of Rospatent. A special research centre on IP was established within RGIIS in 2005 and this has conducted a number of studies on legal protection issues and the use and enforcement of intellectual property. These have included a study, undertaken at the request of WIPO on the contribution of copyright to the development of the Russian economy. RGIIS and its research centre are actively involved in a range of international cooperation, for example with the European Patent Office. Training is also provided to staff from Ukraine, Moldova and Viet Nam, and requests have been received from China and the Republic of Korea to be part of this program.

#### **4.8 Competition Policy**

Russia has fully recognised that in order to achieve its goal of a more modern, efficient and innovative economic system it will be essential to ensure that any monopolistic behaviour by all sectors, including state owned enterprises, is kept to a minimum and that competition is encouraged in all markets. To this end new anti-monopoly legislation was introduced in 2006. The Federal Law “On the Protection of Competition” covers the prevention and suppression of any monopolistic activity and unfair competition, and applies to all parts of the economy, including the state sector, and governs equally the behaviour of both local and foreign enterprises. Various parts of the legislation deal with the regulation of both horizontal and vertical anti-competitive agreements, and also regulate any movements towards greater concentration in particular industries through merger and takeover activity. In 2007 antitrust amendments to the Code of Administrative Punishments were implemented. Newly introduced articles of the Code empowered the FAS to impose fines for substantial infringements of the competition rules (new Article 14.31 provides fines for abuse of dominance, new Article 14.32 – for cartels and concerted actions). The amount of the fine is based on the violator’s turnover in the preceding business year.

In order to administer this new legislative framework and to pursue possible violations considerable improvements have been made to the Federal Antimonopoly Service (FAS), and increased resources have been made available to it. The number of departments within the FAS has been increased from 17 to 21 and staff numbers in the central administration have been increased from 420 to 528, with a further 2647 now being employed in the 82 regional offices of the service.

It is recognised that two areas of current Russian policy create particular problems for the implementation of these kinds of competition rules. As has already been discussed in some detail, the government has for some time designated a number of areas as being “natural monopolies”, and has identified 42 areas as being of particular strategic and security significance. It has already been foreshadowed that steps will be taken to reduce the number of these natural monopolies. In early 2009, Russia introduced a “Program on the development of competition” supplying a plan of actions for the period 2009 – 2012. This document deals with the main challenges to free competition in Russia and the next three years will be crucial in determining whether Russian authorities will be able to restore and protect free competition in the “problem areas” of Russian economy.

#### **4.9 Government Procurement**

In the last IAP Peer Review there was some criticism of the lack of transparency in this area, and some of questions and comments submitted by other member economies to the current exercise suggest that some of these adverse opinions remain, although there also seems to be a general acceptance that Russia has made some progress in this complex area.

The Federal Law of July 2005 “On Placement of Orders for Deliveries of Goods, Performance of works and Provision of Services for State and Municipal Needs” has established the general rules for the procurement of foreign goods and services. This is done on the basis of reciprocity: national treatment can be provided in the procurement of goods and services supplied by foreign entities provided that such national treatment is provided by that foreign economy to Russian goods and services needed for government use. However some changes to this framework have been made in response to the current economic crisis:

- In an attempt to give more support to the small business sector the percentage of new civil contracts that must now be awarded to small and medium enterprises has been increased from 10 to 20 per cent. Now some contracts will only be available to small businesses, and this list applies particularly to the supply of services.
- The level of advance payments made on government civil works contracts has been increased from 30 to 50-70 per cent for large contracts (more than 600 million roubles) now that access to bank credit is more difficult.
- A list of items for which Russian suppliers are given a 15 per cent preference has been established, but this will remain in force only until the end of 2010.

An internet site has been established giving details of contracts that are available from central government, regional authorities and municipalities. The general outline of the tender is given in Russian only, and at present it is not feasible to translate all of the documentation into English or other languages. The negotiations for WTO accession have had a significant impact on government policies in this area. A special control commissions has been established to police the implementation of the new rules and in cases of non-compliance there are penalties. However it remains true that only a very low percentage of government contracts are filled by overseas suppliers, significantly less than one per cent by value. At the

same time many government and municipal contracts with local companies involve supplies of imported goods.

#### **4.10 Deregulation/Regulatory Reform**

In August 1995 a very important law “On Natural Monopolies” was passed, and since then much of the work in the area of deregulation and regulatory reform has related to the need to deal with the pricing, competition and other implications of this law. The legislation dealt with areas in which natural monopolies were more efficient because of the special technical or other characteristics of that activity. A number of key sectors of the economy were seen to fall into this category: pipelines for oil and other petroleum products; gas pipelines; transport terminals, ports and airport services; public telecommunications and postal systems; the electric power generation and transmission services; the transmission of heat energy; and inland waterway services.

It was recognised that this legislation provided opportunities for monopoly suppliers to abuse their privileged position and set excessive prices for their products or services, hence a number of regulations were established to limit such tendencies, including the 2006 Federal Law “On Protection of Competition” and amendments to the Federal Law “On Natural Monopolies” (the latest amendment of 2008). Mechanisms exist to investigate and where necessary control any abuses of dominance in any economic activity. In 2007, for example, 1675 complaints were made against holders of natural monopolies resulting in the initiation of some 500 cases and the issue of 241 orders. Attempts have also been made to strengthen the rules on non-discriminatory access to goods and services supplied by these monopolies.

Great efforts have been made to ensure the promotion of competition principles in the spheres of natural monopolies. For instance, reform of the power energy sector has been successfully implemented, resulting in transformation from a natural monopoly to a completely competitive sector. Moreover, reforms of the oil and gas sector, air, railway and water transportation are ongoing and their results are already evident to consumers.

Negotiations for WTO accession have also had a major impact on reform in this area. In general Russian legislation in this area has been brought into compliance with WTO rules, a process largely completed by 2007.

In the longer term, Russia plans to undertake a detailed review of the whole structure and rationale of the “natural monopolies”. This will involve a re-examination of the whole rationale and criteria for the designation of these monopolies, and the exploration of possibilities for including more competition into some areas. There is an expectation that in future the number of monopolies will be significantly reduced.

As was noted earlier in this report, a number of special regulations governing the banking and financial industries in response to the economic crisis. Most important here are:



- A lowering of the norm of obligatory reserves, releasing as much as 380 billion roubles.
- A softening of the terms of lending with the use of certain types of collateral.
- Approval for the issuing of a number of unsecured loans for a period up to one year.
- Compensation by the Central Bank of a number of losses by the commercial banks on the inter-bank loan market.
- The allocation of some 850 billion roubles in subordinated loans to augment the capital of the commercial banks.
- Allocation of some 200 billion roubles for the rehabilitation of banks suffering liquidity problems.
- Insurance of the deposits of private individuals – some 98.5 of all deposits are now insured.
- Allocation of some 250 billion roubles to support the financial sector.
- Introduction of a variety of measure to protect institutions from hostile takeovers

It is expected that these changes will be temporary, and that they will be reviewed when the economic situation improves.

#### **4.11 Implementation of WTO Obligations and Rules of Origin**

As has been noted in various parts of this report, Russia's attempts to become a member of the WTO have been central to its entire economic diplomacy in recent years, and preparations for the policy reforms that will be needed when accession does take place have been central to the entire liberalisation program that has been enacted over this period. Until membership is achieved Russia has no formal WTO obligations, so the important question that has been asked repeatedly here is the extent to which Russia is prepared for accession in the various policy areas that we have been considering. On balance, the verdict here is that while there is still work to do considerable progress has been made in a wide variety of areas, and that the whole process of WTO negotiations has delivered many benefits and few if any negative consequences.

Currently Russia is finalizing its WTO accession process, and the problems that remain are essentially political rather than economic or trade related. Bilateral negotiations on market access for goods and services with all interested members of the working party on the accession of the Russian Federation to the WTO have been essentially completed. A few issues are still to be resolved, notably export duties, state trading enterprises and phyto-sanitary and veterinary measures. However, intensive negotiations are continuing.

Russia has repeatedly stressed that its cooperation with APEC members in trade and other areas remains one of its key priorities. It has also stressed the importance of political support from other APEC members as it attempts to bring the multilateral negotiations to a successful conclusion. After accession it is expected that Russia's WTO obligations will become the basis for further development of bilateral and regional trade relations with its trading partners, including APEC members.

The Russian Federation has closely followed the work of the World Customs Organization (WCO) and the WTO regarding the application and harmonisation of non-preferential rules of origin. The principles for determining the country of origin of goods have been based on international practices, and implemented the recommendations of the Kyoto Convention. The provisions of Federal Law No. 5003-1, which related to the determination of the country of origin of goods, have been incorporated in the Customs Code, which had entered into force on 1 January 2004 (Federal Law No. 61-FZ of 28 May 2003). Goods were recognized as originating from a specific country if they were wholly made in that country or substantially transformed in accordance with criteria set forth in the Code or in procedures determined by the Code. The country of origin of goods might also be understood to mean a group of countries, customs unions, a region or a part of a country, if it was necessary to identify them with a view to determining the origin of goods.

The determination of the origin of goods originating from developing countries eligible for the system of preferences maintained by the Russian Federation was governed by the "Rules of Origin of Goods Originating from Developing Countries for the Purposes of Tariff Preferences under the General Preferences System" incorporated in the Agreement of the CIS states of 12 April 1996 "On Rules of Origin of Goods Originating from Developing Countries for the Purposes of Tariff Preferences under the General Preferences System". As for the rules of origin within free trade Agreements, additional criteria of direct purchase were used, along with requirements that the exporter be legally established in a Party to the Agreement (Decision of the Heads of Government of other CIS Countries of 18 October 1996). In respect of goods originating from CIS countries, the Russian Federation adhered to the "Rules of Origin of Goods" approved by the Council of Heads of CIS Governments on 30 November 2000. These rules had been developed pursuant to the international practice of determination of origin.

In respect of the problem that the Customs Code did not appear to provide for a time period of no later than 150 days after a request for issuing a preliminary decision on the origin of a product had been submitted, provided that all required information had been submitted, the customs authorities would provide an assessment of the origin of goods subject to import upon the request of an exporter, importer or any person with a justifiable cause and issue the assessment no later than 150 days after a request, provided that all necessary elements had been submitted in line with the requirements of Article 2(h) and of Annex II, paragraph 3(d), both for non-preferential and preferential rules of origin. According to the provisions of the WTO Agreement on Rules of Origin specified above, any request for such an assessment would be accepted before trade in the goods concerned had begun, and any such assessment would be valid for three years. In this regard the practice of using "double MFN" rates as the default tariff rates for imports of undeterminable origin has been eliminated.

#### **4.12 Dispute Mediation**

It was noted in the last IAP Peer Review that Russia, not being a member of the WTO has not access to the WTO's powerful and effective Dispute Settlement Mechanism (DSM), and that this was potentially serious given that Russia was cited in quite large number of anti-dumping cases – however Russia felt that the alternative mechanisms available to it were reasonably adequate. Since then there has in fact been a significant decline in the number of these cases brought against Russia. WTO records show that the numbers of cases in the last few years have been: 3 in 2005, 4 in 2006, 6 in 2007 and only 2 in 2008. This compares with a high of 18 cases in 2002. Russia still expresses its concerns in respect of degree of conformity of the application of some measures and the practice in this area to the WTO requirements. Several economies do not regard Russia as a market economy and this fact restricts the development of mutually advantageous trade and economic cooperation and discriminates against Russian exporters involved in anti-dumping investigations.

In the area of the resolution of commercial disputes, and in particular cases involving foreign investment, there appears to have been little change in the last few years since the government believes that the existing system is adequate and needs only minor adjustments. Two groups of institutions and mechanisms are available to aggrieved parties. Within the system of national state courts there are commercial courts (*Arbitrazh*) set up to hear disputes between individuals or companies involved in business activities. But there are also a number of other quasi-judicial mechanisms that can assist disputing parties. Both Federal Law 102-FZ of 2002 “On Arbitration Tribunals” and Federal Law 5338-1 of 1993 “On International Commercial Arbitration” contain provisions for the arbitration of commercial disputes, and Law 5338-1 in particular provides mechanisms to deal with disputes involving foreign investors and companies with foreign investments in Russia. Federal Law 58-03 of 2008, an amendment to Federal Law 160-03 of 1999 “On Foreign Investments” also guarantees proper mediation of disputes on economic activities of foreign investors. All bilateral investment treaties signed by Russia stipulate a two-step dispute settlement procedure: out-of-court resolution; and judicial procedures, which may involve Russian or international arbitration courts. Similarly, international trade related agreements signed by the Russian Federation generally provide for particular means of settlement of intergovernmental disputes arising from claims of breaches of the provisions of such agreements. The awards and decisions of arbitration tribunals are final, binding and enforceable under Russian legislation.

While the IAP contains remarkably little information on dispute resolution mechanisms and their operation, it appears that Russia is generally satisfied with these procedures and has few plans for change in this area.

#### **4.13 Mobility of Business People**

At present Russia does not participate in the APEC business travel card scheme, although there have been some internal discussions about joining the scheme, including

elaboration of the appropriate legal framework for future participation. Thus all visitors, including business travellers need to apply for a visa. Russia has however participated in the meetings of the Business Mobility Group to share information about visa systems and requirements.

Foreign business people who need to stay in Russia for an extended temporary period need to obtain an employment authorisation and a temporary residency permit from the Federal Migration Service.

Given the particular demographic situation in Russia, with the serious aging of the population and the decline in absolute population numbers, there have been suggestions that Russia may need to consider freeing up the existing immigration regulations to allow some skilled foreign workers to take up some positions. This issue has been raised particularly in relation to the stated government priority of upgrading the skill levels of the labour force. However, the current economic crisis makes this a difficult political issue, given the current high levels of unemployment among the existing population. Understandably the basic policy of the Government is to give priority to the provision of employment to Russian citizens, while at the same time seeking to attract labour from abroad where this is needed for critical positions that cannot be filled locally. Thus a foreign labour quota system has been established for each year, defining the exact quota of foreign workers for the next year in each administrative region and with the exact numbers for each qualification and profession. There are of course some kinds of positions that by law can only be occupied by Russian citizens.

It is currently estimated that there are some 8 million illegal immigrants at present, but strenuous efforts are being made to bring this situation under control

#### **4.14 FTAs/RTAs**

To date most of the efforts of Russia in the area of FTAs and RTAs has involved agreements with the members of the Commonwealth of Independent States (CIS). There is only one such agreement outside the CIS, with Serbia Montenegro, but it is expected that when Russia becomes a member of the WTO such activity will increase. Similarly, recovery from the current economic crisis will allow more attention to be given to this area.

These relationships with other members of the CIS have grown out of a series of bilateral FTAs, and such agreements have now been signed between nearly all CIS members. However there are large differences in the extent to which these have been implemented or enforced. Each of these bilateral FTAs is a separate legal document, each with some different features, but it is intended to coordinate these documents into a single CIS RTA agreement. However a number of broader agreements have evolved. In 2000 the original customs union between Belarus and the Russian Federation was expanded into the Eurasian Economic Community (sometimes referred to as the Eurasian Economic Union) through the inclusion of Kazakhstan, Kyrgyzstan and Tajikistan. The goal here was the establishment of a common economic space, including currency integration. All of these

agreements involve explicit mechanisms for dispute resolution. An Economic Court of the CIS has been established to deal with disputes involving CIS members, and similarly a Community Court has been set up for the Eurasian Economic Community. Russia has a clear belief that nothing in these agreements is contrary to the WTO rules governing such matters.

While not really an FTA in the strict definition of the term, a Partnership and Cooperation Agreement (PCA) was signed between Russia and the European Union in 1994 to encourage political, commercial, economic and cultural cooperation between Russia and the EU. This opened a new chapter in EU-Russia relations. Mutually binding commitments were set out in the 112 articles, ten annexes, two protocols and several joint declarations of the original Agreement. The agreement covered almost all aspects of European Community-Russia trade, commercial and economic relations, and instituted political dialogue at the highest levels. The PCA set out both the general principles and detailed provisions that governed relationships between the EU and the Russian Federation in the field of trade in goods and services and related issues. The main objectives of the PCA are: to provide an appropriate framework for political dialogue; to promote trade and investment and harmonious economic relations; to strengthen political and economic freedoms; to provide a basis for economic, social, financial and cultural cooperation and to provide an appropriate framework for the further integration between the Russian Federation and a wider area of cooperation in Europe. The PCA has created a number of new institutions: the Cooperation Council, the Cooperation Committee and the Parliamentary Cooperation Committee. At the St Petersburg Summit in May 2003 the EU and Russia confirmed their commitment to further strengthen their strategic partnership. They agreed to reinforce cooperation with a view to creating four EU/Russia “common spaces”, in the long term and within the framework of the existing PCA, on the basis of common values and shared interests.

While also not strictly an FTA or RTA, the establishment in 2001 of the Shanghai Cooperation Organisation (SCO) is of great significance not only for Russia but also for the wider region. This agreement links Russian, Kazakhstan, China, Kyrgyzstan, Tajikistan, and the Uzbekistan. The major aims here are to:

- Strengthen mutual trust and friendship among members.
- Encourage cooperation among the member states in political, economic and trade, scientific and technological, cultural, educational, energy, communications, environment and other fields
- Preserve and safeguard regional peace, security and stability.
- Work towards the establishment of a democratic, fair and rational new international political and economic order. Member states agreed to respect independence, sovereignty and territorial integrity, not to interfere in each other's internal affairs, and not use or threaten to use force against each other, adhere to equality and mutual benefit, resolve all problems through mutual consultations and not seek unilateral military superiority in contiguous regions.

The SCO has given particular attention to issues of regional security. The member states agreed to cooperate closely to implement the Shanghai Convention on Combating Terrorism,

Separatism and Extremism, including setting up an Anti-Terrorism Centre in Bishkek. It has also been agree to work together to combat illegal weapons and narcotics smuggling, illegal immigration and other criminal activities. Importantly, SCO's declaration on the development of multilateral trade and economic cooperation adopted in 2003 proclaims a free trade zone as a long term goal of the organisation.

A number of other agreements are under negotiation including a Central Asian Cooperation Organisation (CACO), designed to create subregional market for a number of small economies isolated from broader world markets, and a Black Sea Economic Cooperation Organisation involving Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, the Russian Federation, Turkey and Ukraine. However it is not intended that either of these agreements should involve the creation of a full RTA.

Looking further ahead, Russia has reached an agreement with ASEAN on economic development and cooperation. This was signed in 2005, and also contained a 'roadmap' for 2005-2015. Russia expects that further agreements will be reached with other a number of Asian economies, and a joint research group has been established with the Republic of Korea.

#### **4.15 Trade Facilitation**

One of the key targets approved by APEC Leaders relates to demonstrable cost savings for international business in the region through progressive reforms in the area of trade facilitation. In evaluating its performance in this area, Russia has pointed to improvements that have been made in customs procedures and the facilitation of business mobility, topics that have already been discussed in this report. In response to questions on the IAP, Russia has also produced a useful list of its major achievements in this category of reform:

- The level of VAT has been reduced by 2 per cent.
- The tax burden for SMEs has been considerably reduced.
- The number of import declarations and the number of non-energy export declarations selected for physical inspection, at designated sites, has been reduced to no more than 23 per cent and 12 per cent, respectively, by the end of 2006, and to no more than 10 per cent and 8 per cent by 2010, from the about 30 per cent and 15 per cent in 2004.
- The average customs clearance time at the border was cut by 7 per cent by the end of 2006, and by 10 per cent by 2008.
- The average customs clearance time in respect of imported goods, as measured by the time taken from the entry of a truck into the customs clearance terminal to the release of goods from customs control was cut by 25 per cent by the end of 2006, and 50 per cent by 2008.
- The average customs clearance time, as measured by the time taken between lodging of the customs declaration to the issue of the release note, fell by 25 per cent by the end of 2006, and 50 per cent by 2008.

An impressive array of improvements have also been made the Shanghai Accord of 2007, and these are summarised in Table 5, giving another effective summary of what has been done in this area.

Moving to a more detailed focus, Russia has also provided two useful case studies of reform in trade facilitation, both of them related to customs procedures:

- *Case Study One: Automated System of Fees Payment.* In order to accelerate customs procedures and minimise delays a system of Customs Cards has been introduced. This uses microprocessor-based, inter-bank plastic cards for the payment of customs fees. Funds are drawn directly from the bank account of the shipper to the customs authority at the moment of customs clearance. This is much more efficient for shippers and customs brokers.

**Table 5**

**Improvements in Trade Facilitation Measures since the Shanghai Accord**

<i>Menu of Actions and Measures</i>	<i>No of Items Selected</i> [a]	<i>No of Items Implemented</i> [b]	<i>No of Items Completed</i> [c]	<i>No of Items in Progress</i> [d] = [b] - [c]	<i>No of Items Pending Implementation</i> [e] = [a] - [b]
<i>Customs Procedures</i>	44	36	13	23	8
<i>Standards</i>	20	19	8	11	1
<i>Business Mobility</i>	3	3	3	0	0
<i>Electronic Commerce</i>	16	10	2	8	6
<i>Others (if any)</i>	1	1	1	0	0
<b>Total</b>	<b>84</b>	<b>68</b>	<b>24</b>	<b>44</b>	<b>16</b>

- *Case Study Two: System of Electronic declaration.* Again this new system involves the use of information technologies, and involves the sharing of information between the shipper and the federal customs agency and the use of a digital signature mechanism. The implementation of this system has increased levels of transparency, reduced the scope for errors and manipulation, and reduced the average time for checking cargo declarations to around 30 minutes.

**4.16 The APEC Food System**

Russia is already a large agricultural producer, but the 2020 development plan stresses just how much modernisation is needed for the sector to reach its full potential and to achieve the government’s ambition for Russia to become a large exporter of a number of key agricultural commodities. Agricultural producers in many of the economy’s regions face

rather severe climatic conditions for much of the year, making yields somewhat unstable, but the aim of Russia is to improve output in many areas and reduce the current high level of dependence on food imports.

At present around 40 per cent of all meat is imported, as is much of the poultry consumed in the economy, and overall food imports are some five times the value of food exports - \$US 20.7 billion as against \$US 5.1 billion. Russia has been attempting to deal with these imbalances partly through the use of tariffs and this has been an issue in negotiations for WTO accession and this issue is explored in more detail in the section of this report on tariff issues. But it is recognised that a number of more basic structural problems need to be addressed before the sector can reach its full potential.

Many of these basic issues go back to the difficulties of making the transition from the old Communist system of land ownership and food production. The old state owned farms no longer exist, but many of the old cooperatives still exist with the farmers now owning shares in the operations. Some areas of crop production are now dominated by big agricultural companies. In wheat, one area in which Russia has done well and now has an export surplus in many years, such companies are now very dominant so that individual farmers have almost ceased to exist.

In an attempt to deal with these issues, agricultural modernisation has been given prominence in the 2020 plan, and more detailed strategic plan for the sector from 2008 to 2012 has also been developed. These plans recognise that agricultural development must be seen together with targets in other priority areas, notably regional development and issues of environmental sustainability. It is clearly recognised that investment in this general area of rural and regional development has been grossly inadequate. Many kinds of infrastructure, such as transportation and storage, are in urgent need of attention, and the increased support to be given by the government to the budget needs of the regions reflects these key priorities.

#### **4.17 Transparency**

Issues of transparency have been covered in many of the individual policy issues discussed above, and Russia has expressed its desire to improve levels of disclosure and transparency in all of these areas. However there are a number of more general issues relating to improved transparency that are discussed here.

The first issue relates to transparency in the operations of all levels of government. Since 2007 the government has published three-year economic and fiscal forecasts. Each governmental body (federal ministries, services and agencies) must also provide an annual statement of their intended performance over the next year as well as an annual report for the past year. The Ministry of Economic Development (MED) also publishes monthly reports on the socio-economic development of Russia. All regulatory and legislative acts, decrees of the President and the government and orders of all federal agencies are also published on a range of internet sites. Similarly expert commission reports, surveys and news on technical



regulation reforms, with expert comments and explanations, and informational and analytical documents of international organizations such as WTO, organisations of the UN structures and others, are also published.

The second issue relates to transparency in monetary, financial and fiscal policies. A recent development has been a requirement for the MED together with the Ministry of Finance and other state bodies, to prepare a statement of the government's long-term economic strategy looking at least 20 years ahead. The statement is intended to enhance understanding of the long-term consequences of policy settings and demographic change. The Federal Commission for the Securities Market (FCSM) has now started using new technologies to enhance the fairness and efficiency of the disclosure process, including access to financial and non-financial information by electronic means. The charters of publicly traded companies are in the process of being made available on the FCSM server. The development by the National Association of Professional Participants of the Securities Market (*NAUFOR*) of an information disclosure tool, "*SKRIN Issuer*," is another example of the potential for using electronic methods for disclosure.

The third issue relates to feedback mechanisms in the policy development and law making area. State bodies have mechanisms for receiving the views of interested parties, including organizations and community groups, at both the drafting and implementation stages. Such bodies decide on the form of the consultations to be held, as well as on the form and means of dissemination of the information on the course and results of the consultations among interested parties submitted their suggestions or comments. In cases where there is a relevant international treaty, authorised bodies of the foreign States, foreign entities and entrepreneurs are invited to submit their suggestions and comments as well in accordance with the provisions of this treaty. The right to submit appeals by affected parties is stipulated in Article 46 of the Constitution of the Russian Federation, under which decisions and actions (or inactions) of bodies at all levels of government can be appealed against in the court of appropriate jurisdiction. The right of appeal to judicial and administrative procedures in cases where such decisions or actions result in damages for the interested parties is also covered by Articles 1069 and 1079 of the Civil Code. Article 18 of the Federal Law No. 164-FZ "On the Fundamentals of State Regulation of Foreign Trade" also provides for the right of any participant in foreign trade to appeal to a court or administrative procedure against a decision, action (or inaction) of a State authority (or its officer) if it is felt that personal rights or legal interests have been violated.

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## **Glossary**

APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South-East Asian Nations
BRIC	Brazil, Russia, India and China
CIS	Commonwealth of Independent States
DSM	Dispute Settlement Mechanism
EU	European Union
FDI	foreign direct investment
FTA	free trade agreement
GDP	gross domestic product
IAP	Individual Action Plan
IFRS	International Financial Reporting Standards
IPR	intellectual property rights
MFN	most favoured nation
MoF	Ministry of Finance
MOU	memorandum of understanding
NTM	non-tariff measure
OECD	Organisation for Economic Cooperation and Development
Rospatent	Federal Service for Intellectual Property, Patents & Trademarks
RosStat	Federal Service of State Statistics
RTA	regional trade agreement
SCO	Shanghai Cooperation Organisation
SEZ	Special Economic Zone
SOE	state-owned enterprise
TRIPS	Trade-Related Aspects of Intellectual Property Rights
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

## **APPENDIX A: REVIEW TEAM**

### **Moderator:**

**Mr. Lu Kang**, APEC Senior Official, Deputy Director General, Department of International Organizations and Conferences, Ministry of Foreign Affairs, People's Republic of China

### **Experts:**

**Professor John McKay** from the Australian APEC Study Centre, and a Founding Partner with Analysis International, was involved in all stages of the review, and was completely responsible for writing the final report.

**Professor Bambang Brodjonegoro** from the Faculty of Economics and Business, University of Indonesia, assisted in the formulation of the questions on the IAP and was part of the review team that visited Moscow.

## **APPENDIX B: PROGRAM OF VISIT BY REVIEW TEAM**

The program took the form of a series of roundtable discussions and information sessions on specific topic areas, and often involving up to 10 government officials. These sessions were devoted to specific themes but were often quite wide ranging in nature. Thanks are due to all of the officials who participated and to the staff of the Ministry of Economic Development – and in particular Mr. Nikolay Kushnarev, who co-ordinated the visit.

### **Professor John McKay**

#### **21<sup>st</sup> April**

Morning: Policies being adopted to diversify Russia's export base

Afternoon: Agricultural development and food production

Russia's food trade – imports and exports

The APEC food system

#### **22<sup>nd</sup> April**

Morning: Intellectual property rights

Program of the Research Centre on Intellectual Property Rights

Afternoon: Government procurement

The impact of the current financial crisis and the Russian response

Standards and conformity

#### **23<sup>rd</sup> April**

Morning: Dispute resolution

FTAs and RTAs

Banking regulation

Afternoon: Strategies for the development of the Russian Far East

**Professor Bambang Brodjonegoro**

**21<sup>st</sup> April**

Morning: Trade issues, tariff policies

**22<sup>nd</sup> April**

Morning: Consultations with the National Chamber of Commerce, and in particular the international trade section

Afternoon: Consultations with the APEC Centre in Moscow

**23<sup>rd</sup> April**

Morning: Free trade policy

WTO accession

On **24<sup>th</sup> April** the team met to discuss the writing of the final report, the division of tasks and the major findings from the visit.

## **APPENDIX C: OFFICIALS CONSULTED BY REVIEW TEAM**

### **Ministry of Economic Development**

#### Department of Foreign Economic Relations

1. Mr. Eugene Popov – Deputy Director General
2. Mr. Alexander Pakhomov – Deputy Director General
3. Mr. Sergey Egorov – Head of Division
4. Ms. Irina Terentyeva – Expert

#### Department of Trade Negotiations

1. Mrs. Irina Medvedeva – Deputy Head of Division
2. Mrs. Olga Gluhova – Consultant
3. Mrs. Tatyana Kosheleva – Consultant
4. Mr. George Trifanov – Counselor
5. Mrs. Elena Shutova – Consultant
6. Mr. Andrey Kuleshov - Expert

#### Department of Analysis and Regulation of Foreign Economic Activities

1. Mr. George Glazunov – Deputy Head of Division
2. Mr. Vitaly Rybakov – Counselor

#### Department of Government Economic Regulation

1. Mr. Pavel Tikhomirov – Deputy Head of Division

#### Department of Corporate Governance

1. Mr. Sergey Abramov – Deputy Head of Division

### **Ministry of Agriculture**

1. Mrs. Olga Babina – Expert

### **Rospatent (Federal Service for Intellectual Property, Patents and Trade Marks)**

#### Department of International Cooperation

1. Mr. Mikhail Faleev – Director General
2. Mrs. Marina Kornaukhova – Expert

### **Ministry of Regional Development**

1. S. Lebedev - Deputy Director of the Department of capital investments

2. V.Kasyanov - Deputy Director of the Department of international cooperation and development of across-the-border cooperation

3. O. Ivanov - Deputy Head of the Division of organization and control on conducting the APEC summit

**Rostechregulirovanie (Federal Service for Technical Regulation)**

1. Mrs. Inna Stepanova – Expert

**Russian Chamber of Commerce and Industry**

1. Mr. Sergey Vasiliev – Director General of International Cooperation Department

2. Mr. Eugene Polhovsky - Expert



## APPENDIX D: COMMENTS AND QUESTIONS ON IAP

### APEC Individual Action Plan Peer Review of Russia

#### *Questions on Russia's 2009 IAP*

*Most of questions here have been prepared by **Professor John McKay** from the **Australian APEC Study Centre** and **Professor Bambang Brodjonegoro** from the **Faculty of Economics and Business, University of Indonesia**, but some have also been submitted by other APEC Member Economies - and in these cases the source of the question has been noted.*

*These questions have been developed with reference to the Individual Action Plan Peer Review Guidelines endorsed at the 17<sup>th</sup> APEC Ministerial Meeting in Busan, Korea, in November 2005, and are intended to support the spirit of the IAP Peer Review process as outlined in the these guidelines, notably:*

- *The process is intended to be rigorous and is aimed to encourage member economies to make greater progress towards achieving the Bogor Goals.*
- *The process is not intended to be adversarial, but is an interactive process that is meant to provide mutual learning experience for all APEC members. In particular it should provide an opportunity for the economy under review to learn how other members see its policies and programs.*
- *The aim is to be forward looking and policy relevant and to move where appropriate beyond issues listed explicitly in the IAPs and include other issues useful for demonstrating progress towards meeting the Bogor goals.*
- *Special attention needs to be given to the progress that has been made since the last review as well as to future tasks.*

*It is hoped that these questions will be received and answered in the spirit of this very important exercise.*

#### **I. INTRODUCTION**

1. *As is requested in the IAP Guidelines, could Russia briefly describe recent economic developments in the economy with reference to relevant statistics as well as major policy initiatives including structural reform?*
2. *Please comment on the impact of the current international financial crisis on the Russian economy and outline the measures that are being undertaken to ameliorate the impact of this international turmoil on the Russian economy and society. What impact will these measures have on the progress that is being made towards the achievement of the Bogor Goals?*
3. *What will be the impact of recent declines in the price of oil on the economy overall and in particular on policies relevant to the achievement of the Bogor Goals?*
4. *In terms of the overall policy framework, it is our understanding that Russia presently does not have laws/statutes to address a state's ability to claim immunity from suit*

*(process/ execution) and that consequently some Russian laws have been drafted in anticipation of a law on state immunity. For example, the new Civil Code of the Russian Federation (Article 127) provides that "the peculiarities of the responsibility of the Russian Federation and subjects of the Russian Federation in relations regulated by civil legislation with the participation of foreign juridical persons, citizens, and States shall be determined by a law on the immunity of the State and its ownership." As no such law has been drafted, we would be grateful if Russia could provide information regarding both the present status of state immunity regime, and the impact that the absence of such laws/statutes currently has on the protection afforded by bilateral investment treaties [submitted by Canada].*

## **EXECUTIVE SUMMARY**

1. Russia ended 2008 with its 10<sup>th</sup> straight year of growth, averaging 7% annually since the financial crisis of 1998. Although the Russian Government has laid out plans to diversify the economy, energy and other raw materials still dominate Russian exports. Over the last six years, fixed capital investment growth and personal income growth have averaged above 10%, but both grew at slower rates in 2008. During the past decade, poverty has declined steadily and the middle class has continued to expand.

Russia has also improved its international financial position, running surpluses since 2000. The government saved these surpluses in two sovereign wealth funds, together valued at near \$300 billion: a Reserve Fund to support budgetary expenditures in case of a fall in the price of oil and a National Welfare Fund to help fund pensions and infrastructure development. Foreign debt is approximately one-fourth of GDP (in PPP terms). The state component of foreign debt has declined, but commercial debt to foreigners has risen strongly.

In 2008, Russia's GDP growth was near 5.6%, led by non-tradable services and goods for the domestic market, as opposed to oil or mineral extraction and exports. The economy slowed significantly in the 2<sup>nd</sup> half of the year due to the global financial crisis and a steep fall in the price of oil. Oil export earnings had allowed Russia to increase its foreign reserves, the world's 3<sup>rd</sup> largest, from \$28 billion in 2000 to \$597.5 billion in August 2008, but a 70% drop in the price of oil since mid-July and the Central Bank of Russia's intervention to defend the rouble during the last quarter of 2008, reduced reserves to around \$427 billion.

Towards the end of 2008, Russia felt the adverse effects of the global financial downturn; the impact was particularly sensitive for economies with a higher level of global economic integration, such as Russia. The global financial crisis caused the Russian stock market to fall by roughly 70%. The global crisis also affected Russia's banking system, which faced liquidity problems against short-term external repayment obligations. The economic slowdown faced by Russia was caused by mounting problems in the global financial system, the shortage of cash and lending resources, the growing number of defaulted loans, deposit withdrawals, a decline in long-term lending, and a contracting consumer lending. Leading branches of the Russia's industry were also hit by falling oil, metals and grain prices, as well as a shrinking demand for exports.

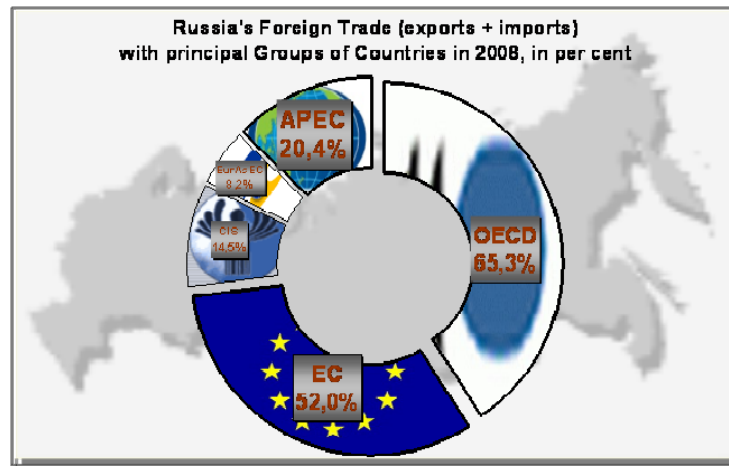
To support its financial system and the real sector, Government took various anti-crisis measures, including loans and other methods of state support for banks and corporations. The Russia's Government initiated a larger than *USD 300 billion Rescue Plan* (see *article 2.3. of Part II "Overview" that follows*) designed to increase liquidity in the financial sector, to help firms refinance foreign debt, and to support the stock market. The Government also unveiled a USD 20 billion tax cut plan and other fiscal supports for society and industry.

In the first year of his term, the President of the Russian Federation Dmitry Medvedev outlined a number of economic priorities for Russia including improving infrastructure, innovation, investment, and institutions; reducing the state's role in the economy; reforming the tax system and banking sector; developing one of the biggest financial centres in the world, combating corruption, and improving the judiciary. Russia's infrastructure requires large investments and must be replaced or modernized if the economy is to achieve broad-based economic growth.

Therewith corruption and lack of trust in institutions continues to dampen domestic and foreign investor sentiment. The banking system, while increasing consumer lending and growing at a high rate, is still small relative to the banking sectors of Russia's emerging market peers.

2. Russia is only a sole representative among the APEC Member Economies which is not yet a member of the World Trade Organization (WTO). Since 1995 when the WTO established a Working Party on Russia's accession, Russia has been negotiating with the WTO member economies for its accession at multilateral, plurilateral and bilateral levels. There have already been near thirty Working Party meetings over the past years. Russia has successfully concluded bilateral negotiations with all interested economies on goods and services - in 2008 with UAE and Saudi Arabia particularly. Today only negotiations with Georgia were frozen which has unilaterally withdrawn its signature under bilateral treaty with Russia on its accede to the WTO.
3. During the process of accession negotiations, Russia has liberalized its trade policy regime substantially. Most significant achievements were made in the establishment of a legislative framework for the trade policy. A long list of new legislations have been enacted, and old ones revised in order to better take the changing international environment into account, and to accommodate requests of negotiation partners. Russia, after 18 years of transition from a planned to a market economy, is now on the right way to set up "rule of law" in trade and investment policy.

**Chart I:**



4. The Russian Federation joined the “Asia-Pacific Economic Cooperation” (APEC) as a late-comer in 1998 together with Peru and Viet Nam. Since accession to the APEC, Russia has been an active participant in a diversity of cooperation programs, and Russia’s role in the APEC process has become incrementally important. APEC is the 3<sup>rd</sup> largest trading group partner for Russia with a share of 20.4% (as of 2008), along with the OECD economies (65.3%) and European Union (52.0%). The Commonwealth of Independent States (C.I.S.) economies follow the APEC relatively closely (14.5%). The established “*Intergovernmental Commission on Economic Integration*” (2005) identifies APEC, together with the ASEAN, C.I.S., EC and the Organization of the Islamic Conference (OIC), as one of five priority partners, and this indicates the level of importance that Russia attaches to cooperation with the APEC Member Economies.
5. The *European Union* accounts for over 52.0% of Russia’s total trade (same figure was in 2005) and is its largest trading partner, followed by *APEC* (20.4% against 16.2% in 2005) and *C.I.S.* (14.5% vs. 15.2%). Russia’s exports are concentrated in oil, gas and metals, which account for four-fifth of Russia’s total exports, making the economy potentially vulnerable to external shocks especially in the recent world economic environment. Russia’s imports, in contrast, are fairly evenly distributed.
6. Compared to many transition economies in Central and Eastern Europe and developing economies in Asia-Pacific, Russia is a relatively closed economy in terms of both international trade and investment. Especially in attracting foreign investment, Russia achieved far less than the economy’s potential competitors.
7. The overall trade policy of Russia has become increasingly liberalized, more transparent, and predictable. Nonetheless, the economy still has some way to go to achieve the standards of other OECD developed economies.
8. While the importance of tariffs for other developed economies has diminished over the last years, they are still a very important trade policy instrument for Russia. Also, tariffs are the action area in which Russia has progressed most substantially towards the Bogor Goals. The trade-weighted average tariff rates of Russia were reduced from 17.7% to 10.0% over the period of 1996-2007. Despite much progress towards the Bogor Goal, there still remain several problem areas. Russia has relatively few duty-free tariff lines,

makes relatively wider use of compound tariff rates, and resorts quite frequently to tariff instruments other than import tariffs, such as export duties, limited import tariff-rate quotas, and so on.

9. De-bureaucratization is a special initiative of a recent Russian Government policy, which envisages reducing state interventions in the economy. The Government has launched several programs for deregulation, and has been partly successful. However, the Government of Russia still possesses relatively strong control power.
10. In the IAP action areas “services” and “investment regime”, Russia maintains several deviations from national treatment and MFN principle. There are sometimes barriers to foreigners’ ownership participation and on the form of doing business in Russia. For example, in the Russia’s *banking sector*, it is not allowed for foreign banks to do business in the form of branches. Only subsidiaries are allowed. Moreover, there are no ownership restrictions for foreign investors in individual insurance companies, but the aggregated foreign ownership for the *insurance sector* as a whole is limited to 25%. So, in accordance with the Russian Federation Law No. 4015-1 “*On Organization of Insurance Business in the Russian Federation*” as of 27 November, 1992, such quota is a ratio between foreign capital and gross capital of all insurance companies which are acting on the territory of the Russian Federation. If the ratio exceeds 25% the afore-said restriction is come into force. If a company enters Russian insurance market and its foreign capital and all foreign investments in insurance companies taken together do not exceed the quota ratio, there would be no restrictions in obtaining a license for insurance activity.
11. Within the *manufacturing sector*, the *natural resources* and *automobile industries* appear to be the most strongly protected. Russia’s natural resources industry, especially the oil and gas sector, is characterized by a strong market concentration, with relatively high entry barriers. Foreign ownership is also limited for many principal private and state-owned enterprises (or Russian “strategic corporations”). The industry has long been characterized by restrictions imposed on exports, such as export duties and export quotas (to be understood as a ratio of foreign supplies by the domestic consumption). Also notable in the natural resources industry are the *Production Sharing Agreements (PSAs)*, which provide preferential treatment for investment projects with minimum investment of US Dollar 1.0 billion. After being accused of being a discriminatory investment instrument, the Russia’s Government has announced to step-by-step phase out these measures after the economy’s accession to the WTO.
12. The automobile sector has long been protected by traditionally high tariffs in Russia. Currently, the industry enjoys two different tariff regimes, in addition to the powerful preferences attached to local content requirements. For used motor vehicles (buses, trucks and passenger cars) older than seven years, Russia levies a specific very high tariff, the ad-valorem equivalent of which is nearly prohibitive. In an effort to attract foreign investment and develop a national automobile industry, the Government provides foreign investors in the automobile sector with duty-free access to Russian markets if they fulfil the local content requirement.
13. In terms of laws/statutes to address a state's ability to claim immunity from suit (process/execution) the special law regarding state immunity regime and its property hasn’t been adopted yet in Russia. But at the same time, the provisions, concerning state

immunity, are defined in legal acts and international agreements where the Russian Federation is a Party to.

For example, Federal Law No. 160-FZ “*On Foreign Investments in the Russian Federation*” of 9 July, 1999, determined the investor’s right to compensate the losses, caused as a result of illegal actions (omissions) of the public officers (servants), local authorities or public officers of the above mentioned structures in accordance with the Civil Code. Property of the foreign investor or commercial organization with foreign investments is not subject to the compulsory attachment, in particular nationalization or requisition, excluding cases and grounds to be settled in the Federal Law or international treaty where Russia is contracting party to. The value of the nationalized property and other losses are to be compensated in case of nationalization, while the value of the requisitioned property is to be paid in case of requisition. The remained property is to be returned in the foreseen by the Law order if the determination of circumstances, which were ground for requisition, takes place.

The State is to guarantee to the foreign investors, that the arisen disputes, concerning this matter, as well as other disputes, to be connected with the execution of investments and entrepreneurial activity in the territory of the Russian Federation, are to be settled in accordance with international agreements of the Russian Federation and Federal Laws in State Courts or in Arbitration or by means of international arbitration (*ad hoc*) procedures.

International agreements, signed by the Russian Federation, in some cases contain mutual immunity limitation of Russia and other Party of such agreements. In this connection and for example, in Article No. 8 of the Agreement between the Government of the Russian Federation and the Government of Kingdom of Sweden “On Encouragement and Mutual Protection of the Investments” it is foreseen, that each dispute, regarding investments implemented in its territory, between investor of one or/and another contracting party to this Agreement could be submitted to ad hoc arbitration, established in accordance with the Regulation on Arbitration of UN Committee for the law in foreign trade, if such the dispute would not be solved by means of direct negotiations.

Article 23 of Federal Law No. 225-FZ “On Production Sharing Agreements” as of 30 December, 1995, determines, that in conformity with the Russia’s legislation, it could be foreseen in such types of agreements, signed with foreign citizens or legal entities, a possibility of the Government of the Russian Federation’s rejection of juridical immunity, as well as immunity regarding preliminary ensuring of action and fulfilment of the juridical and/or arbitration decision.

14. In terms of Russia’s overall achievements with regards to the Bogor Goals, it is the assessment of the Experts that positive developments in Russia have by far outpaced negative developments. Over the past few years, the Russian economy has become increasingly open and substantially more liberal and transparent, particularly in adherence to the IPRs obligations.

However, there are still a number of impediments to trade and investment. With Russia’s accession to the WTO, many of these impediments will have to disappear, and the economy will become a full member of the world trading community.

## 2. OVERVIEW

1. *As is requested in the IAP Guidelines, could Russia give a brief overall evaluation of how far the economy has advanced towards the Bogor Goals since the last review was undertaken?*
2. *What are seen as the major future policy priorities for achieving these Goals?*
3. *Since the IAP Review process is partly designed to provide opportunities for mutual learning experiences, can Russia identify any key areas in which APEC cooperation or joint approaches would be particularly helpful in achieving these future priorities?*
4. *It would be particularly useful for other APEC economies if Russia could provide a brief statement outlining key policies regarding the development of the Russian Far East, the specific goals and policies for areas adjacent to the borders of other APEC economies and the implications of these policies for trade and other linkages with these neighbouring economies.*

### 2.1. Recent Macroeconomic Developments in Russia

The Russian Federation has shown rather robust economic growth since the 1998 financial crisis. The OECD assesses that this “post-crisis recovery has been faster and more sustained than most observers believed possible.” The price stability has been fairly restored after a period of relatively high inflation rate during 1996-1998. As can be seen from the table below, this rather robust overall economic performance has been fuelled by export-oriented sectors, such as oil and gas. Especially, sustained high oil and gas prices contributed to a rapid increase in exports of natural resources, leading to surpluses in trade and current account. This, in turn, has led to the stability in government budget and decrease in unemployment rate. The prudent fiscal policy of the Russian government is also reported to have contributed to the sustained economic growth over the period 1999 – 2008. As a result of improvement of terms of trade, Russia could substantially increase trade surplus, with the economy’s foreign reserves rising to the level more than USD 427 billion as of 31 December 2008. This shall contribute to sustaining stability of the economy over the coming years. Especially, the accumulation of surpluses in government budget and current (and trade) account is expected to function as a cushion in case the economy faces negative external shocks, such as sudden fall in oil and/or gas prices and in result of the current world financial and hard currency crisis.

**Table 1: Basic Economic Indicators of the Russian Federation**  
(1998 – 2008, per balance of payments methodology)

	1998	1999	2001	2003	2005	2006	2007	2008
Real GDP growth	-5.3	6.3	5.1	7.3	6.4	7.4	8.1	5.6
Gross Fixed Capital Formation growth	-12.4	6.3	10.0	12.5	10.9	16.7	21.1	9.1
CPI Inflation (Dec. / Dec.)	84.5	36.6	18.6	12.0	10.9	9.0	11.9	13.3
Unemployment (ILO-type measure,	13.2	12.4	8.7	8.6	7.7	7.3	6.3	6.2

	1998	1999	2001	2003	2005	2006	2007	2008
end year, percentage of labour force)								
Exports of Goods (USD billion)	74.4	75.6	101.9	135.9	243.8	303.6	354.4	471.8
Imports of Goods (USD billion)	58.0	39.5	53.8	76.1	125.4	164.3	223.5	292.0
Current Account (USD billion)	0.2	24.6	33.9	35.9	84.4	94.3	76.2	98.9
- as % of GDP	0.1	12.6	11.1	8.3	11.0	9.7	5.9	5.6
Budget Balance (federal Government, % of GDP)	-5.3	-0.5	3.1	1.7	7.5	8.4	6.1	4.0
CBR Gross FX-Reserves (USD billion, end of period)	12.2	12.6	36.6	76.9	182.3	303.0	478.8	427.1

**Sources:** OECD, MED of Russia, MoF of Russia, Central Bank of Russia (CBR)

This rather positive overall macroeconomic development has motivated increasing number of foreign investors to do business in Russia, thereby leading to an increasing amount of accumulated FDI over the last few years. These favourable developments in Russia's trade and investment relations enabled the Russian economy to become more open and liberalized in terms of both international trade and investment activities.

## 2.2. Overview of Russia's Pattern of Trade and Investment

### 2.2.1. Russia's Trade Relations with the World

According to the WTO (2006) and UNCTAD (2007), Russia was the 13<sup>th</sup> largest merchandise exporting and 18<sup>th</sup> importing economy in the world. One of the main characteristics of Russian trade is a strong concentration in the commodity composition of exports and a relatively even distribution in that of imports. In fact, Russia's export is strongly concentrated on such natural resources as oil and gas, with their total share being 68.6% in 2008. With ferrous and non-ferrous metals, which constitute the third largest export item of the Russian Federation, the three product groups represented roughly 80.3% of Russia's total exports. This strong dependence on a few export items can make the Russian economy vulnerable to external shocks, which could be one of the main challenges for the national economy.

Over the last few years, sustained high oil and gas prices in the world markets contributed to a rapid increase in Russia's export volume, while the speed with which imports increased was rather moderate. According to the national customs statistics, Russia recorded a trade surplus of USD 201.1 billion in 2008 alone (USD 163.4 bln. in 2006 and USD 152.8 bln. in 2007 correspondently). The Russian Federation, in fact, has accumulated relatively large-scale trade surpluses over the period 2005-2008, 1 and this has contributed heavily to the sustained economic growth of the economy. Notwithstanding these rather positive developments in external economic relations, the risk of "imported vulnerability" in case of sudden fall in prices in the world commodity markets was appeared and in this regard Russia tries carefully

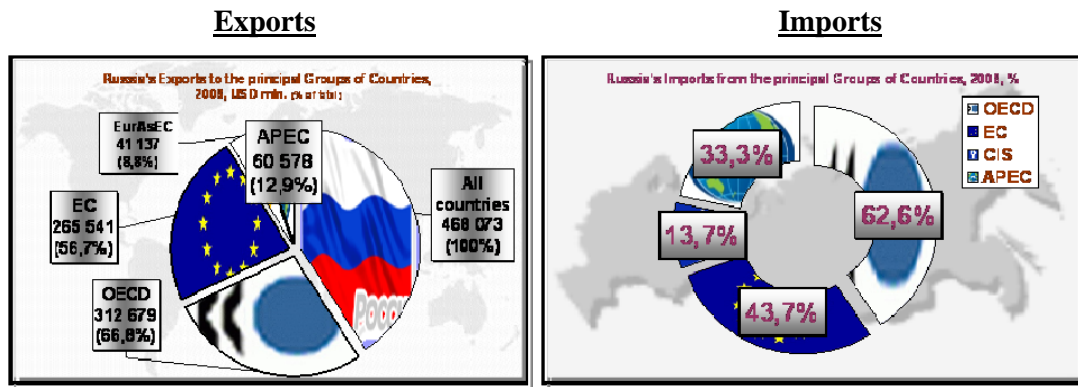
<sup>1</sup> This period corresponds to the recent IAP review period set by APEC.



to manage the windfall gains accumulated during periods of high oil prices as it is described below.

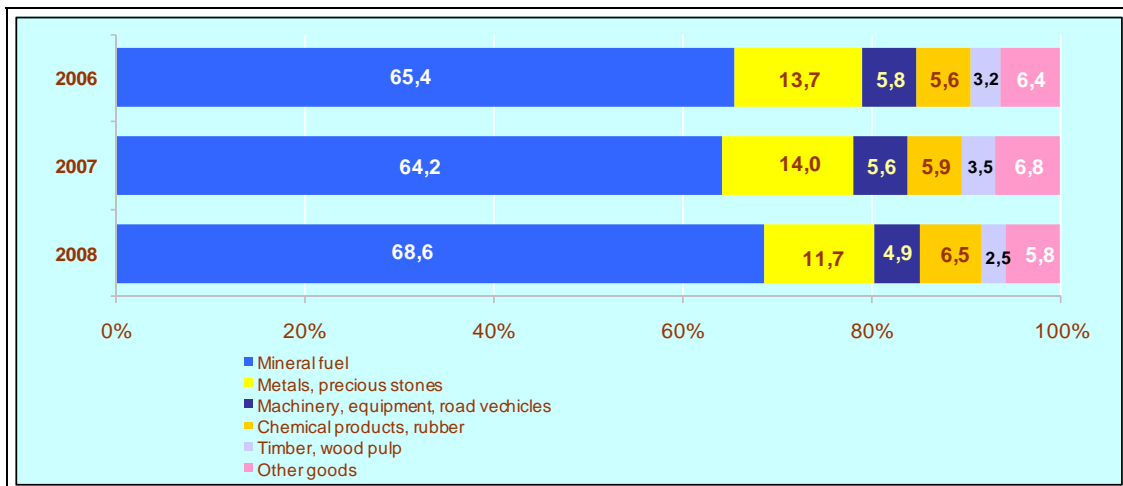
Russia's current trade and investment relations reflect the economy's traditionally strong ties with the European Union. The European Union member states as a whole represent the highest share in Russia's export and import relations with approximately 56.7% and 43.7% in 2008 respectively. The second largest trading partner of Russia is the APEC Member Economies, with 12.9% for exports and 33.3% for imports in 2008. The C.I.S. (*Commonwealth of Independent States*) economies with its share in Russia's exports and imports of 14.9% and 13.7% respectively in 2008 – constitute the 3<sup>rd</sup> largest trading partner for Russia. As an individual economy, Germany is the largest trading partner of Russia, followed by the Netherlands (2<sup>nd</sup> largest), **China** (3<sup>rd</sup> largest), Italy (4<sup>th</sup> largest) and Ukraine (5<sup>th</sup> largest). It is interesting enough, that **Japan** and **the United States** have appeared as the 8<sup>th</sup> and the 9<sup>th</sup> largest trading partners to Russia.

**Chart 2: Economy Composition of Russia's Exports and Imports (2008)**



The heavy dependence of Russian economy on a few natural resources industries is illustrated by Chart 3: in fact, three commodities – petroleum, gas and metals and its by-products – constitute three largest export items of the Russian foreign supply, and account for more than 80% of *Russia's* total *exports*.

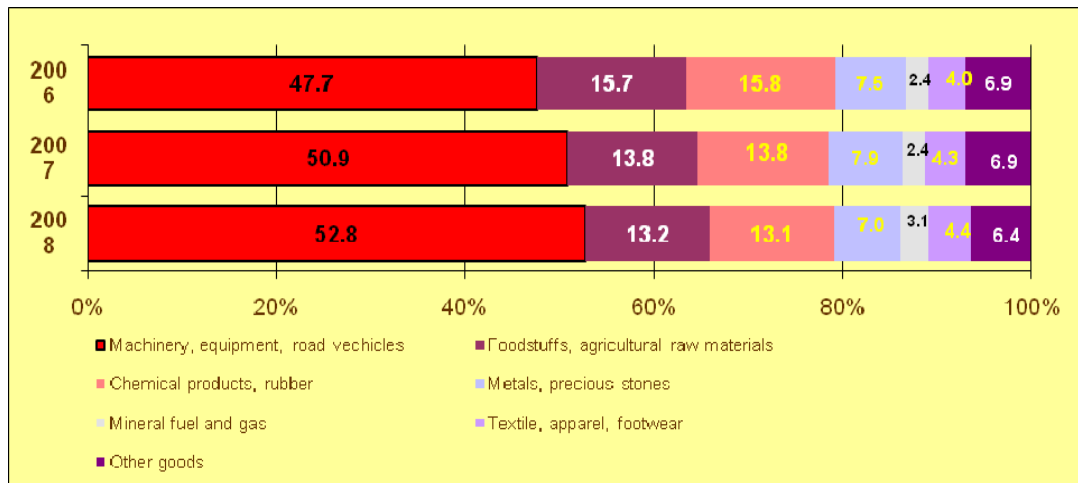
**Chart 3a: Commodity Composition of Russia's Exports (2008)**



Therefore, Russia’s export earnings, and hence the trade balance, are largely dependent on the price fluctuation of these commodities. This at the same time implies a major source of macroeconomic vulnerability of the economy.

Diversifying the industrial and economic structure, and thereby making the economy less vulnerable to external shocks is one key immediate policy challenge facing the Russian economy.

**Chart 3b: Commodity Composition of Russia’s Imports (2008)**

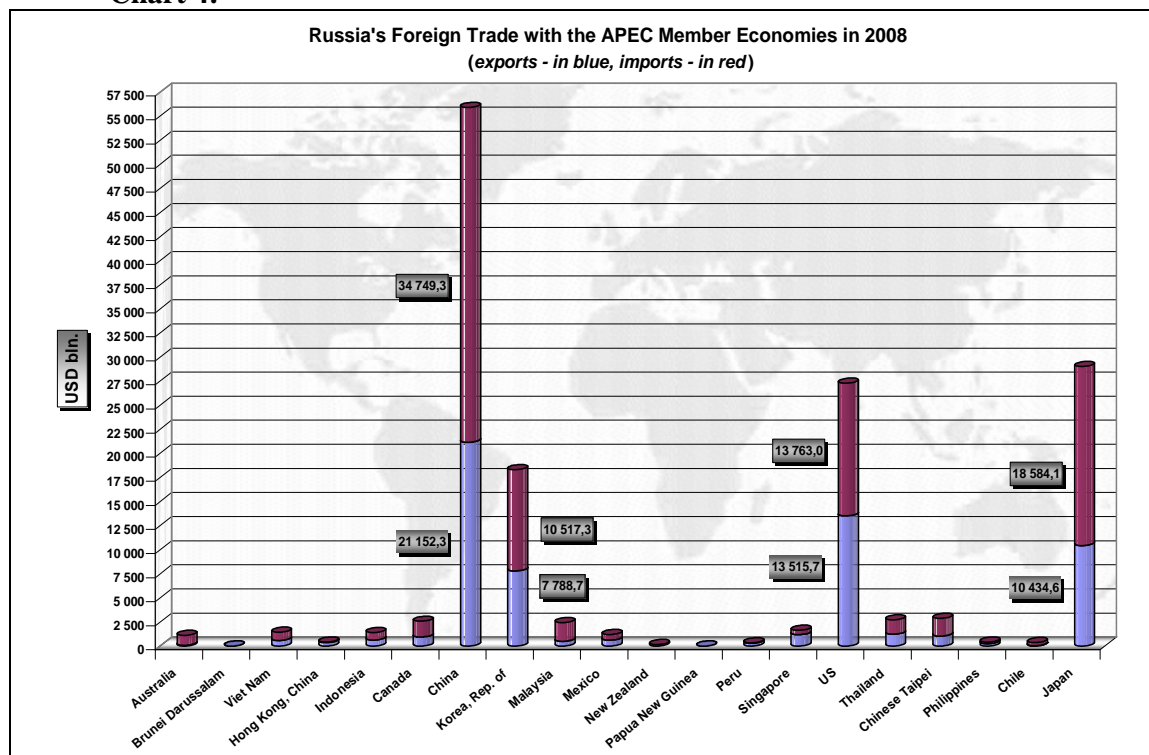


Contrary to the export structure, the *Russian imports* appear more evenly distributed across the industrial sectors. The top five import items – cars, medicines and pharmaceutical products, frozen meet, beverages and raw sugar – together accounted for only 17% of total Russian imports in 2007. The difference between the market share of the top most import item (cars; 10.7%) and, for example, the 14<sup>th</sup>-16<sup>th</sup> largest import items (leather footwear, sunflower oil and cigarettes; 0.1% each) is only 10.6% point.

It is a notable feature in Russia’s external economic relations that the economy maintains two regional trading agreements (*RTAs*) – one with the C.I.S. economies (and additionally with each 11 of its member economies) and the other with 4 economies in the Eurasian region of the former USSR’s territory (this agreement is called the Eurasian Economic Community (or the EurAsEC) aimed to build the Customs Union of Russia with the Republic of Belarus and Kazakhstan beginning from 2011 as the first step and the Unified Economic Surface with all EurAsEC member economies in the future).

The Russian Federation established in 2004 a special inter-ministerial body named “*Intergovernmental Commission on Economic Integration*”, which is responsible for developing strategies for the economy’s economic cooperation and integration with other economies. This Commission has designated five integration partners of priority concern, which include the European Union, the C.I.S. and the OIC economies, as well as the APEC Member Economies and a comprehensive partnership (dialog) with the ASEAN member economies. This indicates the great importance that Russia attaches to cooperation with the APEC Member Economies.

**Chart 4:**



### 2.2.2. Russia's Investment Relations with the World

Capital inflows into Russia has increased substantially over last years (2005-2008), with the gross inward flows in 2007 (USD 209.7 billion, in comparison with USD 87.6 billion (est.) in 2008) reaching approximately 2 times those of 2005 (USD 111.8 billion). The increase in FDI inflow has been less dramatic, and in 2007 reached USD 52.5 billion, compared to USD 12.9 billion in 2005.

The member states of the European Union have been main investors into the Russian Federation since 2000, whereas the United States headed the list of main investors during the period of 1997–2000. As of the end of December, 2007, only **the United States** appeared as the **9<sup>th</sup>** largest investors among top 10 investing economies with 86% of total value of investment accumulated in the Russian Federation, after the UK, Cyprus, the Netherlands, Luxembourg, Switzerland, Ireland, France and Germany. The Virgin Islands (the UK) were last 10<sup>th</sup>.

**Table 2: Russia's FDI: Geographical structure, per cent (2007)**

Economy	FDI Inward Stock	FDI Outward Stock
Total, of which:	100	100
Cyprus	34.4	13.5
Netherlands	34.2	51.9
Luxembourg	0.7	–
United Kingdom	3.3	4.7

<b>Economy</b>	<b>FDI Inward Stock</b>	<b>FDI Outward Stock</b>
Germany	4.4	1.9
United States	3.5	8.1
Ireland	0.4	–
France	1.5	–
Switzerland	1.6	0.6
Virgin Islands	2.8	0.3
Austria	–	0.0
Ukraine	–	0.9
Belarus	–	4.7
other economies	13.2	13.4

**Source:** Federal Service of State Statistics (RosStat), 2008.

Notwithstanding its relatively recent entry into the international investment scene, Russia has become an important player, ranking among the **25<sup>th</sup>** largest FDI recipients worldwide since 2006. In relative terms, *i.e.* FDI per head and as a share of domestic investment, Russia outperformed China in 2006-2007. However, the degree of FDI penetration, measured by the ratio of FDI inward stock to GDP, remained still lower in 2006 in Russia (9.5) than in Brazil (20.1) and especially China (25.7). According to 2007-2008 data, Russia's international investment inflows continued to be higher than the amounts received by Brazil and India but still considerably below China's performance.

Russia's emergence as an outward investor has intervened earlier than in other economies. It became the **3<sup>rd</sup>** largest outward investor among emerging markets already since 2003 (after Hong Kong, China and Singapore).

**Table 3: FDI indicators for BRIC economies (2006)**

<b>Indicator</b>	<b>Brazil</b>	<b>China</b>	<b>India</b>	<b>Russia</b>
FDI inflows (in billion USD)	18.8	78.1	17.5	<b>28.7</b>
FDI outflows (in billion USD)	28.2	17.8	9.0	<b>18.0</b>
FDI inward stock (in billion USD)	214.3	699.5	67.7	<b>93.9</b>
FDI outward stock (in billion USD)	107.5	82.3	21.1	<b>75.2</b>
FDI inflows per head (in USD)	102	60	16	<b>201</b>
FDI inflows as per cent of gross fixed investment (%)	10.5	6.8	6.4	<b>16.3</b>
FDI inward stock per head (in USD)	1 160	530	60	<b>660</b>
FDI stock as per cent of GDP (%)				
• Inward	20.1	25.7	7.3	<b>9.5</b>
• Outward	10.1	3.0	2.3	<b>7.6</b>
Outward/inward FDI stock ratio (%)	50	12	31	<b>80</b>

*Source:* EIU (2007), *World Investment Prospects to 2011: Foreign Direct Investment and the Challenge of Political Risk*, September 2007.

Even if Russia has not provided until recently official Government support for increased outward investment, comparable for example to China's "*Go Global*" programme, its FDI outward stock remains significant in absolute terms and as the share of GDP.

Russia's ratio of outward to inward FDI stock (80%) is high compared to the three other BRIC economies, especially China (12%). It is one of most important policy tasks of Russia to make the economy more open to foreign investment.

### **2.3. Russia's Priority Measures to cope with the Consequences of the Global Financial Crisis**

The goal of the anti-crisis package designed by the Russian Government and the Central Bank (see: <http://premier.gov.ru/eng/crisis/>) is to minimize the economic crisis and its effect for the nation and the economy.

The Government has earmarked a total of 10 trillion roubles (near USD 300 bln.) to be allocated from the Federal Budget, the Central Bank of Russia and reserve funds.

#### ***1. Administrative Support to Anti-Crisis Measures***

- A Governmental Commission on Sustainable Development of the Russian Economy has been set up (chaired by Igor Shuvalov, the 1<sup>st</sup> Deputy of the Russian Federation Government Chairman).
- The labour market and non-financial companies are being monitored (by a working group led by Alexander Zhukov, the Deputy of the Russia's Government Chairman).
- An action plan to improve the situation in the financial sector and in some economic sectors has been approved.
- Several laws will be adopted to facilitate the development of the financial and banking infrastructure through:
  - improvement of procedures for reorganizing commercial organizations, including lending organizations, by prohibiting the unconditional right of creditors to demand early payment of debts in case of reorganization;
  - improvement of mechanisms to regulate insolvent financial organizations;
  - improvement of the system of collaterals;
  - expanding the possibility to invest pension accruals of the insured individuals who have not used the right to choose an investment portfolio;
  - ensuring the access of professional securities market players to the Central Bank's refinancing transactions;
  - lifting limitations on the size of charter capital and the value of net assets to expand their possibilities to attract funds;
  - creating mechanisms to lower the risk of abuse by owners and managers before and during bankruptcy;
  - introducing of depositary registration of collateral designed to cut outlays during the turnover of collateral, and to simplify securitization and refinancing of mortgages;
  - introduction of the institute of general meetings of bond owners for consolidating bond owners' opinions;
  - specifying the terms of the issue of commercial papers.

#### ***2. Exchange Rate Policy***

- Seeking to prevent the outflow of capital, the Central Bank raised the refinance rate to 13% from 11%.

- Economic measures were taken to lower the attractiveness of speculative deals; in particular, the Central Bank's interest on liquidity instruments (Lombard loans and currency swaps) was raised.
- The currency corridor is being gradually widened to ensure a smooth adjustment of the rouble exchange rate depending on the economic situation.

### ***3. Support for the Banking Sector***

In order to support Russia's banking sector and prevent the loss of people's savings, the Government and the Central Bank have taken the following steps:

- Lowered the norm of obligatory reserves (releasing as much as 380 billion roubles).
- Softened the terms of lending with the use of certain types of collateral (this will allow the Central Bank to deposit up to 1.5 trillion roubles with banks; as of now, approximately 350 billion roubles have been deposited).
- Are issuing unsecured loans (the potential limit is 3.5 trillion roubles; loans worth over 1.7 trillion roubles have been issued), and have extended the duration of such loans to 12 months. As many as 143 banks have the right to take out the loans, and 124 lending institutions have used it.
- The Central Bank has been granted permission to compensate part of commercial banks' losses in the inter-bank loan market due to revocation of the counteragent bank's license (vital for the restoration of the inter-bank loan market).
- Allocated 950 billion roubles in subordinated loans to augment the banks' capital, including 500 billion to Sberbank, 200 billion to VTB, 25 billion to Rosselkhozbank, and 225 billion roubles to other banks, on the condition that their shareholders attract an equivalent sum (in all, loans worth 17 billion roubles have been approved for three banks).
- Monies of the Fund of Assistance to the Housing and Utilities Reform (200 billion roubles), Rosnanotech (130 billion roubles) and the federal budget have been deposited with commercial banks and invested in securities. Total bank deposits of state corporations amount to 430 billion roubles. The insured part of private individuals' deposits has been raised to 700,000 roubles (from 400,000 roubles), thus protecting 98.5% of deposits.
- The Deposit Insurance Agency has started the financial restructuring of the banking system (transfer of banks to DIA management, search for investors). A total of 200 billion roubles have been allocated for increasing the rehabilitation of such banks (60 billions are actually spent). The Central Bank has allocated over 60 billion roubles for increasing the liquidity of such banks. DIA management has been introduced at 15 banks, and new shareholders found for 11 of them will complete the reorganization.
- Some banks are undergoing rehabilitation paid for by VEB (Globex and Sviaz-Bank, total spending \$5.7 billion) and VTB.

### ***4. Assistance to the Financial Market, Protection against Hostile Takeovers***

- Strict rules have been established to suspend trading in the event of a substantial (5 % and more) decline/growth of quotes; marginal transactions were prohibited for periods of time.
- The Central Bank has been granted permission to take part in stock market trading.
- Allocations worth 250 billion roubles have been provided to support the financial and non-financial sectors. Of that sum, 75 billion roubles have been contributed to VEB's charter capital and 175 billion roubles from the National Welfare Fund have been deposited with VEB for subsequent investment in secure financial instruments (actual investment 90 billion roubles).
- Another 325 billion roubles have been reserved for 2009 (to support the financial market, economic sectors, and the labour market).

- USD 50 billion have been allocated to Vnesheconombank (VEB) for lending to Russian borrowers who seek to refinance their foreign debts taken against the collateral of assets in Russia. Decisions regarding USD 13.3 billion have been made; USD 9.1 billion has actually been provided.

#### ***5. Assistance to the Non-Financial Sector***

The overall rationale behind the Government's decisions is to resume normal lending to companies, stimulate demand, and protect the domestic market.

- A list of approximately 300 enterprises /major employers (including big holding companies) of substantial social and economic importance has been compiled. Federal assistance will be provided to them, including by subsidizing interest rate on loans, acquiring stakes in the affected companies (if necessary), and guaranteeing their loans. Regional lists of companies will be compiled separately.
- As much as 92 billion roubles (out of the total of 325 billion roubles) have been earmarked in the federal budget for these purposes (142 billion roubles with subsidies), as well as state guarantees of up to 200 billion roubles.
- Selective customs tariff protection measures will be applied depending on international commitments.
- Work is under way to lift administrative barriers and encourage competition.

#### ***6. Tax and Budget Policies***

In light of the economic crisis, the Government has decided to lower the tax burden and strengthen the stimulating role of the tax system to support business activity in the non-financial sector and people's consumer demand. The following decisions have been made:

- To change the payment procedure for VAT (to monthly from quarterly) and profit tax (to be calculated based on actual, not imputed profit). The goal is to make tax payment more regular and to rule out the crediting of the state by taxpayers.
- To simplify the rules of paying overdue taxes.
- To streamline the procedure for calculating VAT on advance payments in order to considerably speed up the reimbursement of that tax during export transactions.
- To increase bonus depreciation for some groups of fixed assets to 30% from 10%.
- To reduce income tax to 20% from 24%.
- To grant Federation entities the right to set taxes at 5%-15% within a simplified taxation system depending on the type of operation (the previous rate for all operations was 15%).
- To cut the tax burden by some 550 billion roubles in 2009.
- Seeking to compensate the lost revenues of regional and local budgets due decisions to cut taxes (approximately 100 billion roubles), these budgets will receive 0.5 percentage points of profit tax and 100% of excise tax on fuels and lubricants.
- To approve a package of tax measures for the oil sector and the housing market (see requisite sections).
- The issue of streamlining the tax system shall be reconsidered in April 2009.

#### ***7. Tariff Policy***

The Government's goal is to ensure a more flexible indexation of tariffs in 2009, more easily adjustable to the current economic situation.

- The average growth of railway transportation tariffs will not exceed 12.4% (previous target figure was 18.7%). On January 1, 2009, the tariff will be raised by 5% (previous target 14 %).
- The average annual growth of gas tariffs will be 16.3% (previous target 25%). On January 1, 2009, it will be raised by 5%.
- Heat supply tariffs will grow by 18% (previous target 22%).

- A bill is being considered to restore the right of the federal authorities to fix ceiling tariffs for housing and utility services.

### ***8. Infrastructure Projects***

The goal is to continue the implementation of key infrastructure projects and prevent delays.

- Federal target programmes must be streamlined.
- Subsidiaries of natural monopolies as well as companies that own generating assets should take similar actions to streamline investment programmes and continue the implementation of priority projects.
- Companies participating in major projects are to be allowed to issue infrastructure bonds, including against Government or VEB guarantees.

### ***9. Assistance to Employment***

- The maximum unemployment benefit has been raised to 4,900 roubles from 3,124 roubles. It will be paid in full also to those individuals who make a voluntary decision to resign.

- Up to 50 billion roubles have been earmarked in the federal budget (from the overall allocations of 325 billion roubles) for an active employment policy, including:

- organization of public work for the unemployed and those who have been transferred to a shorter working day or are on forced leaves;
- priority retraining of dismissed personnel;
- assistance in moving to a new place of work.

The said monies will be allocated for regional programmes of creating jobs and organizing public work.

- The quota for guest workers has been cut in two times.

### ***10. Small and Medium-Sized Businesses***

The main goal is to use SMEs to create jobs.

- VEB's SME lending programme will increase to 30 billion roubles.
- 10.5 billion roubles will be allocated from the federal budget to support the establishment of successful small businesses (lending, interest rate subsidies, state guarantees, development of SME infrastructure, such as technology parks and business incubators, and grants and training programmes).
- A law has been approved to give SMEs privileges for buying out the leased state and municipal property.
- Fees for connecting SMEs to small-yield networks have been cut to 5.5 minimum wages for facilities with a capacity of up to 15 KW.
- The regional and municipal authorities have been encouraged to attract SMEs to implementing state and municipal contracts. Administrative obstacles to business operation, such as limited access to local markets, must be lifted.
- Measures have been taken to lower the tax burden on small and medium-sized businesses (see the relevant section).

### ***11. Housing Construction and Assistance to People in the Housing Market***

- 60 billion roubles have been invested in the charter capital of the Agency for Housing Mortgage Lending (AHML), facilitating mortgage lending programmes.
- Allocations from the federal budget and the Fund of Assistance to the Housing and Utilities Reform (a total of 83 billion roubles) will be used in 2008-2009 to buy over 40,000 standard flats in the market in order to support developers and facilitate the solution of housing problems of servicemen and people living in dilapidated housing.



- Tax deductions for people buying or building housing have been doubled to 2 million roubles (the rule will be backdated to January 1, 2008).
- People who took mortgages but can no longer pay interest on them due to the loss of job or cuts in income will be given a respite in the payment of interest and principal. The AHML will be in charge of the relevant measures.
- It has been allowed to use the maternity capital to pay mortgages, including future mortgages, ahead of time, from January 1, 2009.
- The Government is also ready to provide project financing for the construction of new cement plants on the condition that their owners pledge to sell cement at a fair price for a long-term period (including to state-financed construction projects).

### ***12. Retail Services***

- Largest retail chains will be supported with loans, fast registration of property as loan collateral, and VAT refunds to accelerate cash turnover. Retailers, in turn, made a commitment to keep down prices of staple foods.

### ***13. The Oil Sector***

- Seeking to maintain the current oil production level:
  - The Government has raised the mineral tax allowance to \$15 from \$9 per barrel for the calculation of the mineral production tax. Tax holidays have been approved for offshore deposits, and fields in the Nenets Autonomous Area, Yamal and East Siberia;
  - The period of monitoring oil prices for calculating the oil export duty has been cut to one month;
  - The oil producers will also be able to use accelerated amortization of capital equipment mechanisms;
  - The customs duty has been lowered to \$192 from \$496 per metric ton, and will be further cut to \$119 on January 1, 2009.
- The oil sector's taxes will be cut by 250 billion roubles in 2009 taking into account cuts in profit tax, and by 500 billion roubles taking into account cuts in the customs duty in 2008.

### ***14. Agribusiness***

The goals are to normalize lending in the sector, to finish the investment projects to build livestock breeding farms, and to process the record-high grain harvest.

- The charter capital of Rosselkhozbank has been increased twice, by 30 billion and 45 billion roubles, respectively.
- 28 billion roubles have been allocated to compensate the acquisition of fuels and lubricants, fodder and fertilizers.
- The charter capital of Rosagroleasing has been augmented by 25 billion roubles. New lease rules cancel advance payment, with the first payment to be made 12 months after receiving the leased equipment, and the duration of the lease has been increased to 15 years from 10 years.
- Lending to the agricultural sector should exceed 860 billion roubles, including 400 billion to be provided in the form of subsidies for the loan interest rate. Of that amount, 70 billion roubles must be used to finish the construction of livestock breeding farms.
- Subsidies will amount to 80% of the refinance rate, or even 100% for some loans (livestock breeding and dairy farms).
- VEB will participate in financing major agribusiness projects, as stipulated in the bank's Memorandum.
- The volume of grain interventions will be increased.

- A decision has been made on new poultry and pork import quotas, tariffs on over-the-quota meat imports have been raised considerably, whereas the tariff quota on poultry meat has been cut by 300,000 metric tons.
- Relations between agricultural producers and retailers must be settled, with payments for deliveries provided in reasonable time.

### ***15. Agricultural Machine-Building***

- Investment of 25 billion roubles in the charter capital of Rosagroleasing, in particular for the acquisition of agricultural machinery.
  - Subsidizing of interest rates on loans issued for technical retooling.
  - Introduction of a temporary 15% customs duty on imported agricultural machinery.
- The Government expects the producers of agricultural machinery to cut prices of their products for consumers.

### ***16. Automotive Manufacturing***

The following measures have been taken to support the automotive industry:

- Additional increase in financing the acquisition of automobiles for federal needs (12.5 billion roubles).
- Allocation of up to 40 billion roubles for the purchase of road-building equipment through saving on the federal target programme "Modernization of the Transport System."
- Implementation of the national programme of renewing the municipal transport pool (20 billion roubles from the federal budget, 10 billion roubles from the regional budgets).
- Allocation of up to 5 billion roubles for leasing agricultural vehicles (25 billion roubles allocated to Rosagroleasing).
- Opening of credit facilities of up to 43 billion roubles for leasing companies (for up to three years, at an interest rate not higher than the refinance stake); using vehicle leasing schemes.
- Up to 70 billion roubles in loans taken by automakers against state guarantees. Placing infrastructure bonds worth up to 60 billion roubles (with state guarantees and refinancing).
- Subsidizing of interest rates on individuals' loans taken out to buy popular Russian-made automobiles (priced at up to 350,000 roubles). These subsidies will amount to two-thirds of the refinance rate.
- Increase in customs duties, temporarily for new foreign automobiles and permanently for used vehicles.
- Cutting/cancelling railway transportation tariffs to compensate for the Far East residents' losses from the transportation of new vehicles from European Russia to East Siberia and the Far East.

### ***17. Air Transportation***

- It has been decided to give loans to certain airlines in the amount of up to 30 billion roubles. This list is not final and will be updated in accordance with further unpredictable development.

## **2.4. Main Results of Structural Reform in Russia**

Two years ago the Concept of Long-Term Socio-Economic Development and the associated scenario-based prediction for the period until 2020 were elaborated.

It is the first comprehensive document of such a level, which is being developed for such a long-range perspective. Actually, it is meant to become the basic document that will define the logic of the Government's efforts for many years to come. This document was

continuously discussed with a wide range of experts, representatives of scientific, public organizations, as well as representatives of the business community.

Finally, the most important distinctive feature of the Concept consisted in that it will not be simply an ideological paper to indicate a vector of movement. There was prepared a step-by-step implementation plan that would comprise specific targets, assessment of needs for financial resources, as well as a clear definition of responsibilities for implementation of the measures envisioned. Along with the Concept, a Long-Term Forecast for the Period until 2020-2030 was developed, which was based on the scenario approach. It delineated the scope of development that relies on increasing exports of energy and raw material resources, and substantiated the strategic choice in favour of a precisely innovative, socially oriented development of Russia's economy.

The new three year federal budget rules for 2008-2010 were approved in April 2007 with the objective of achieving better transparency and long term stability and planning. The new rules have also been introduced for using energy windfall savings. Starting in 2008, the *Stabilization Fund* currently collecting oil taxes and income from oil export tariffs will also receive tax revenues from natural gas and export tariffs when the gas price increases above a certain level. Furthermore, in February 2008 the *Stabilization Fund* was split into a *Reserve Fund* and a *National Welfare Fund*.

The ***Reserve Fund*** has to be maintained at the level of 10% of GDP and the funds available above this limit will go into the ***National Welfare Fund***. The assets of the Reserve Fund will be invested in high grade sovereign bonds and those of the National Welfare Fund in a broader range of assets. Before these new rules were to come into effect in 2008, RUB 300 billion was withdrawn from the Stabilization Fund to capitalize existing and newly created state development agencies: the *Investment Fund*, the *Development Bank* and the *Russian Venture Company*, which are to finance projects in infrastructure and high technology industries with the financial contribution of the private sector. Both these funds accumulated more than USD 225 billion at the beginning of 2009.

Some new mechanisms intended to ensure keeping high rates of economic growth have been created. For instance, basic development institutes, such as Investment Fund, Development Bank, special economic zones, Russian Venture Company, started functioning last year.

The ***Investment Fund*** was created in 2006 to support public-private partnerships, especially in infrastructure. Several major projects have been approved in transport, oil refining, water and regional development with a total value exceeding RUB 1 trillion. The importance of regional aspects within the modernization strategy was recently confirmed when more important prerogatives were given to the Regional Development Ministry in the government appointed in September 2007. Six investment contracts have been entered into and 20 investment projects have been approved in 2007-2008. The greater part of projects approved by the Government of the Russian Federation and meant to be co-funded by the Investment Fund are grouped with the category of ***concession*** ones. The concession legislation invites perfection, and the Ministry for Economic Development, in cooperation with State Duma, prepared a package of appropriate amendments to the respective legislation.

The ***Development Bank*** was formed in May 2007 by restructuring the state controlled bank, Vnesheconombank, with the injection of RUB 650 billion of state funding. Its role will be to promote and finance innovation, exports and infrastructure development, encourage activities

of small and medium sized enterprises, provide export guarantees and participate in most state investment projects. The new financial organization will not be subject to central bank supervision and its supervisory board will be chaired by the Prime Minister. Vnesheconombank's Memorandum on Investment and Financial Policy was prepared where the bank's key normative standards, priorities and principles of operations were identified. The main principles, viz. absence of competition to commercial financial institutes, breakeven results and use of public private partnership instruments, define today's individuality of the Development Bank.

In 2008, the Development Bank invested over 100 billion roubles of long-term financial resources in Russia's economy, which will allow implementing (with participation of private sector equity) a number of investment projects for a total of more than 300 billion roubles, first and foremost, in infrastructure industries, aircraft industry, shipbuilding, woodworking industry, and some other spheres identified as priority ones in the Memorandum.

The *Russian Venture Company (RVC)* established in 2007 by the Ministry of Economic Development received resources from the government to be supplemented by an approximately same amount provided by private investors. The objective of the fund is to contribute to technological development and to an innovation driven economy by providing financing to innovative companies, including those with foreign participation. RVC arranged the first tender of management companies. The venture funds established with RVC's participation (their aggregate capital dimension is of around 6 billion roubles) embarked on venture investments in innovative projects. Currently, investment projects with participation of capital provided by RVC funds were being implemented in chemical and pharmaceutical industries, information technologies, sphere of energy-saving technologies.

In addition, the current investment boom in Russia has also been enhanced by *national Priority Programmes* financed from the federal budget, in particular the housing programme, and by already existing instruments, such as subsidized interest rates available for infrastructure development in special economic zones. Investment for the 2014 Winter Olympics and the APEC summit in 2012 in Vladivostok will also be majority financed by the Federal (State) Budget.

The law on *special economic zones (SEZs)* adopted in 2005 was an initial step in this direction. Among the first zones created by the end of 2005, four sites (Zelenograd, Dubna, St. Petersburg and Tomsk) were selected as technology-innovative zones and the two others (the Lipetsk region and Elbuga in Tatarstan) as industrial production zones. Additional zones were created in 2007 to focus on development of tourism (Irkutsk, Zelenograd, Sochi, Krasnodar, Altai and Stavropol). The federal government's supervision of the programme is ensured by the Federal Agency for Managing SEZs, which oversees tender procedures. It also negotiates financial guarantees and privileged credit conditions for SEZ-based firms. There were prepared certain amendments to the legislation, which have allowed creating an environment for establishing port-centred zones. This mechanism is deemed to be capable of improving cardinally the general situation with ports in the Russian Federation.

A regulatory and *legal framework for development of small and medium business* was created. The law "On the Development of Small and Medium Entrepreneurship" prepared by the Ministry for Economic Development was adopted. In 2007, the total of funds allocated out of the federal budget to finance measures under the Program amounted to 3.8 billion roubles. Guarantees for 5 billion roubles of borrowed funds for small business needs were

provided. One hundred twenty projects associated with creation of 120 business incubators were financed, and 38 such incubators have been created. A network of regional venture funds is being established. Such funds have been created in more than 20 Russian Federation subjects; the first three of them (in Moscow, Tomsk Region, and Krasnoyarsk Krai) have invested 400 million roubles in small innovative companies. A network of guarantee funds with an aggregate amount of assets over 3 billion roubles has been brought into being.

A key legislative act adopted in 2007-2008 was the federal law on *self-regulation organizations*. The law defined status, rights and obligations of self-regulation organizations and created a legal environment for self-organization of business, improvement of the quality of professional standards, development of mechanisms for raising the level of professional responsibility. Seven self-regulation organizations of appraisers and compensation funds have been established, along with standards and regulations for appraisal activities, a number of compensation funds have been created, insurance of professional liability is being developed.

During the previous years, the *corporate legislation* development concept was approved by the Government of the Russian Federation. The first stage of the concept was realized, within which a package of five bills, the so-called “anti-raider package”, was prepared, passed by the Government of the Russian Federation to State Duma for consideration and adopted in the first reading. The objective of the package is to preclude *mala fide* corporate takeover of businesses and ensure ownership protection.

An important direction of activities was the work on support to modernization of the *social sphere*. The subordinate legislation to regulate activities of funds accumulating target capitals of non-profit organizations (‘endowments’) was approved. A package of regulatory legislative acts for reforming the budgetary sector and forming the institute of independent entities was also prepared.

*Law on strategic sectors and “corporations”*. In his annual address in April 2005, the President of the Russian Federation invited the Government to prepare a law clarifying the conditions of foreign participation in strategic sectors. The draft bill was initially submitted to the State Duma (*Lower Chamber of Russia*) in July 2007 but withdrawn by the Government after the first reading. It appointed in September 2007 presented a new draft which was adopted by the Duma and then by the Federal Council in March 2008. The law was signed by the Russia’s President on 5 May 2008.

The final version of the Federal Law on “*Procedures of Making Foreign Investment in Business Entities of Strategic Importance to National Defence and Security of the State*” has a broader sectoral coverage (42 sectors, instead of 39 initially) and includes more restrictive conditions for foreign involvement in the subsoil exploration and exploitation. It also describes in more details the documents and information to be provided by applicants and the role of governmental bodies involved in the approval procedures.

The 2008 law states explicitly that its provisions do not apply retroactively. However, foreign investors should submit information to the relevant governmental body if they acquired 5% or more shares in strategic business entities before the entry into force of the new federal law. Such information should be provided in 180 days after the date of application of the law.

42 sectors enumerated by the new law can be grouped into the following broader categories:

- Hydro-meteorological and geophysical activities.

- Activities using pathogens of infection diseases.
- Activities involving nuclear and radioactive materials and their waste, including research, equipment design, construction and operation of nuclear installations, extraction and processing uranium and radioactive substances.
- Activities related to coding and cryptographic equipment and electronic devices for the secret reception of information.
- Design, manufacturing, maintenance, sales and use of weapons systems and arms, ammunition, explosives and military equipment and technology.
- Space-related technologies and activities.
- Design, testing, manufacture and maintenance of aviation equipment and technology, including dual-purpose aviation equipment and technology; aviation safety activities.
- TV and radio broadcasting covering the territory inhabited by half or more of the overall population of the Russian Federation.
- Production, services and trade in areas covered by the federal law on natural monopolies (excluding electrical power and municipal heating distribution and postal services).
- Activities carried out by business units included in the register provided for in the federal law “On protection of competition” and holding a dominant position in the territory of the Russian Federation in communication services (excluding Internet providers).
- Manufacturing and sale of metals and alloys used for manufacturing of arms and military technology (if the target company has a predominant position in these activities).
- Geological surveys of subsoil and/or prospecting for and extraction of minerals in subsoil plots of federal importance.
- Exploitation of water biological resources (fisheries).
- Printing services provided by business units printing 200 or more millions lists a month; editing and publishing activities if they concern 1 million or more copies).

Foreign control over Russian firms involved in one of these activities is subject to prior authorization. Foreign control is defined as 50 % of voting shares and giving the possibility to foreign companies to appoint half or more members of the managing body of the new business entity.

In the case of companies involved in geological survey of subsoil and/or prospection and extraction of minerals in subsoil plots of federal importance, foreign control corresponds to 10% and more of total shares.

If the proposed transaction involves a foreign state-owned company, international organizations and companies under their control, the threshold for the prior governmental approval is 25 % of the capital in companies active in strategic sectors and 5 % of the capital in companies involved in geological survey of subsoil and/or prospection and extraction of minerals in subsoil plots of federal importance.

Russian companies in which the state accounts for more than 50 % of the capital are not subject to the new law, therefore they are not required to seek the prior approval, except if the foreign investor is a foreign state or international organization or if the transaction concerns subsoil plots of federal importance.

The approval process includes several subsequent steps:

- The submission of the application by foreign investors to the “authorized body”: the submission should contain in particular information concerning foreign investors’ main

activities during the two years before the application, a draft business plan of the new strategic entity and the information about the composition of the shares. After the registration, the body should notify in 3 days the applicant if it considers that the transaction does not result in the control of strategic enterprises. In other cases, the body has 30 days to inform and transmit the application to the Government Commission for Control over Foreign Investment (hereafter the Commission) and the Federal Security Service Agency.

- The Federal Security Service Agency has 20 days to consider whether the proposed transaction represents a threat to the economy's defense and security.
- The Commission, chaired by the Government Chairman, has three months to give or not its approval.
- A transaction is not considered approved until the authorized body has granted its explicit consent.

The law establishes that the decisions and actions or the absence of action by the responsible governmental bodies can be appealed in the courts. A decision of the Commission to refuse the approval could be subject to redress in the High *Arbitrazh* (Arbitration) Court of Russia.

The law addresses the issue of confidentiality of information communicated for the purpose of the inquiry and foresees that eventual damages due to the divulgence of such information should be sanctioned in accordance with the procedures stipulated by the legislation of the Russian Federation.

In clarifying the conditions of foreign investors' involvement in the so-called "strategic sectors", the new law responds to its main objective to replace former case-by-case approvals and enhance policy transparency and predictability. Foreign investors also appreciate that the law will not be applied retroactively.

The *main criticism of the new law* is the broad sectoral coverage of the law. In particular, the inclusion of natural monopolies within the "strategic sectors" means that governmental control extends over large parts of Russian economy. Transactions between foreign private enterprises and Russian majority state-owned enterprises are not within the competence of the new law on strategic sectors.

This confirms the special position of "strategic" corporations in which the state intends to maintain its majority ownership and which are considered as the central piece of its economic strategy.

## **2.5. Russia's Basic Approach towards Trade and Investment Liberalization**

It should be recognized in the first place that the trade and investment policy regime of the Russian Federation has become substantially more open and liberalized over the past few years. Many factors have contributed to this favourable development. The most recent basic approach of Russia towards the liberalization of trade and investment regime can be characterized by the economy's three main activities:

- (i) negotiations for accession to the WTO;
- (ii) free trade regime with CIS economies and members of the Eurasian Economic Community; and
- (iii) voluntary liberalization and facilitation within the framework of APEC.

Russia's negotiations with the WTO member economies for its membership into this multilateral trading system constitute the most important trade policy of Russia over the last decade. Since 1995, when the Working Party for Russia's Accession was officially established, Russia has been an active negotiator at multilateral, plurilateral and bilateral meetings. At the multilateral level, there have so far been twenty five Working Party meetings and the Working Party has produced four "Draft Reports". At the plurilateral level, Russia has held several consultations with a limited number of participants mainly on the agricultural issue. At the bilateral level, a total of 60 Working Party members have been participating in the negotiations with the Russian Government. The government has also held nearly 700 discussion rounds with domestic interest groups, with a view to developing its national negotiation strategies and positions and explaining to and persuading them about the status of negotiations. For an effective coordination of national negotiation strategies and positions, Russia has established a "Government Commission for WTO", headed by the 1<sup>st</sup> Deputy of the Russian Government Chairman, Mr. Igor Shuvalov.

During this process, Russia has reduced tariffs substantially, and simplified the structure of tariffs and customs procedures in several stages. There has been a long list of new legislations introduced over the last few years, and old legislations have been modified continuously, in order to accommodate the requests from the negotiating counterparts. It was a breakthrough for Russia that the economy successfully concluded bilateral negotiations on goods and services with all Working Party member economies. The share of the economies Russia has successfully negotiated with – including the European Union, Japan, China and Korea – amounts around 90% of Russia's total trade. Also two major trading economies of the world – the United States and the European Union – have granted Russia the "market-economy status" in 2002, followed by several other economies including some APEC ones.

Russia's intention is to fulfil WTO requirements upon accession. For that Russian legislation had been brought into compliance with the WTO rules already in 2007. As a result administrative procedures and policies in many areas became more transparent, predictable, corresponding to the international rules and less burdensome for economic operators. During 2008 and the beginning of 2009 the last necessary amendments were made in order to complete this task. Respective changes cover areas of sanitary and phytosanitary control, technical regulation, customs procedures, safeguards measures and IPRs.

The work on improvement of Russian law enforcement in the field of intellectual property rights protection is being finalized. Some amendments to existing legislation in this area are expected to be adopted in the nearest future. Among them are draft Federal law strengthening licensing regime of optical discs production, draft Federal Law on protection of disclosed information at the process of medicine registration, amendments to the Customs Code of the Russian Federation on authorities of customs agencies to act ex officio in respect of alleged counterfeited goods and some amendments to Part IV of the Russia's Civil Code (on IPRs). Other amendments to Russian legislation still to be made are of technical nature. Particularly amendments to Federal law on Technical regulation.

With the C.I.S. economies and the members of the Eurasian Economic Community – economies with which Russia shares common history and culture – Russia has been maintaining free trade regime from the beginning of the post-cold war era. Though these economies are the second largest trading partners of Russia, next to the European Union, and their combined share in Russia's trade and investment is only around 15-20%, their mutual relationship appears to be a strategic one: their economic exchanges are concentrated in



natural resources for which they provide each other with tariff-free access. The geopolitical constellation in which Russia and these economies are currently cooperating with each other looks favourable to the continuation and fortification of their traditionally free and preferential trading relations in the coming decades.

The activities of Russia in the APEC process have been versatile and have become incrementally important. *Cooperation with APEC members remains one of the priorities of Russia's trade policy.* Russia considers APEC members as one of very important trading partners. Especially in *the area of facilitation*, Russia has been able to strengthen its profile in diverse APEC activities. For instance, Russia has expressed its readiness to accede to the APEC pathfinder initiative with a final view of participating in the Kyoto Convention.

Also the two-phases-project proposed by Russia on perfecting the e-government procurement system and elaborating the best practices to create a paperless trading hub has received a high appraisal and the APEC consideration.<sup>2</sup>

Serious attention should be given to the issues of *energy security* in the APEC. Russia shares the concerns of Forum members about energy price fluctuations. Indeed, they influence economic growth rates, and affect the realization of urgent social projects. As one of the largest oil and gas suppliers in the world, Russia will promote the creation of such a system of energy supply in the Asia-Pacific region that would let consumers diversify the geography of imports, as well as ensure reliable and uninterrupted supplies. Russia is interested in maintaining stable and predictable hydrocarbon prices based on the real ratio of demand and offer and stands ready to take part in joint energy saving projects, and development of alternative energy sources as well.

*Environmental protection* is playing an ever-greater role in fulfilling economic development objectives. Russia has been dealing with these problems in a responsible way, which is testified by contribution to the implementation of the Kyoto Protocol. Necessary steps at the international and national levels have been made. In July of 2008 the RF President signed the Decree on certain measures to increase the energy and environmental effectiveness of the Russian economy, which sets out the goal to cut down by 2020 Russia's GDP power consumption by at least forty per cent against 2007.

Russia has been endeavouring to facilitate an effective solution of such an acute *problem as food shortage*. Russia possesses a unique agricultural potential and has been doing its utmost not only to fully meet its own needs, but also to help other economies. In the future, Russia seeks to become a major player in the world food market. Incidentally, in response to the food problem which has been increasingly troubling consumers and producers, Russia has put forward an initiative to hold the World Grain Summit in Saint-Petersburg in early June 2009.

*Partnership between the state and corporate business* has been a significant source for sustainable economic growth in the Asia-Pacific region. This partnership has been in the APEC's focus. The activities of the Russian business community representatives in the Business Consultative Council of the Forum were positively assessed by our partners, which held its plenary session in Moscow in May of 2008.

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<sup>2</sup> See APEC ECSG reports for 2006-2008 for details.

Russia fully shares and supports the approach to *enhance social responsibility* of the APEC corporate sector. It has a continuous successful record of integration into the world economy and intends to further the multifaceted dialogue within the APEC on liberalization of the trade regime and development of investment interaction.

The issues of *ensuring security* also remain among cooperation priorities. In the first place this concerns joint countering of international terrorism which also seriously threatens trade and economic ties, as well as sea communications and energy transportation. APEC's work on the implementation of Russia's initiative on counter-terrorist protection of strategically important elements of the energy infrastructure is called to shore up the joint efforts aimed at carrying out these tasks.

Improvement of joint *actions in emergencies* is another topical task. It also includes the prevention and mitigation of consequences of natural and man-made disasters, and the fight against pandemic diseases. Russia has accumulated considerable organizational and technological expertise in these fields which, as practice shows, has been used by the APEC economies. Only in recent years prompt and effective assistance by Russian rescuers who worked hand in hand with their colleagues allowed saving and protecting the lives of thousands of people.

The theme of the *fight against corruption* has been increasingly in the focus of the Asia-Pacific Economic Cooperation. Like other participants in the Forum, Russia considers this work exceptionally important. In 2008 the *National Plan for Countering Corruption* has been adopted as an "anti-corruption package" of laws by the State Duma (*the Lower Chamber of Russia*).

Though APEC represents only 20 % of Russian foreign trade (in terms of turnover) and 5.9 % of accumulated foreign investment (of which 4.4 % in total is FDI), it's a rather encouraging development that these shares showed a gradually increasing tendency since Russia's accession to APEC. The Asia Pacific region seems to be of great significance for Russia in a number of aspects. As the Government states in several documents, Russia's "Eurasian identity" seems conducive to the fact that APEC is regarded as one of Russia's main foreign policy priorities.

In addition, over 20 % of Russia's total population is living in the Asian part of the economy, and the economy's strategic natural resources are concentrated in the Asian part – regions of East Siberia and Far East. It is, therefore, natural to expect more active participation from Russia in APEC activities, and especially in the member economies' pursuit to achieve the Bogor Goals.

Russia's involvement in the integration processes in the region contributes to more efficient implementation of social and economic development programmes in the economy. And in this context, Russia attaches great importance to strengthening industrial cooperation and collaboration in the field of advanced technologies and implementing transportation projects, including the establishment of a "land bridge" to move cargos between Asia Pacific and Europe. Broadening of interregional ties is important, in the first place, to Siberia and the Far East of Russia.

It is for these reasons that in view of the Russian presidency it has been decided to hold the *APEC 2012 summit in Vladivostok*. Russian Government and public authority of the

Primorsky *krai* (region) are already actively preparing for it drawing on the new ideas as well as experience of organizing meetings of the Forum's working bodies in the Far East.

After *accession Russia's WTO* obligations will become the basis for further development of bilateral and regional trade relations with its trading partners, including APEC members. However Russia will need to make a comprehensive overview of its foreign trade relations and determine respective interests as regards foreign markets taking into account its own commitments as well as the benefits derived from Russia's WTO membership.

Thus APEC member's political support and practical contribution to the conclusion of the multilateral negotiations on the few remaining issues will be crucially important for Russia's expeditious accession to the WTO and respective development of trade and investment relations with interested member economies including from the Asia-Pacific Region.

It should be noted at this point that while evaluating Russia's efforts towards the Bogor Goals proper credit should be given to the liberalization and facilitation measures taken by the same in the process of its accession negotiations with WTO member economies. This is because even though the lion's share of such measures was not done in the APEC process, but done in the context of WTO accession negotiations and unilateral actions, APEC economies as well as all the WTO member economies have (and will) benefited (benefit) from Russia's liberalization measures.

For all APEC Member Economies that are also WTO member economies, the same would apply if they had introduced liberalization and facilitation measures to better achieve the Bogor Goals.

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A Study Report of 2009 Russia's IAP takes this rather peculiar situation into consideration.

### III. RESPECTIVE ISSUE AREAS

#### I. Tariffs

- 1. Please explain how Russia's recent proposals to increase tariffs (for example on autos, light trucks, buses, and agricultural equipment) is consistent with APEC's goals to achieve free and open trade through progressive reduction of tariffs until the Bogor goals are fully achieved [submitted by the United States].*

**Answer:** The decision of the Government of the Russian Federation to increase import tariffs on certain types of motor vehicles reflects deep structural changes in this industry following the introduction of the regime of “industrial assembly” of automobiles in the Russian Federation and was targeted at producing stimulating effect both on enterprises operating under this regime and on the Russian automotive industry as a whole, minimizing the negative impact caused by the world financial crisis.

In March 2005 the Government Decree “Concerning Amendments to the Customs Tariff in Respect of Automobile Parts Imported for Industrial Assembly” was adopted, permitting companies that have concluded investment agreements and are engaged in the industrial assembly of automobiles to import parts into Russia duty-free or at a rate of 3% (instead of usual 15%) for a certain time period after establishing local assembly plants. Beginning from 2005 and up to the present day 53 agreements have been signed between the Ministry of Economic Development and leading world producers of passenger cars and spare parts on construction of assembly facilities in the Russian Federation which will continue to enjoy zero- or low-tariff imports of parts for the above period.

Increase of tariffs level on new vehicles promoting the implementation of this objective is as low as 5%. In this conjunction the above measures were rather directed at re-channeling international supply of merchandise than on creating trade barriers and in our comprehension should not be considered as an impediment to the process of achieving the Bogor goals.

For certain positions tariffs have been decreased by the same Government decree primarily in relation to imports of merchandise not produced in the Russian Federation and with high ecological standards (manufactured in compliance with “Euro-4”). At the same time tariffs have been mostly increased on second-hand motor vehicles with the period from the day of production equal or exceeding 5 years thus stimulating imports of ecology-friendly vehicles.

Moreover these measures are non-discriminatory and have been introduced temporarily (for a period of 9 months only) and after its expiration will be subjected to revision by the Government.

Regarding Lima APEC Leader's Statement of the Global Economy on 22 November 2008 it is essential to note that this document specifically targeted as the prime objective the necessity to overcome the global financial crisis strongly supporting broad policy response needed to restore global economic growth. Therefore we consider the sustainable growth of Russian automotive industry being a major factor of the development of both national and world economy.

Regarding agricultural equipment import tariffs have been recently nullified on 34 positions of this category not produced in the Russian Federation including equipment for cattle-breeding and food processing.

2. *Please explain how Russia's introduction of/increase in export duties on various products (viz., crude oil, copper cathode, ferrous scrap steel, round wood) contributes to APEC's goals to achieve free and open trade through progressive reduction of tariffs until the Bogor goals are fully achieved [submitted by the United States].*

**Answer:** In view of sharp decline of oil prices the tariff for oil exports has been in fact reduced from USD 496 per ton down to USD 192 per ton and became even lower since 1 January 2009.

The rate of export customs duties on oil and petrochemical products are determined in order defined by article 3 of the Law of the Russian Federation "On customs tariff" and are based on monitoring of crude oil price of "Urals" brand in international crude oil markets (Mediterranean and of Rotterdam). The Federal Law of the Russian Federation No. 234-FZ of December 3, 2008 "On introduction of changes into article 3 of the Law of the Russian Federation "On customs tariff" stipulates transfer to monitoring and calculation of export customs rates on oil and petrochemical products on monthly basis, as well as reduction of period for putting export customs rates into effect and for the period during which those export customs rates are applied.

On 21 January 2009 the Russia's Government adopted Decree No. 25 reducing to zero export duties on copper cathode and nickel.

The answer to the question concerning round wood is provided below (see I-3)

3. *Export tariff on log has been substantially raised since 2007, to 25% and no less than Euro 15/m<sup>3</sup> as of April 1<sup>st</sup>, 2008, which would be further raised in the future as the prohibitive tariff. Please further elaborate export policy on log [submitted by China].*

**Answer:** Tariff and non-tariff regulatory measures on exports of timber which were adopted in 2007 by the Government of the Russian Federation, are targeted at reduction of log exports and also at growth of production volume of processed lumber, as well as at growth of export volume of the products with higher added value.

The reasons for the introduction of higher tariffs had their origin in large-scale logging primarily in the Siberia and Far East regions of the Russian Federation, a substantial part of which was conducted illegally and therefore uncontrollably and became a high risk factor for forest conservation and reproduction. The intention of the Government of the Russian Federation to introduce high tariffs for timber had been announced well in advance and became an issue for positive negotiations on bilateral level with all major importers of wood products from the Russian Federation aimed at establishing wood-processing facilities by companies of those economies. To facilitate the progress in this field the Government of the Russian Federation has announced large-scale non-discriminatory preferences to investors in timber-cutting.

These measures resulted, during the period from January till November 2008 in comparison with the similar period of 2007, in sharp decline of exports of raw wood which went down by 25,2% and rise in exports of cellulose which increased by 3,8%, of paper and cardboard by 4,4%.

In order to avoid sharp reduction of logging and maintain employment rate in wood-processing and logging industry, ensure creation of smooth environment for gradual realization of investment projects in this sector and for sustained growth of external trade in wood products during the world financial crisis, the Government of the Russian Federation accepted on 24 December, 2008, Decree No. 982, which maintains till 1 January, 2010 the current regulations on timber exports, which were put into effect from 1 April, 2008.

4. *Is there a special tariff arrangement for “former Soviet Union” economies and East European Economies? If there is, it is under the scheme of bilateral or multi-lateral trade agreement? Please give some information which economies that have special trade arrangement with Russia.*

**Answer:** The Eurasian Economic Community (EurAsEC) is an international economic organization vested with functions relating to the formation of common external customs boundaries of the economies who form it (Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan), to the elaboration of unified foreign economic policies, tariffs and prices and to other operational components of the common market (the homepage is at [www.evrazes.com](http://www.evrazes.com)). EurAsEC leaders have taken the decision on August 16, 2006 that the creation of the Customs Union will be at the first stage limited to 3 economies – i.e. Russia, Belarus, Kazakhstan followed by other member states.

At present FTA regime has been already introduced, in addition about 60 per cent of the tariffs of the above economies have been already unified. Further measures to be taken include unification of trade regimes towards outside economies, non-tariff measures on the inside and also of customs legislation.

Bilateral free trade agreements containing certain exceptions were first concluded between the Russian Federation and Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan – all in 1992, but later those exceptions were canceled in new agreements or by joining of these states to the Customs Union.

The Russian Federation has FTAs with other CIS economies as well. In some of those FTAs limited exceptions from free trade regime is provided.

5. *Since Russia gives the tariff preferences to the developing and least developed economies, are the criteria for economies classification based on some international standards such as World Bank or United Nations, or based on Russia’s specific criteria?*

**Answer:** According to the Agreement on the rules of determining the origin of goods of developing economies of 12 April, 1996 (with the Amendments and Additions of 7 October, 2002) when granting tariff preferences within the general system of preferences a list of developing (least developed) economies is made up with due regard for the UNO recommendations.

6. *How is the long term plan of Russia toward “majority free of duty” economy and what will be the goods or services still protected for the domestic interests?*

**Answer:** The Russian Federation is consistent in its efforts to reduce tariffs and eliminate trade barriers. In this area we have achieved significant results. The average applied imports tariff in Russia in 2007 was 11%. The Russian government has adopted a series of new legislation and modified old ones, in order to bring tariff rates down and simplify/harmonize the tariff structure. As for the decisions on protected goods and services they will have to accommodate the interim results of the on-going negotiations for the Russia’s accession to the WTO.

7. *Is there any significant impact on balance of trade following Russia policy to continually reduce tariff?*

**Answer:** The Government of the Russian Federation focused not only on tariff reduction but combined measures to increase transparency, harmonize customs system with WCO, eliminate behind-the-border barriers. As the result of these measures the Russian turnover (both export and import) increased at higher rate than world average.

8. *Is it true that Russian government has decided to raise tariffs for vehicles starting from January 2009? If so, we request that Russian government does not implement the decision to raise their vehicle tariff rate. According to the following Russian official website, Russian government has already decided to raise their vehicle tariff rate since 2009 January:*

*<http://www.government.ru/content/governmentactivity/rfgovernmentdecisions/archive/2008/12/05/9693415.htm>;*

*<http://www.government.ru/content/governmentactivity/rfgovernmentdecisions/archive/2008/12/10/2039149.htm>.*

*On the other hand, G20 economies have committed to refrain within the next 12 months from raising new barriers to investment or to trade in goods and services in the Declaration of the Summit on Financial Markets and the World Economy on November 15<sup>th</sup> 2008, <http://www.whitehouse.gov/news/releases/2008/11/20081115-1.html>.*

*In addition, APEC economies have committed to refrain within the next 12 months from raising new barriers to investment or to trade in goods and services in the Lima APEC Leader’s Statement of the Global Economy on November 22<sup>th</sup> 2008, [http://www.apec.org/apec/leaders\\_declarations/2008/aelm\\_globaleconomy.html](http://www.apec.org/apec/leaders_declarations/2008/aelm_globaleconomy.html).*

*We truly recognize that these Russian’s decisions are contradictory to the G20 declaration and the APEC Leader’s Statement, and it would affect negative impact on the global automotive industry. Therefore, we request that Russian government shall change their policy and take appropriate actions to refrain from raising new barriers under the G20 declaration and the APEC Leader’s Statement [submitted by Japan].*

**Answer:** Pursuant to the Resolution of the Government of the Russian Federation No. 903 as of 5 December 2008 year “On Revising Customs Tariff of the Russian Federation In Respect Of Several Automotive Engineering” in 2009 year vehicles are being imported at revised tariff rates.

Russian imports of automotive engineering mainly consist of new motor cars (86% of the total volume) which are subject to 5% increase of import duty rate (with respective increase of specific component).

Provisions of the Governmental Resolution also envisage nullifying import customs duties on buses of ecological class EURO 4 and higher which assigned for transportation not less than 40 passengers including driver.

These measures are temporary and limited to the period from 12 January to 12 October 2009 year.

Besides the commitment of G-20 economies to refrain within next 12 month from raising new barriers to investment or to trade in goods and services must be considered together with the commitment to free market principles, open trade and investment and competitive markets (which was made in the same statement from G-20 summit held on 15 November 2008 year). Otherwise it may result in “subsidies war” instead of “tariff war”.

Facing the global financial crisis in the real sector of economy most of the economies took relevant support measures. Considering automotive industry particularly, on November of 2008 year USA granted a 25\$ bln. loan to its car industry (car industry operators can also enjoy tax incentives on a local level), at the same period EU approved Economic Recovery Plan which also includes supporting measures to auto industry. For example, the U.S. has approved federal loans of US\$17.4 billion for General Motors and Chrysler; Canada has announced a C\$4 billion aid package of short term loans; Australia will set up a A\$2 billion as a financing trust to provide liquidity to car dealer financiers; the Republic of Korea is considering offering liquidity and corporate tax exemptions to auto parts suppliers as well as cutting taxes and charges on motor vehicles; and China announced, inter alia, a reduction of sales tax for certain cars, a subsidy of Y5 billion for the purchase of modern vehicles by farmers, an allocation of Y10 billion over the next three years for the development of clean cars, and the loan by the Export and Import Bank of about \$1.45 billion to an automobile company.

Evolution of volume of vehicles' import to Russia should also be noticed. Thus in 2008 year vehicles' imports increased by 24,7% against 13,5% growing of national automotive industry. Moreover for the period from November to December to-year, when financial crisis affected real economy, Russian car industry setback in production by 11% while imports kept growing by 6,7%.

Under the conditions, raising the amount of support to national auto industry by several economies could have been resulted in collapse of Russian car industry which employment amounts to 500 thousands of people directly and 1,5 mln. more in production chain.

Under such circumstances vehicle tariff rates were revised by Russia for the maintenance of jobs in the first place as well as to maintain well-established structure and volume of vehicles' imports and also to protect Russian automotive industry from subsidized imports.

Therefore this measure should not be considered as an unreasonable barrier to trade in goods.

Comments:

1. *We commend Russia for its efforts in reducing tariff for technological equipment in*



*recent years. We appreciate that Russia will pursue consecutive reduction of its applied tariff (page 3 of chapter 1) [from Hong Kong, China].*

**Answer:** We appreciate the comment and take it into consideration

## **I. Non-Tariff Measures (NTMs)**

- 1. Is there still import limitation based on environmental related issues such as ban on imports of not-environmental friendly commodities? Similarly, is there also import limitation based on labour rights such as ban on imports of goods produced by child labour in some developing economies?*

**Answer:** Currently there are no import limitations based on labor rights such as ban on imports of goods produced by child labor and based on environmental related issues such as ban on imports of not-environmental friendly commodities.

- 2. Is there also limitation on the imports of commodities considered unhealthy or relatively dangerous to the human life (like the case of palm oil import in US and European economies)?*

**Answer:** Russia acts in full accordance with the provisions of Article 21 of the Federal Law No. 29-FZ of 2 January 2000 "On Quality and Safety of Food Products"

At the check-points of the state border of the Russian Federation and at the check-points for customs clearance of food products, materials and goods of animal origin imported to the territory of the Russian Federation authorities in charge of the state sanitary, phytosanitary and veterinary control within their competence conduct examination of these goods, check the shipping documentation, and take the decision about the possibility of the import of these goods into the territory of the Russian Federation.

In case food products or goods of animal origin raise grounded suspect of the authorities in charge of veterinary, sanitary and phytosanitary control in safety, of these goods the authorities take the decision about the suspension of the decision on permission to import of the goods to the territory of the Russian Federation. If food products, materials of goods of animal origin imported to the territory of the Russian Federation are recognized as dangerous the responsible state authorities forbid the import of these goods and make respective note at the shipping documents that these goods are dangerous for human health and can't be distributed. The owner of the goods should take out the goods from the territory of the Russian Federation within 10 days. In case he fails to do so the goods will be seized in accordance with the legislation of the Russian Federation and will either be destroyed or utilized depending on the results of expertise.

The Ministry of Agriculture of the Russian Federation (MOA) and the Ministry of Health and Social Development of the Russian Federation (MOH) are in charge of developing guidelines and measures in the field of food safety and protection of human, animal and plant health. The Federal Service for Veterinary and Phytosanitary Supervision ("Rosselkhoznadzor") is the federal executive authority in charge of implementation of control and supervision in the sphere of veterinary, quarantine and protection of plants,

use of pesticides and agrochemicals, and also protection of humans from diseases common to people and animals.

3. *What commodities or goods receive export subsidy in Russia currently? Why are they allowable under WTO?*

**Answer:** In the process of the accession to the WTO the Russian Federation committed itself that by the date of accession no prohibited subsidies of any kind within the definition of Article 3 of the WTO Agreement on Subsidies and Countervailing Measures will be provided except as otherwise had been agreed during the accession process and that any subsidy programme in place or established after accession within the territory of the Russian Federation would be administered in conformity with the WTO Agreement on Subsidies and Countervailing Measures. In accordance with the provisions of the WTO Agreement on Subsidies and Countervailing Measures export subsidies to industrial goods are considered to be prohibited.

No commodities in the Russian Federation currently receive any export subsidy.

Principles and mechanisms of providing export support are established by the regulations of the Concept of Development of Financial Support (Guarantees) of Export of Industrial Products in the Russian Federation adopted under Order of the Government of the Russian Federation No. 1493-r of 14 October 2003.

The Concept envisages procedures for granting:

- State guarantees against political and long-term commercial risks arising during implementation of export contracts with foreign importers. State guarantees would only be provided if the Government of the foreign importer also guaranteed the same level of payment to be made pursuant to the same export contract guaranteed by the Russian Federation and the country of the government was on the list of foreign states approved on an annual basis by the Government of the Russian Federation. The amount of the guarantee fee would be based on the cost of service rendered by the bank involved in the operation of the guarantee scheme and connected with development of respective documents and would cover the long-term operating costs and losses of the programme.

- Export credits given to importers of Russian industrial products. Such credits are aimed at equalization of costs for export credits which exist at foreign financial markets with respective costs in Russia.

- Compensation of interest rates to Russian banks engaged in granting credits to Russian exporters aimed at equalization of costs for export credits which exist at foreign financial markets with respective costs in Russia.

Recently only export credits guarantees have been used as the mechanism of providing official support to exporters.

4. *Are there cases in Russia in which the import restriction could apply when the domestic production is considered enough to supply domestic market (when the domestic production is not enough then import is allowed but under strict control)?*

**Answer:** As described in Chapter 2: Non-Tariff Measures of the 2008 IAP of the Russian

Federation, at present the two-level tariff (TRQs) for the beef and pork meat and poultry imports to Russia exists in the Russian Federation, but otherwise there is no intention to limit the quantity and value of imports, except as provided for in international conventions such as the Montreal Protocol or the Basel Convention or for the implementation of other measures justified under the WTO agreement.

In the time span of the review period no substantial amendments to the currently established non-tariff regulatory regime have been introduced with an exception of expiration on December 31, 2008 of import quota on a certain position of electric lighting bulbs which was previously defined by Decree of the Government of the Russian Federation № 50 of January 28, 2006 “On measures for protection of national producers of electric lighting bulbs”.

5. *How does Russia assess the impact of the removal of non-tariff measures? Is the impact significant?*

**Answer:** Taking into account that in the span of the review period no substantial amendments to the currently established non-tariff regulatory regime have been introduced (see also II-4 above) the impact of the removal of non-tariff measures has been insignificant.

**Comments:**

1. *We note that Russia’s NTMs are applied mainly for reasons of security and protection of public order. We are glad to note that Russia will eliminate its unnecessary NTMs after accession to the WTO. (page 10 of chapter 2) [from Hong Kong, China].*

**Answer:** We appreciate the comment and take it into consideration.

**III. Services**

1. *At present and according to the Russia’s law currently in force, amendments for “easier branching” apply just for domestic institutions. Anyway, the foreign banks can put up money and create the daughter banking enterprises or operate through its representative offices with the respective limitation. This means that a foreign investor could hold up to 100% of shares in commercial banks, but not to set up the daughter branches in Russia. Does this rule exclude foreign banks? [submitted by Australia].*

The foreign bank can provide banking services only in the form of subsidiary established in accordance with the Russian legislation. Such subsidiary should be registered as a legal entity of the Russian Federation (the definition of the term “legal entity” is provided in IV-3).

This means that foreign bank cannot set up a direct branch in Russia.

However in accordance with the Russian legislation legal entities of the Russian Federation including those with foreign capital participation can establish the branch.

2. *In the insurance sector of Russia, the sum of foreign capital is limited to a maximum of 25% and upon reaching this cap the issuance of licenses to those insurance companies that are affiliates of foreign investors or have foreign investors' stakes over 49% will be terminated. Is this foreign capital maximum 25% for the whole insurance sector or of a single company? Can Russia elaborate more what it means by the latter part of the above sentence regarding the 49% stake? [submitted by Australia].*

**Answer:** 25% is a maximum quota of the foreign participation in the total capital of insurance sector (aggregated amount of capital of all insurance companies established in Russia).

This 25% quota is in fact operational with respect to companies either being subsidiaries of a foreign investor (investors) or having not less than 49% of foreign investment in their capital.

3. *Since the last IAP review, what have been the most significant changes to Russia's trade regime in services that provide new or enhanced benefits to APEC member economies?*

**Answer:** Major changes to Russia's trade in services regime after submission of the IAP-2008 were connected with the adoption of the following Federal Laws:

- Federal Law "On auditing activity" from 30 December, 2008, providing for abolition of licensing of auditing services by 1 January, 2010 and its replacement by the regulatory system based on the requirements developed by self-regulatory body;
- Federal Law "On patent agents" from 30 December, 2008, establishing new regulation such as requirements, definition of rights, duties and responsibilities, order of certification and registration for patent agents registered in the Registrar from 31 March, 2009.

These new laws contributed to increase of transparency and predictability of the regulatory regime in services sector in Russia.

4. *Is telecommunication sector in Russia open for foreign investment? If yes, is there limitation? How is the balance of service in telecommunication sector in Russia? (compared to Russia's FDI in telecommunication)*

**Answer:** According to the provisions of the Federal law "On communications» current regime with respect to telecommunication services is rather liberal with respect to foreign-owned telecommunication companies established in Russia. They may provide the whole range of telecommunication services and face no limitations on foreign investments.

However Russia's offer agreed in the context of WTO accession provides for certain temporary limitations with respect to foreign investments into the capital of incumbent operators.

As regards the treatment of foreign services suppliers the abovementioned law provides for reciprocity in establishing legal regime for foreign telecommunication providers, unless otherwise is provided for by the international agreements.

5. *How is the state ownership in Russia for telecommunication and energy sector?*

**Answer:** Russia's oil sector was privatized mainly through the loans-for-shares process in 1995-1997. Foreign investment in the energy sector has usually taken the form of joint projects with Russian partners, e.g. BP-TNK joint venture, E.ON-Gazprom and Sakhalin Energy, but overall amounts of it have remained modest.

Gazprom company is the major gas supplier in the Russian Federation, responsible for 85% of production whereas foreign companies represent just 0.2% of production. The market structure in the oil sector is more dispersed: state-controlled companies and other Russian firms (Lukoil, Rosneft and Surgutneftgas) representing each some 40% of production and foreign-owned companies - 2%. In 2006, foreign portfolio investment in the Russian oil and gas stocks was estimated at USD 50 billion, though the distinction between "foreign" and "local" is increasingly difficult in the context of global capital markets and given the existence of Russia's large round-tripping flows. In 2005, there were 10 Russian companies among the 50 world largest oil and extraction companies ranked by total production, in particular Gazprom (the 2<sup>nd</sup> largest), Lukoil (in which ConocoPhillips owned some 20% of the shares, the remaining 80% was in hands of Russian partners), TNK-BP, Rosneft, Surgutneftegaz and Sibneft.

Russia's 50,002 % state-owned Gazprom company has the monopoly over the *gas transport network*. Two 100% state-owned energy transport companies (*Transneft* and *Transnefteproduct*) control oil and oil product transport. There is also a 20% limit on foreign ownership of entities which own regional gas supply or distribution assets.

Given the current state of Russia's electricity generation and distribution network and expected dynamic growth in domestic consumption, the sector will need considerable investment over the next twenty years. The objective of the ongoing reform of the electricity sector is, in part, to utilize market forces to spur investment. Since 2003, Russia has pursued steadily a legislative and regulatory program to implement Decree No.526, *On Restructuring the Electric Power Industry of the Russian Federation*. Prior to this reform Russia's electricity sector was highly vertically integrated with the state-owned RAO United Energy Systems (RAO-UES) controlling all large-capacity non-nuclear generation assets and the transmission system. It also controlled the 72 AO-*energ*os utilities with regional monopolies on distribution and supply. Under the reform package, generation assets are being unbundled from both RAO-UES and the *energ*os. Former RAO-UES thermal generation plants have been grouped together into 6 wholesale generation companies (WGCs) and their assets spread across multiple regions to reduce the possibility of market dominance (the 7<sup>th</sup> WGC is comprised of hydro-assets only and remains under majority government control). The *energ*os have been structurally unbundled, with their generation, heat, distribution and supply assets turned into individual companies. The 14 territorial generation companies (TGCs) have been created consisting of groups of generation plants separated from *energ*os. Once all the assets are packaged and the minority shareholders compensated, there will be, in addition to the WGCs and TGCs, a number of regional energy companies engaged in generation and supply, plus the government-owned *Federal Grid Company*, in which the remnant of RAO-UES will merge as well as several majority-government-owned distribution companies.

The reform, which has aimed at establishing competitive power generation and supply markets, has gone quite far in unbundling generation and supply companies from the previously vertically integrated state electric company RAO-UES. By the end of 2007, nearly all newly created production units have been listed at the stock exchange and the state and the RAO-UES have already divested some of their holdings in these companies. Now transmission operation and regulation are to be separated from generation and distribution and an independent energy regulator has to ensure fair access and trading rules. Power generation companies rely on efficient, transparent and fair dispatch services.

The national system operator, Centralized Dispatching Administration, remains over 75% state-owned. While it is currently independent from the National Grid Company, in which the state will also retain over 75% of ownership, combining the two entities is under consideration.

75% minus 1 share belongs to the Russian government in telecom company Svyazinvest.

6. *How is the direction of tourism and education in Russia related to APEC? Is there any plan for significant increase in tourism and higher education collaboration with APEC members?*

**Answer:** Government of the Russian Federation Decree No. 638 as of 25 August, 2008 “On cooperation with foreign countries in the area of education” establishes the rules for admission of foreign students to high and secondary educational institutions in the Russian Federation.

About 680 government grants for students from APEC Member Economies exist now.

Russia also plans 10% to increase the provision of government grants for the students from APEC Member Economies.

There are no barriers for collaboration with Russia’s tourist operators. Tourist companies of the APEC member economies may also establish their subsidiaries in the Russian Federation in order to provide tourist services.

7. *There is no description for “Licensing and Qualification Requirements of Service Providers”, “Foreign Entry” and “Discriminatory Treatment/ MFN.” Are there no limitations or requirement on Education Services? [submitted by Japan]*

**Answer:** There is a resolution of the Government of the Russian Federation of 18, October 2000 №796 «On licensing of the education activity».

Privately funded education organizations/services are allowed only in the form of a juridical person of the Russian Federation, which is a non-commercial organisation.

8. *Is it the right understanding that Russia will abolish those limitations to the foreign insurance companies when it joins the WTO? [submitted by Japan].*

**Answer:** No, the understanding is not correct. Certain limitations (in particular, the overall quota of foreign participation) will remain; other limitations will be either

modified (prohibition of direct branches) or phased out (like 49% equity limitation in life and mandatory insurance).

9. *Regarding the description of “Further Improvements Planned” of “Operational Requirements” in financial services, could you clarify its details? [submitted by Japan].*

**Answer:** There is a plan of the Government of the Russian Federation to increase the minimum charter capital of the non-credit organizations in banking system. Functions of the non-credit organizations are established by the Federal law “On banks and banking activity”.

10. *Regarding the description of “Foreign Entry” into financial services provision, are there any limitations or requirements other than licensing requirements mentioned in the “Operational Requirements” and “Licensing and Qualification Requirements of Service Providers”? [submitted by Japan].*

**Answer:** The “Foreign Entry” into financial services provision reflects only last legislative modifications in the financial sector which came into effect in 2008. Any other restrictions and limitations, applied to the financial service suppliers were specified in the previous versions of Russia’s IAP.

11. *Under energy services, there is no description for “Foreign Entry”. Does this indicate there is no limitation or requirement on energy services? [submitted by Japan].*

**Answer:** Foreign entry is regulated by the general legislation on registration of legal entities of the Russian Federation and on licensing of certain types of activity as well as by specific legislation regulating foreign investments into “strategic companies” and legislation pertaining subsoil. The following laws may be referred to for the details: Federal Law No. 129-FZ of 8 August 2001 "On State Registration of Legal Entities and Individual Entrepreneurs"; Federal Law of 9 July 1999 №160-FZ “On Foreign Investments in the Russian Federation”; Federal Law of 29 April 2008 No. 57-FZ "On the Order of Investing by Foreign Persons in Companies Having Strategic Importance for the Ensuring of the Defence of the Country and the Security of the State"; Federal Law No. 128-FZ of 8 August 2001 "On Licensing of Specific Types of Activity".

12. *Is foreign investment allowed in the power generation business in Russia? Is the price of energy (electricity) for customer controlled by Government?*

**Answer:** Please see the answer to Q5 in this Chapter as above.

Please see the answer to Q5 in this Chapter as above.

As a general rule foreign investments are allowed in the sector of power generation with certain limitations. That concerns the total amount of foreign capital participation, in particular, in the capital of the “strategic” enterprises (as described in respective paragraphs).

The prices for electricity are controlled by the Government of the Russian Federation. The formula for price calculation is established by the Government and the price is set in accordance with this formula by the Federal Service on Tariffs. The long term pricing

policy of the Russian Federation is aimed at creation of deregulated price for the electricity sold to industrial end-consumers.

Comments:

1. *We would urge Russia to prepare entries on sectors of potential interest to foreign services suppliers, such as more business services (e.g. accounting, architectural, engineering), communication services (e.g. at least telecommunications, but also postal and express delivery services), a more complete entry for education services, and entries for important growing services sectors, such as environmental and energy services [from Australia].*

Answer: We appreciate the comment and take it into consideration.

#### **IV. Investment**

1. *The Government of the Russian Federation has not granted full National Treatment in its Bilateral Investment Treaties (BITs) due to the fact that the Russian Federation subordinates National Treatment to its National Legislation. In this regard Mexico requires information and legal sources about the national law or regulation that reflects such subordination of an international standard to the national legal framework. Could the Russian Federation please indicate if any improvement has been made in providing National Treatment? If so, could the Russian Federation explain in detail how concretely it has been improved? [submitted by Mexico].*

Answer: In our view it is not appropriate to call full NT an international standard, as most of the states in their international commitments reserve the right to introduce certain exemptions from national treatment (including Mexico, e.g. list of reservations under OECD NT instrument).

As a general rule according to the Law N 160-FZ of July 9, 1999 “On foreign investment in the Russian Federation” the treatment granted to the foreign investments shall not be less favourable than that granted to national investments with exceptions established by the Russian legislation. Such exemptions may be aimed at protection of constitutional order, morality, health, rights and legal interests of third persons as well as to ensure national defense and security.

This approach was reflected in the Model Bilateral Investment Treaty which serves as a basis for negotiation with other States. Thus it is not actually a subordination of NT to national legal framework – in our BITs we just reserve the right to apply certain restrictions from NT in respect of the foreign investors and such restrictions will be applied when Russian legislation provides so, thus any arbitrary application of such restrictions is eluded.

2. *Regarding the new law of strategic sectors, could the Russian Federation be more specific about the sectors included in such law, if it is possible to find the information on the internet or to have one in English in order to know which sectors need the prior authorization by the government for foreign investors? Under this new law on strategic*



*sectors could the Russian Federation please clarify which is the specific governmental authority in charge of delivering prior authorization to foreign investors for investing in the sectors included in the law? What criterion is used by the governmental authority in charge for granting or not a prior authorization? [submitted by Mexico].*

**Answer:**

Article 6 of the Federal Law contains the list of 42 sectors (“types of activity”) which are considered to have strategic importance for national security of the Russian Federation.

These 42 sectors mostly concern:

- activities in connection with nuclear and radioactive materials;
- activities in connection with cryptographic devices;
- activities in connection with armaments and military equipment;
- ensuring of aviation security;
- activities in connection with cosmic equipment;
- activities related to subsoil plots of federal importance;
- activities with the access or use of classified information;
- production of goods, supply of services in conditions of natural monopoly.

The authorization is granted by Federal Antimonopoly Service on approval of the Governmental Commission for control over foreign investments in the sectors of strategic importance in the Russian Federation (established by the Resolution of the Government of the Russian Federation of 06.07.2008 № 510 “On the Governmental Commission for control over foreign investments in the sectors of strategic importance of the Russian Federation”).

The Governmental Commission decides whether to approve or block foreign investments on the ground of submissions made by the Federal Antimonopoly Service, Federal body authorized in the field of National Security protection and Intergovernmental commission on state secret (when classified information is involved).

The structure of the Governmental Commission was approved by the Regulation of the Government of the Russian Federation № 974-r of July 6, 2008.

When foreign investors intend to conduct the transaction that may result in their control over “strategic” enterprise, they are obliged to submit to the Federal Antimonopoly Service of the Russian Federation (FAS) the application for this transaction to be approved.

When the investigation conducted by FAS shows that the transaction results in acquisition of such control by a foreign investor, FAS forwards the application to the Federal body authorized in the field of National Security protection for the latter to make a conclusion on whether such acquisition results in threat to national security. All the examinations then are submitted to the Governmental Commission for control over foreign investments in the Russian Federation which decides on approval of the application. All actions or omissions of the public authorities involved in the screening procedure described above may be appealed with the Supreme Arbitrazh (Commercial) Court of the Russian Federation.

FAS has received 47 applications, 20 of them are still pending. The decision was made in respect of 27 (10 were approved, 15 were returned to the applicants due to incomplete data submitted by the applicants, 2 were returned on request of the applicants). It has already sent the information and analytic materials on 10 petitions to the Governmental Commission for control over foreign investments in the Russian Federation. During the first session of the Commission that was held on October 2008 the 2 petitions were satisfied. At present time Government Commission is considering 8 petitions.

3. *Could the Russian Federation kindly clarify what is to be understood by the wording “legal entities”? [submitted by Mexico].*

**Answer:** According to the Civil Code of the Russian Federation a legal entity of the Russian Federation is an entity that has separate property under its ownership, economic management, or operative administration and is liable for its obligations with respect to that property and that might, in its own name, obtain and exercise property and non-property personal rights, bear duties, and be a plaintiff and defendant in court. Legal entities must have an independent balance sheet or budget. Branches are not considered to be legal entities of the Russian Federation, but are a separate subdivision of a legal entity and can conduct all of the functions of a legal entity or part of them.

4. *Under what mechanisms does the Russian Federation settle international investment disputes? Does the Russian Federation settle investment disputes under the Additional Facility Rules of ICSID? If not, what are the mechanisms that apply for dispute settlement on investment matters? Are national mechanisms used? Could the Russian Federation please provide a list of concluded cases Investor-State against the Russian Federation? Where the information available? [submitted by Mexico].*

**Answer:** Due to little number of investment related disputes raised against the Russian Federation it is difficult to give a full picture in this regard.

Bilateral Investment Treaties (Investment Promotion and Protection Agreements, BITs) signed by the Russian Federation provide an option for an investor to choose between national court system of Russia or international arbitration court (standing or ad hoc). There is no requirement to exhaust local remedies before submitting the dispute to arbitration.

As ICSID Convention has not entered into force in respect of the Russian Federation, BITs between Russia and other states provide for the opportunity for foreign investors to settle the disputes under ICSID Additional Facility Rules.

5. *Could the Russian Federation clarify the scope of the Federal Law on concession agreements? Could Russia develop and explain deeply the link with foreign investment, if FDI is allowed in such concessions and what are the commitments on this matter? [submitted by Mexico].*

**Answer:** Concessions agreements in the Russian Federation are regulated by the Federal Law №115-FZ of July 21, 2005 “On Concession Agreements”. Article 5 of the Federal Law defines Parties to the Concession Agreement, where the conceder - the Russian Federation - can be represented by the Government of the Russian Federation or a federal executive authority duly authorized by the Government of the Russian Federation; the

concessionaire is either an individual entrepreneur or a Russian or foreign legal entity. Article 19 of the said Federal Law determines that foreign investors shall be guaranteed equal rights according to the legislation of the Russian Federation and conclusion of concession agreements is also undertaken in accordance with the legislation of the Russian Federation on foreign investments.

Therefore concessions agreements are actually closely related to foreign investments.

In order to further improve legislation on concessions the Federal Law №108-FZ of June 30, 2008 “On amendments to the Federal Law “On Concession Agreements” has been recently adopted which provides better balance of public and private sectors and more definitely describes the rights of the conceder and the concessionaire during the process of preparation and realization of concession agreements, clarifies financial liabilities of the parties and furnishes the concessionaire with the conceder’s additional guarantees, it also regulates compensation issue in case of cancellation of the agreement.

6. *Could the Russian Federation better explain their projects on transparency, progressive liberalization and non discrimination regarding the Foreign Exchange Law of 2004? Furthermore could Russia provide us with a copy of this law in English or the reference to find it? [submitted by Mexico].*

**Answer:** The answer to this question is provided below (see IV-10)

7. *The new federal Law on Strategic Sectors entered into force in May, 2008 which restrains foreign investment from strategic sectors and defines the investing, examining and approving procedures. Please further elaborate the Law. Additionally, please specify the examining and approval standard regarding automobile industrial assembling in Russia applied by foreign automobile maker. [submitted by China].*

**Answer:** The answer in respect of Strategic Sector legislation is provided above (see IV-2).

Regarding the question about the regime of “industrial assembly” of automobiles in the Russian Federation the situation is as follows. According to mutual understanding achieved in the framework of negotiations on the accession of the Russian Federation to the WTO, according to the joint Order of the Ministry of Economic Development and Trade of the Russian Federation, the Ministry of Industry and Energy of the Russian Federation and the Ministry of Finance of the Russian Federation № 315/372/80 of September 11, 2007 the Ministry of Economic Development and Trade of the Russian Federation has terminated on November 10, 2007 the process of concluding agreements with passenger car and auto parts makers on “industrial assembly” of automobiles in the Russian Federation with the exception of agreements related to preliminary agreements concluded by Russian legal entities approved by the Ministry of Industry and Energy of the Russian Federation about their intention to establish “industrial assembly” of motor vehicles before November 10, 2007.

On May 27, 2008 another joint Order of the Ministry of Economic Development of the Russian Federation, the Ministry of Industry and Energy of the Russian Federation and the Ministry of Finance of the Russian Federation was adopted stipulating extension of the period of “industrial assembly” in relation to the auto parts production.

Therefore the Ministry of Economic Development of the Russian Federation will continue the practice of concluding agreements with auto part makers.

8. *We note that the investment chapter of Russia does not provide details on some investment measures such as non-discrimination, expropriation and compensation, protection from strife and similar events, transfers of capital related to investments, settlement of disputes, etc. We should be grateful if Russia could provide more details on its investment regime [submitted by Hong Kong, China].*

**Answer:** The abovementioned Federal Law №160-FZ provides for a wide range of guarantees for foreign investors. In particular they are entitled to compensation of losses and damages incurred due to illegal actions or omissions of authorities, as well as compensation in case investor's property was subjected to measures equal to expropriation.

Foreign investors are also entitled to free use of profits received from their investments after all tax obligations are fulfilled by such investors, as well as for transfer abroad of payments related to the investment. In case of transfer abroad the requirements of foreign exchange legislation (described in para 10) should be met.

In addition to that Russia's BITs provide for basic guarantees for foreign investors/investment (in particular, with respect to compensation of losses, expropriation and transfer of payment). Russia currently has 43 BITs in force.

The answer to the question regarding investment disputes is provided in IV-4 and XII.

A detailed information regarding basic and current situation and progress in facilitating investment regime in the Russian Federation was provided in the Peer Review of the IAP of the Russian Federation conducted in Seoul in 2005.

In fact, basic legislation and other regulatory measures in the Russian Federation were mostly adopted before 2005 and in the period since then, besides significant issues described in the 2006-2008 IAPs of the Russian Federation (including those in other chapters than "Investment") a wide range of specific and often technical fine tuning measures are applied in different areas which are targeted at making economy and foreign economic cooperation more effective and thus producing positive impact on investment sphere. At the present period we do consider that there are no system problems in the field of the investment regime in the Russian Federation.

9. *By creating several special economic zones (SEZ), is Russia going to use that scheme as "full open economy" model that complies better with WTO and Bogor Goals? How is the development of the SEZ so far?*

**Answer:** Special economic zones being created in the Russian Federation are regulated by the Federal Law N 116-FZ of July 22, 2005 "On Special Economic Zones in the Russian Federation" which defines Special Economic Zones (SEZ) of 4 types: industrial-and-production SEZ (2 at present); technological-and-innovative SEZ (4); tourism-recreational SEZ (7); port SEZ (3).

Industrial-and-production SEZs are aimed at production and reprocessing of finished products. Technological parks are aimed at creation of incentives for inventions and realization of new technologies. Recreation zones were created in order to foster development of tourism and sanatorium-resort activity. Port zones are aimed at stimulating of port economy and port services, development of ports by means of construction and reconstruction of the infrastructure of sea ports, airports and river ports.

General objective of created special economic zones consists in developing of processing, high-technology industries, manufacturing novel types of products, transport infrastructure and also promoting tourism and sanatoria-resort sphere. Thereby diversification of the Russian economy and supporting sustainable economic growth is being implemented as well as improving the domestic business environment by applying business facilitating measures which in line with WTO and Bogor goals.

There were no new special economic zones created in 2008 year.

*10. Is there restriction in capital movement, especially foreign exchanges, for foreign investors? Is there also restriction in placement of export movement?*

**Answer:** By the Federal Law N 173-FZ of December 10, 2003 “On Currency Control and Currency Regulation” currency transactions between residents and non-residents shall be made without any restrictions, except several currency transactions in respect of which restrictions are established for the purpose of preventing a major reduction of gold and foreign currency reserves and abrupt fluctuations of the Russian Federation currency, as well as for sustaining the stability of the payment balance of the Russian Federation. The said restrictions should be non-discriminative and should be lifted by currency regulation authorities as the circumstances causing their establishment are eliminated.

In accordance with the Federal Law N 173-FZ of December 10, 2003 “On Currency Control and Currency Regulation” the regulation of currency transactions related to capital flow by the Central Bank of the Russian Federation has been abolished since 2007.

## **V. Standards and Conformance**

*1. What steps is Russia taking to ensure that its requirements [technical regulations?] for imported agricultural products are consistent with international standards, based on science and do not pose an unnecessary barrier to imports? [submitted by the United States]*

**Answer:** The legislation of the Russian Federation on technical regulation includes the Federal Law “On technical regulation” No. 184-FZ on 27 December 2002 (hereinafter called “the Federal Law”), technical federal laws, adopted in accordance with the above mentioned Federal Law and other legal acts of the Russian Federation.

One of the main aims of the Law is to harmonize the national system of technical regulation with the international standards and WTO provisions.

In accordance with the Federal Law technical regulations should be developed on the base of international standards excluding cases when this implementation is considered as impossible due to climatic or geographic conditions of the Russian Federation, technical and (or) technological peculiarities.

2. *We noted and appreciated the efforts of Russia in aligning their standards with international standards - the revision of 10% of their standards annually to bring them in compliance with the international ones. We also noted that a number of sections were entered with "NIL" and would consider it a good reference to readers if descriptions on the improvements, current policies/arrangements and planned improvements can be provided as much as possible [submitted by Hong Kong, China].*

**Answer:** Federal Law No.184-FZ of 27 December 2002 (as amended on 1 July 2003 and 1 May 2007) "On Technical Regulation" provided the legal framework for technical regulations, standards, and conformity assessment systems. The purposes of the Law that is relevant to the WTO Agreement on Technical Barriers To Trade, are ensuring the safety of products for the environment, life, and health; protecting property; preventing deceptive practices; ensuring technical and informational compatibility and the inter-changeability of products; ensuring uniformity in the methods of control and marking; setting up systems of quality control; and also establishing limits of application of requirements based on design and descriptive characteristics in accordance with Article 7(4) of the Federal Law.

The Government of the Russian Federation had adopted the Program of Development of Technical Regulations, approved by Government Decision No. 1421-r of 6 November 2004 (as amended by Government Decision No. 1889-r of 8 November 2005, No.781-r of 29 May 2006, No. 1930-r of 28.12.2007, No. 1403-r of 25.09.2008). The Program envisaged development and introduction to the Government of the Russian Federation of 41 draft technical regulations with a special focus on the priority technical regulations listed in the Russia Federal Law which are planned/intended to be adopted, *inter alia*, before 2010. The Program was reviewed annually by the Government. For the moment the following technical regulations had been adopted and brought into force: "On Requirements on Emissions of Harmful Substances by Automobiles in the Territory of the Russian Federation" approved by Government Resolution No. 609 of 12 October 2005, "On Requirements on automobile and aviation gasoline, diesel and marine fuel, fuel for jet engines and heating oil" approved by Government Resolution No. 118 of 27 February 2008, Federal Law of 12 June 2008 No.88-FZ "On milk and milk products", Federal Law of 24 June 2008 No. 90-FZ "On oil and fat products".

Currently, the following 17 priority technical regulations to be adopted, *inter alia*, before 2010, were specifically listed in the Federal Law:

- On Safety of Machines and Equipment
- On Safety of Low-Voltage Equipment;
- On Safety of Building Materials and Products;
- On Safety of Buildings and Facilities;
- On Safety of Medicines;
- On Safety of Elevators;
- On Safety of Power Stations and Grids;
- On Safety of Equipment, Operating under Overpressure;
- On Electromagnetic Compatibility;

- On Safety of Wheeled Means of Transport;
- On Safety of Medical Goods;
- On Safety of Individual Security Equipment;
- On Safety of Chemical Products;
- On Safety of Foodstuffs;
- On Safety of Devices, Operating on Gas Fuel;
- On Safety of Equipment for Highly Explosive Media; and
- On Safety of Packaging.

Within reported period there were no major changes in legislation that's why some of sections answered "*NIL*".

With the purpose of providing availability for interested persons of National Standards and All-Russian Classifications as well as information on them (including the improvements, current policies/arrangements and planned improvements) Federal Agency on Technical Regulating and Metrology organizes their official publication according to Russian Federation Government Decree No. 594 as of September 25, 2003 "On publication of National Standards and All-Russian Classifications of Technical, Economical and Social Information" with modifications introduced by Russian Federation Government Decree No. 486 as of August 2, 2005 "On modification and annulment of some Russian Federation Government Decrees on matters of technical regulating". All additional information in English can be found on <http://www.gost.ru/wps/portal/pages.en.Main>.

3. *In the introduction to the chapter on standards and conformance it is noted that a draft federal law "On standardization" and a draft regulation "On confirmation of the unique list of products, which are to be certificated and require the conformity certificate" have been prepared. Could Russia please tell us more about the contents of these documents and give a timetable for their implementation?*

**Answer:** The draft federal law "On standardization" and a draft regulation "On confirmation of the unique list of products, which are to be certificated and require the conformity certificate" are being developed.

The latest drafts (in Russian) can be found on official web-site [www.gost.ru](http://www.gost.ru). English translation will be published after the drafts will be introduced by the Government to the State Duma.

## **VI. Customs Procedures**

1. *Russia will make progress in streamlining customs procedures as outlined in its IAP, in terms of reducing clearances time, improving goods-processing ability of border ports, adopting E-Declaration Form and harmonizing Forms. Please specify the actions Russia will take to achieve these goals, and it is hoped that Russia could further enhance Customs data exchange with member economies [submitted by China].*

**Answer:** On May 30, 2008 the Order of the Federal Customs Service of the Russian Federation «Implementation of information technology allowing declaration of goods in e-form for custom clearance, including declaration via Internet» has come into force.

Participants of foreign trade activities had an opportunity to declare the goods in any customs body via Internet. The Internet technology allows declaring without a binding to any concrete customs body.

We are planning the further development of preliminary informing system.

According the federal law «On modification of the Russian Federation Customs code» the creation of preliminary informing institute is planned.

Active work is conducted on preparation an amendments to the customs legislation, for facilitating the implementation of the electronic declaration procedure for participants in foreign trade activities.

2. *To improve the usefulness of the detailed section on customs procedures it would be useful if Russia could summarise the ways in which it is attempting to conform to the APEC Leaders' Transparency Standards on Customs Procedures, reporting against the actual language in each of the section of these guidelines.*

**Answer:** For further enhancement the transparency of customs procedures, the following technologies are implemented by Federal Customs Service:

1. Preliminary information:
  - allow monitoring the goods before crossing the customs border;
  - facilitate the effectiveness and cost saving of the transactions through the customs border of the Russian federation.
2. E-declaration:
  - allow monitoring the customs clearance process at each stage, as well as further control at all levels of the custom system.

Both technologies use “Single Window” approach.

3. *It is noted that the introduction of internet based technologies for customs information is only proceeding slowly. Could Russia give more details on how it intends to overcome these problems, and how it is attempting to introduce more general paperless procedures?*

**Answer:** The Order of the Federal Customs Service of the Russian Federation No. 52 on 24 January 2008 «Implementation of information technology allowing declaration of goods in e-form for custom clearance, including declaration via Internet» creates the regulatory and legal framework for implementation of information technology and data transfer to custom body, including customs declaration by participants of foreign trade activities in e-form via Internet.

For increasing awareness in e-declaration technology among participants of foreign trade activities, the following measures were implemented by the Federal Customs Service:

- publication the preliminary information and information on existing technologies of e-declaration data in mass media;
- improvements in the customs legislation continues;
- program products for customs clearance were modernized;



- the list of documents which may be submitted to customs bodies in e-form was prepared;
- all regulations are published on the official web-site of the Federal Customs Service ([www.customs.ru](http://www.customs.ru));
- cooperation with governmental bodies of the Russian Federation, as well as other organizations in the sphere of information exchange;
- cooperation with international customs bodies in the sphere of data exchange.

## VII. Intellectual Property Rights (IPRs)

1. *It has always been recognised that one key area for the guaranteeing of intellectual property rights involves the implementation of community education programs outlining the benefits for consumers of such legal requirements. Could Russia outline the progress that it has made in the introduction of such programs?*

**Answer:** Recognizing the importance of APEC economies efforts in raising public education and awareness of intellectual property the Russian Federation provides for a number of educational programs and training activities in this field for a wide range of specialists.

In 2007-2008 in cooperation with WIPO the roving regional seminars aimed at spreading the knowledge among Russian applicants on the issues of more effective use of the Patent Cooperation Treaty (PCT) and Madrid System of International Registration of Marks were held in some Russian cities. Taking into account the interest of the audience and potential right holders to the subject of these seminars an arrangement between Rospatent and WIPO on continuation of such work was reached.

Two sessions of distance training on the WIPO Worldwide Academy Program "The General Course on Intellectual Property (DL-101)" in Russian for Russia and other economies were held in 2008.

Totally 1 126 persons were enrolled for training in 2008, 743 of them successfully completed the training course and obtained the WIPO Worldwide Academy Certificates. This form of trainings is popular among the population of Russian and Russian speaking citizens of CIS economies and far abroad.

To increase public awareness in the field of industrial property Rospatent, jointly with the EPO, started in 2007 the-three-stage project "Patent Information for Innovation".

Within the framework of the first stage of the Project in July 2007 the presentation, connected with the opening of the Russian segment of Esp@cenet was organized. The representative of Rospatent, the EPO, the European Commission, foreign (United Kingdom, Denmark) and Russian scientific, innovation technological centers and technology transfer centers took part in the presentation.

The second stage of the Project was aimed to create conditions for popularization of the patent information. For that purpose the seminar was held in Vienna. The specialists of Rospatent and representatives from the regional innovation centers, institutes and other

organizations, holding the activities in Russia for different users on the issues of patent information use took part in that seminar.

The third stage of the Project was held during the course 2008 when a number of widely differing initiatives were realized across Russia; from Moscow, to the Urals and Siberia. These activities included enhancements to existing IP training courses, media campaigns, books published on IP databases, and active participation in trade fairs and exhibitions: the setting up of an *esp@cenet* "taskforce" at Rospatent, a seminar programme for entrepreneurs in Siberia, and a training programme for university staff in the Urals region.

A follow-up meeting was held in December 2008 (Vienna) where the participants reported on their individual projects and exchanged experiences with one another. Rospatent's system comprises the Russian Educational Institute of Intellectual Property (RGIIS), unique educational institute in Russia, specialized in the training of IP lawyers.

In 2008 RGIIS successfully continued training and enhancing professional skills in the field of protection, enforcement and management of the intellectual property for the specialists from Russia and number of foreign economies.

The Research Centre on the IP Problems of RGIIS opened in 2005 works at present.

The main directions of the activities of this Centre are:

- elaboration of the proposals on the improvement of IP legislation;
- law observance and methodical maintenance of enforcement in the IP field;
- improvement of Rospatent's cooperation with the collective management organizations.

Information on the training and enhancing professional skills of the specialists can be obtained at the website of RGIIS at the following address: [www.rgiis.ru](http://www.rgiis.ru).

In order to make aware of the benefits of inventor's activities and facilitate the promotion of the Russian R&D results on the domestic and international markets a new section on the website of Rospatent "Perspective Inventions" was introduced. During 2007 the database relating to the perspective inventions was created and updated, the Inventory of most important Inventions was established giving rise to the inclusion thereof into the database "100 Best Inventions of Russia".

A new Russian language information resource "System of Filing of International Applications under PCT" was developed and posted on the site of Rospatent, which was quite new in its presentation form, very informative and convenient for navigation therein. It familiarizes Russian patent applicants with all the advantages of this system.

## VIII. Competition Policy

1. *Since Russia has aggressively set up the competition policy law, including the anti-monopoly law, please elaborate how the law applies so far in reducing economic distortion and increasing economic competitiveness, especially for attracting investment.*

**Answer:** The basic goal of competition policy in the Russian Federation is to create a favourable climate for enterprises, and the facilitation of competition and efficient functioning of the markets by preventing, restraining and eliminating monopolistic and anti-competitive practices among economic operators. Legislative framework for realization of competition policy and prevention of anti-competitive practices is set out in the Federal Law No. 135-FZ of 26 July 2006 "On Protection of Competition", the Civil Code of the Russian Federation, the Code of On Administrative Offences of the Russian Federation and the Criminal Code of the Russian Federation, which establish civil, administrative and criminal liability for infringement of the anti-monopoly legislation.

Any anti-competitive market structure and unfair business practices, including infringement of intellectual property rights, that impede competition, are subject to this anti-monopoly legislation.

2. *Will the competition policy laws apply non-discriminatively between foreign investors and domestic companies? How is the position of state owned companies in those respective laws?*

**Answer:** Federal Law No. 135-FZ of 26 July 2006 "On Protection of Competition" covers also the relations connected with protection of competition and prevention of monopolistic activity and unfair competition, and in which foreign juridical persons are participating.

In this respect this law provides for the similar regulation applied to Russian and foreign juridical persons.

State owned companies are also subject to the rules set out in this law.

## IX. Government Procurement

1. *It is noted that where no local supplier is available, or if local suppliers are uneconomic, then foreign suppliers are able to tender for government contracts. In practice, how many foreign suppliers have been able to supply such goods and services to various levels of the Russian government since these new regulations were introduced?*

**Answer:** The Federal Law of 21 July 2005 No. 94-FZ "On Placement of Orders for Deliveries of Goods, Performance of Works and Provision of Services for State and Municipal Needs" establishes the general rule for procurement of foreign goods and services on the basis of reciprocity principle. That means that national treatment can be provided in connection with procurement for State needs of services supplied by foreign suppliers, as well as of foreign goods under the condition that national treatment for placement of orders is provided by the respective foreign economy to the Russian goods

or services supplied by Russian suppliers. The specific rule referred to in the question is applicable for procurement of goods (services) for defense and safety.

2. *A new national government website portal on national, provincial and local government orders will be implemented in 2010. Please give more details on this portal. Will it be available in a range of languages other than Russian?*

**Answer:** There is a sub-law governmental decree – Governmental Decree No. 147 of March 10, 2007, which states that any information on that web-site should be in Russian and additionally can be on one of the national languages of the Russian Federation.

English version is not available so far.

3. *Further information is needed for the following: the threshold for open tendering, the bid bond amount for which the tendering suppliers must pay, the performance bond amount for which the awarded suppliers must pay, any regulations regarding “cap on liability and liquidated damages” in the contract [submitted by Chinese Taipei].*

**Answer:** 1. No threshold for open tendering in the Russian Federation is stipulated by the Russian legislation.

2. The bid bond amount is set by the customer in the bidding documents, but not more than 5% of the starting (maximal) contract price.

3. The performance bond amount is not more than 30% of the contract price, but not less than the advance payment amount if it is more than 30% of the contract price.

4. Liability and liquidated damages in the contract for the supplier (contractor) should be not less than 1/300 of the Russian Federation Central Bank’s annual refinancing rate and for the customer is equal 1/300 of this rate.

4. *There is no description in the section of “Improvements Implemented Since Last IAP” of “Open and Effective Competition”, however, would not it be possible to refer the revision of “Government Decree No.94 of 20 February 2006” (that is written in Cumulative Improvements Implemented to Date of Open and Effective Competition) instead of “NIL”? [submitted by Japan].*

**Answer:** Yes, we fully agree with the comment from Japan and we will add Government Decree No.94 of 20 February 2006 as “Improvements Implemented Since Last IAP” of “Open and Effective Competition”.

5. *In Cumulative Improvements Implemented to Date of Transparency Implement APEC Leaders’ Transparency Standards on Government Procurement, Russia says that New Federal Law No.94-FZ of 21 July, 2005 “On Placement of Orders for Delivery of Goods, Performance of Works and Provision of Services for State Needs” will come into force from 1 January, 2006. Could you update this information? [submitted by Japan].*

**Answer:** New Federal Law No. 94-FZ of 21 July, 2005 "On Placement of Orders for Delivery of Goods, Performance of Works and Provision of Services for State Needs" which came into force from 1 January, 2006 introduced new provisions on E-tenders - new form of government procurement previously not legally fixed.

The Law provides for the following: order, tender information and documentation, conditions of procurement are published necessarily on official government websites; gradually confirmation of parity of electronic and paper documents, introduction of electronic procedures of tender. According to the new Law regional and municipal bodies have to create their web-sites. The aim of conversion of activity to Internet is to make equal (uniform) transparency system over the economy.

As the next step the comprehensive system on GP monitoring using Internet resources will be created ("Integrated system of government procurement" as part of the Federal Program "e-Russia") to cover all demand both for federal and municipal public bodies. The purpose of implementing this system is to create competitive environment in this area, ensure transparency in procedures for government procurement of goods, works and services and achieve optimal and rational use thereof. All regional and municipal web-sites will be integrated into a consolidated government procurement website.

A special new division has been established within the Federal Anti-monopoly Service (FAS) to implement provisions of the Law "On Federal Body of State Authority which is Authorised to Realize Control over the Orders Placement Services Rendering for State Needs" (Government Decree No. 94 of 20 February 2006) in the sphere of State orders.

Law No. 94-FZ has undergone four revisions within 2006-2007 aimed at improving the implementation of the new system of the government procurement.

#### Comments:

1. *We appreciate Russia's efforts in improving the transparency of its GP regime in recent years. However, we have yet to find further improvements planned in other areas, such as, open and effective competition, fair dealing, etc. In this regard, we encourage Russia to consider ways to keep up its efforts in moving towards a more open, fair and transparent GP regime (pages 3 - 6 of chapter 9) [from Hong Kong, China].*

**Answer:** We appreciate the comment and take it into consideration.

## **X. Deregulation/Regulatory Reform**

1. *In response to the current global financial crisis a number of governments have signalled their intention to introduce new regulations governing the banking system and the financial services sector in particular. What are the plans and policies of the Russian government in this regard?*

**Answer:**

### **Support for the Banking Sector**

In order to support Russia's banking sector and prevent the loss of people's savings, the Government and the Central Bank have taken the following steps:

- Lowered the norm of obligatory reserves (releasing as much as 380 billion roubles).

- Softened the terms of lending with the use of certain types of collateral (this will allow the Central Bank to deposit up to 1.5 trillion roubles with banks; as of now, approximately 350 billion roubles have been deposited).
- Are issuing unsecured loans (the potential limit is 3.5 trillion roubles; loans worth over 1.7 trillion roubles have been issued), and have extended the duration of such loans to 12 months. As many as 143 banks have the right to take out the loans, and 124 lending institutions have used it.
- The Central Bank has been granted permission to compensate part of commercial banks' losses in the inter-bank loan market due to revocation of the counteragent bank's license (vital for the restoration of the inter-bank loan market).
- Allocated 950 billion roubles in subordinated loans to augment the banks' capital, including 500 billion to Sberbank, 200 billion to VTB, 25 billion to Rosselkhozbank, and 225 billion roubles to other banks, on the condition that their shareholders attract an equivalent sum (in all, loans worth 17 billion roubles have been approved for three banks).
- Monies of the Fund of Assistance to the Housing and Utilities Reform (200 billion roubles), Rosnanotech (130 billion roubles) and the federal budget have been deposited with commercial banks and invested in securities. Total bank deposits of state corporations amount to 430 billion roubles. The insured part of private individuals' deposits has been raised to 700,000 roubles (from 400,000 roubles), thus protecting 98.5% of deposits.
- The Deposit Insurance Agency has started the financial restructuring of the banking system (transfer of banks to DIA management, search for investors). A total of 200 billion roubles have been allocated for increasing the rehabilitation of such banks (60 billions are actually spent). The Central Bank has allocated over 60 billion roubles for increasing the liquidity of such banks. DIA management has been introduced at 15 banks, and new shareholders found for 11 of them will complete the reorganisation.
- Some banks are undergoing rehabilitation paid for by VEB (Globex and Sviaz-Bank, total spending \$5.7 billion) and VTB.

#### **Assistance to the Financial Market, Protection against Hostile Takeovers**

- Strict rules have been established to suspend trading in the event of a substantial (5 % and more) decline/growth of quotes; marginal transactions were prohibited for periods of time.
- The Central Bank has been granted permission to take part in stock market trading.
- Allocations worth 250 billion roubles have been provided to support the financial and non-financial sectors. Of that sum, 75 billion roubles have been contributed to VEB's charter capital and 175 billion roubles from the National Welfare Fund have been deposited with VEB for subsequent investment in secure financial instruments (actual investment 90 billion roubles).

- Another 325 billion roubles have been reserved for 2009 (to support the financial market, economic sectors, and the labour market).

- \$50 billion have been allocated to Vnesheconombank (VEB) for lending to Russian borrowers who seek to refinance their foreign debts taken against the collateral of assets in Russia. Decisions regarding \$13.3 billion have been made; \$9.1 billion has actually been provided.

2. *The issue of natural monopolies is obviously an important one in Russia, and one that received a good deal of attention in the Study Report on the last IAP. In giving this area the attention it deserves in the current review it would be helpful if Russia could provide details of the criteria that have been and are currently used to identify natural monopolies and segments that are potentially suitable for competition.*

**Answer:** The Federal Law No. 147- FZ “On Natural Monopolies” of August 17, 1995 establishes the definition of the term “natural monopoly”. In accordance with Article 4 of this Federal Law the natural monopoly is the condition of the market when satisfaction of the demand within this market is more efficient in the absence of competition due to technological specificity of the production of goods (supply of services) while the goods produced (services supplied) by the natural monopolist cannot be substituted by similar goods (services) and that results in lower dependence of the demand for the goods produced (services supplied) by the natural monopolist within this market upon fluctuations of the price for these goods (services).

This definition contains all the criteria necessary to identify natural monopolies.

Moreover Article 4 of this Federal Law establishes the exhaustive list of sectors of activities of the natural monopolists:

- transmission of oil and oil products through backbone pipelines;
- pipeline transportation of gas;
- railroad transportation;
- transportation terminal, port and airport services;
- public telecommunications and postal services;
- services on the transmission of electric power energy;
- services on operational- dispatching management in electric power sector;
- services on the transmission of heat energy;
- services of utilization of the infrastructure of the inland waterways.

Outside the scope of application of the Federal Law No/ 147- FZ “On Natural Monopolies” the issue of protection of competition is governed by the Federal Law of 26 July 2006 No. 135-FZ “On Protection of Competition” which provide for the general rules against anti-competitive actions.

It should be underlined that according to the Law “On natural monopolies” constraint of economically justified transfer of the spheres of natural monopolies to the competitive market is prohibited.

If the actions of the natural monopolies lead to maleficent limitation of the contractors' interests, they shall be liable to sanctions pursuant to the Law of Russian Federation "On Protection of Competition”.

3. Also, could Russia please provide some relevant statistics on each of the major areas identified as natural monopolies, their importance in the economy and the precise degree of concentration?

**Answer:** The authority' statistics does not provide the data on the importance of the major areas identified as natural monopolies and is based on the indexes of the violations revealed and suppressed in the whole natural monopolies sector depending of the types of violations.

The data as of 2007 is presented below:

**Revealing of the competition legislation' violations in 2007**  
(natural monopolies)

**Violation: Abuse of dominance by an economic entity**

No. of applications considered	No. of inspections carried out	No. of cases initiated	No. of instructions issued
<b>1675</b>	<b>91</b>	<b>500</b>	<b>241</b>

**Violation: restrictive business actions and concerted practices taken by economic entities**

No. of applications considered	No. of inspections carried out	No. of cases initiated	No. of instructions issued
<b>7</b>	<b>9</b>	<b>5</b>	<b>3</b>

**Violation: restrictive business actions and concerted practices taken by power authorities**

No. of applications considered	No. of inspections carried out	No. of cases initiated	No. of instructions issued
<b>5</b>	<b>2</b>	<b>22</b>	<b>6</b>

**Violation: unfair competition**

No. of applications considered	No. of inspections carried out	No. of cases initiated	No. of instructions issued
<b>5</b>	<b>8</b>	<b>2</b>	<b>1</b>

**Violation: antimonopoly requirements to tenders**

No. of applications considered	No. of inspections carried out	No. of cases initiated	No. of instructions issued
<b>7</b>	–	<b>5</b>	<b>5</b>



**Violation: selection of financial organizations**

No. of applications considered	No. of inspections carried out	No. of cases initiated	No. of instructions issued
<b>4</b>	<b>116</b>	<b>147</b>	<b>62</b>

**Violation: non-provision of the antimonopoly authority with the information**

No. of applications considered	No. of inspections carried out	No. of cases initiated	No. of instructions issued
<b>4</b>	<b>2</b>	<b>19</b>	<b>3</b>

**Violation: consequences of violation of the procedure of getting the antimonopoly authority's preliminary consent for implementation of transactions as well as the procedure of submitting to the antimonopoly authority of notifications about transactions**

No. of applications considered	No. of inspections carried out	No. of cases initiated	No. of instructions issued
<b>2</b>	<b>19</b>	<b>9</b>	<b>9</b>

4. *A key aim of recent legislation in this area has been to reduce prices to independent manufacturers and consumers using the products supplied by natural monopolies. In the period since the passage of the 1995 law on natural monopolies is it possible to identify some beneficial results in the lowering of these prices?*

**Answer:** It is not quite clear what exactly is meant by reference to reduction of prices to independent manufacturers and consumers due to natural monopolies reform process.

The key aim of the legislation introduced in the course of the natural monopolies reform was to create deregulated market in the natural monopolies sectors to the extent possible (and thus de-monopolize such spheres) or to strengthen the rules on non-discriminatory access to the services supplied by such monopolies where shift to market principles regulation is not feasible.

Moreover it is essential to note that in accordance with the said Federal Law #147- FZ natural monopolies in the Russian Federation exist only in the services sectors, and there is no evidence that could support the pass on existence of any tendencies to reduce the tariffs for the services supplied by natural monopolists to the industrial consumers.

5. *It is noted that recent approaches to deregulation and regulatory reform have been heavily influenced by the negotiations on Russia's accession to the WTO. Please supply more details on this aspect of the reform process, identify key areas of policy that have been changed in response to WTO requirements, and suggest whether any further responses to WTO rules will be needed.*

**Answer:** In order to provide for additional guarantees of Russia's readiness to comply with WTO rules in the field of deregulation reform, stronger legislation in respect of ensuring non-discriminatory access to the services supplied by the natural monopolists is under elaboration.

In general Russian legislation had been brought into compliance with the WTO rules already in 2007. As a result administrative procedures and policies in many areas became more transparent, predictable, corresponding to the international rules and less burdensome for economic operators. During 2008 and the beginning of 2009 the last necessary amendments were made in order to complete this task. Respective changes cover areas of sanitary and phytosanitary control, technical regulation, customs procedures, safeguards measures and IPR.

The work on improvement of Russian law enforcement in the field of intellectual property rights protection is being finalized. Some amendments to existing legislation in this area are expected to be adopted in the nearest future. Among them are draft Federal law strengthening licensing regime of optical discs production, draft Federal Law on protection of disclosed information at the process of medicine registration, amendments to the Customs Code of the Russian Federation on authorities of customs agencies to act ex officio in respect of alleged illegal goods and some amendments to Part IV of the Civil Code.

Other amendments to Russian legislation still to be made are of technical nature. Particularly amendments to Federal law on Technical regulation.

6. *This is an area in which a number of APEC members have had considerable policy experience. Are there any key areas where learning from this wider APEC experience could be useful for Russia?*

**Answer:** The experience of APEC economies in the field of competition protection, regulation of natural monopolies as well as pricing policies is of particular interest to Russia.

## **XI. Implementation of WTO Obligations and Rules of Origin**

1. Since Russia is moving toward WTO member, how will APEC fit into Russia foreign trade policy? Does Russia expect that APEC will be part of process being a WTO member? Will APEC be a priority in future Russia foreign trade policy?

**Answer:** Cooperation with APEC members remains one of the priorities of Russia's trade policy. Russia considers APEC members as important trading partners.

After accession Russia's WTO obligations will become the basis for further development of bilateral and regional trade relations with its trading partners, including APEC members. However Russia will need to make a comprehensive overview of its foreign trade relations and determine respective interests as regards foreign markets taking into account its own commitments as well as the benefits derived from Russia's WTO membership.

Thus APEC member's political support and practical contribution to the conclusion of the multilateral negotiations on the few remaining issues will be crucially important for

Russia's expeditious accession to the WTO and respective development of trade relations with interested economies.

## **XII. Dispute Mediation**

1. The IAP contains very little about dispute resolution systems in Russia. It is noted that a law does exist to deal with disputes relating to foreign investment, but please supply details of any systems or mechanisms to deal with potential disputes in areas such as trade.

**Answer:** The dispute settlement system in the Russian Federation consists of two groups of institutions and mechanisms which can be described as state and non-state institutions.

The system of national state courts is divided into three branches based on jurisdiction of the courts:

- Courts of general jurisdiction (authorized to hear criminal, administrative and civil actions);
- *Arbitrazh* (commercial) courts (authorized to hear the disputes between persons engaged in entrepreneurial activities);
- Constitutional courts (special branch of courts authorized to determine the compliance of Russian legal acts with the Constitution of the Russian Federation).

Along with national court system Russian legislation also provides for the opportunity for disputing parties to settle their cases out of court or under the aegis of numerous quasi-judicial mechanisms.

In accordance with Federal Law of 24 July 2002 #102-FZ "On Arbitration Tribunals" and Federal Law of 7 July 1993 No. 5338-1 "On International Commercial Arbitration" commercial disputes may be submitted by the disputing parties to arbitration. Such arbitration tribunals are separated from national court system described above.

The said Federal Law No. 5338-1 establishes inter alia that by agreement of the parties the disputes between enterprises with foreign investments, constituted in Russian Federation, between their participants as well as disputes between such enterprises and other persons of the Russian Federation can be submitted to international arbitration.

International agreements with the participation of the Russian Federation, being part of the Russian legal system in accordance with the Constitution of the Russian Federation, also serve a solid ground for protection of foreign investors rights.

Bilateral Investment Treaties signed by the Russian Federation provide for two-step dispute settlement procedure which includes 1) out-of-court resolution and 2) judicial procedures. In case of the second stage as it was described in IV-4 BITs provide an option for an investor to choose between national court system of Russia or international arbitration court (standing or ad hoc). There is no requirement to exhaust local remedies before submitting the dispute to arbitration.

BITs also provide for standard Government-Government dispute settlement procedure. The disputes between the Governments that are parties to the BIT and related to application of such BIT are resolved by an ad hoc tribunal established by the parties to the dispute. As a general rule other international trade related agreements signed by the Russian Federation provide for particular means of settlement of the intergovernmental disputes resulting from the breach of provisions of such agreements. Such disputes depending on particular agreement may be settled by either standing or ad hoc tribunal.

The awards and decisions of arbitration tribunals are final, binding and enforceable in accordance with the Russian legislation, which include Russia's obligations under New-York Convention on Recognition and Enforcement of Foreign Arbitration Awards 1958.

2. *Even though no disputes over trade or other matters have been reported, does the government of Russia feel that it is necessary to have dispute resolution systems prepared in readiness for any future problems, and if so would it be expedient to learn from other APEC members that have more experience in this area?*

**Answer:** Though existing dispute settlement mechanisms in trade and related spheres are considered to be sufficient to act as incumbent, acquaintance with the experience of other APEC members will be expedient in order to avoid common stumbling blocks.

3. *In the study report on the last IAP it was noted that in the area of dispute mediation Russia's accession negotiations with the WTO have played an important role. Could Russia please comment on this, and how practice in this area has been developed since to last IAP to take account of WTO requirements?*

**Answer:** As WTO Agreements do not expressly place any requirements in respect of disputes settlement procedures it is hard to evaluate the influence of WTO accession over procedural aspects of dispute settlement mechanisms existing in accordance with Russian legislation.

There have been no changes in the area of dispute mediation in the Russian Federation. There is no conflict between practice in this area and WTO requirements in Russia.

### **XIII. Mobility of Business People**

1. *Has APEC business travel cards been applied for Russian business people? If yes, how is the demand? Any inputs from the users on the benefit of the card?*

**Answer:** Currently the Russian Federation does not participate in the APEC Business Travel Card scheme.

At present a number of issues concerning possible participation of Russia in ABTC scheme are being finally decided by the competent authorities and the Government of the Russian Federation.

2. *Is there a different treatment in Russia foreign worker policy toward skilled labour and semi-skilled labour?*

**Answer:** The basic policy of the Government of the Russian Federation regarding foreign labor considers it a priority to provide employment to Russian citizens and at the same time attracting labor from abroad where needed for national economy in certain sectors. Therefore a foreign labor quota system has been established according to which the Government of the Russian Federation each year defines the exact quota of foreign workers for the next year in a breakdown by each administrative region of the Russian Federation with the exact numbers for each qualification and profession.

The Ministry of Healthcare and Social Development is in charge of compiling requests incoming from administrative regions and of presenting it for approval by the Government of the Russian Federation while the Federal Migration Service issue work permits through its regional offices.

The Ministry of Healthcare and Social Development annually adopts the list of highly-qualified foreign citizens that are not affected by the quota system. Other types of workers are allowed to perform activities in Russian Federation within the quota established by the Government of the Russian Federation.

3. *Is there limitation or restriction of foreign workers in certain skills or professions?*

**Answer:** The answer to this question is provided above partially (see XIII-2).

In accordance with Russian legislation there are number of professions, where limitations and restrictions in respect of foreign workers are applied, in particular foreign citizens are no allowed to act as:

- notary officers;
- captains of aircraft and maritime vessels and their senior assistants;
- auditors;
- judges;
- civil servants.

4. *Is illegal foreign worker a critical issue in Russia? How does Russian citizen react on that issue?*

**Answer:** Improving legislation and making more effective the law enforcement system in the field of foreign labor has been an issue of permanent control of the Government of the Russian Federation.

New immigration legislation put into effect in 2007 substantially simplified necessary immigration formalities and at the same time introduced more severe punishment for its violation.

These measures resulted in sharp rise of legal immigrants in 2007 (about 8 mln. people which doubled the figure of 2006) evaluated by the Federal Migration Service (*FMS of Russia*) as a positive trend towards reduction of illegal labor force in the Russian Federation.

#### XIV. FTAs/RTAs

1. *It is noted that all of the agreements that have been signed to date include statements on the resolution of any disputes. Given the lack of detail in the chapter in this IAP on dispute mediation, could Russia comment on the uses that have been made of these provisions in the existing FTAs and the extent to which the government regards these existing mechanisms as satisfactory? If there are some perceived problems, how will these lessons be used in the negotiation of future agreements?*

**Answer:** With regard to agreements on free trade, the following mechanisms of dispute settlement can be used:

- holding negotiations between counter parts;
- under the framework of the special conciliatory procedure (through creating Special Working Groups (SWGs) for analyzing dispute materials and developing recommendations;
- Economic Court of CIS (for countries-members of CIS);
- under the framework of intergovernmental committee on trade economic cooperation;
- under other frameworks, which are foreseen by international law.

More on dispute mediation can be found in Chapter XII and answers XII.1-3.

2. *The PCA agreement with the EU includes a section on dispute resolution. In the much publicised disputes that have taken place over gas prices and supplies how useful were these mechanisms in the final resolution of the disputes, and what lessons have been learned from this experience?*

**Answer:** The best mechanism for resolving such disputes is through negotiations between parties. If negotiations failed Parties have the right to fill the petition to Arbitration. But the negotiations were successful and the disputes were resolved in mutually acceptable way.

3. *Could Russia please supply more details of its intergovernmental agreement with ASEAN? What are the provisions of the current agreement, and from a Russian perspective what is it hoped to achieve as part of the roadmap up to 2015?*

**Answer:** The chapter 12 of IAP determines the settlement of commercial disputes. In accordance with the Article 10 of the Agreement between the Governments of the Russian Federation and economies-members of the ASEAN on cooperation in the sphere of economy and development “in case any dispute, regarding interpretation and/or execution of the Agreement, arises between Parties, the latter aim to settle the dispute by means of negotiations or consultations”.

In this connection, it is not clear which additional information regarding dispute settlement is required.

The full text of intergovernmental ASEAN-Russia’s agreement can be found on the ASEAN official web-site.

## **XV. Trade Facilitation**

1. *The chapter on trade facilitation contains a very optimistic and upbeat assessment of the progress made by Russia in the area of trade facilitation? Is it possible to provide any estimates of the cost savings that have been achieved in this area generally or in any particularly strategic fields such as customs procedures? The aim of APEC Leaders was the achievement of 5 per cent cost savings by 2006 – is it possible for Russia to estimate whether such a target has been met?*

**Answer:** As there are no adopted methodologies for cost-saving calculations it is difficult to make assessments on cost savings in exact figures.

Meanwhile using some of the key indicators below prove that Russia has achieved 5% cost savings:

- Reduced VAT by 2%;
  - Considerable reduction of tax burden for SMEs;
  - Reduced the number of import declarations and the number of non-energy export declarations selected for physical inspection, at designated sites, to no more than 23% and 12%, respectively, by the end of 2006, and to no more than 10% and 8% by 2010, respectively, from the about 30% and 15% in 2004;
  - Reduced the average customs clearance time at the border, by 7% by the end of 2006, and by 10% by 2008.
  - Reduced the average customs clearance time in respect of imported goods, as measured by the time taken from the entry of a truck into the customs clearance terminal to the release of goods from Customs control, by 25% by the end of 2006, and 50% by 2008.
  - Reduced the average customs clearance time, as measured by the time taken between lodging of the customs declaration to the issue of the release note, by 25% by the end of 2006, and 50% by 2008.
  - Reduced by 5% the compliance gap measured by the following ratio, by end of 2006, and by 10% by 2008.
2. *While there is a fair amount of detail in this chapter one or more case studies of achievements in the trade facilitation area (as suggested in Part II) would be useful.*

**Answer:** Case Studies of a Trade Facilitation Initiative:

### **Automated system of fees payment:**

In new edition of CC international norms and main regulations on facilitation and acceleration of customs procedures are at most taken into account. In order to facilitate the calculation while payment of customs fees and to short the delays of customs formalities the Order of FCS “On application of customs cards” was adopted.

The Order approves the technology of the use of microprocessor-based plastic cards (customs cards) for securing the payment of customs fees.

Customs card is a special electronic inter-bank card-assisted system of payments of customs fees and duties. Customs card gives the opportunity to pay any customs fees and duties from banking account of the participant of external trade directly in a custom-house at the moment of customs clearance.

The advantages of customs card are as following:

- immediate transfer of money;
- guarantying the engagements of importers and exporters;
- providing special services to customs brokers.

### **Electronic declaration**

Conception of use of information technologies in national authorities' activity stipulates that development of systems of electronic declaration is one of the priorities of IT-use in the field of foreign-economic activity, as well as integration of complex system of risk management.

Implementation of electronic declaration is an integral part of the measures proposed by Federal Target Program "Electronic Russia (2002-2010)" (adjusted by Decision of the Government No. 65 of 28 January, 2002). The realization of the program will enable to form the necessary prerequisites for application of information technologies at new level and previews the integration of electronic document circulation between the federal authorities and economic agents while presenting customs documentation, as well as realization of pilot projects on transition to electronic document circulation with the use of digital signature mechanism.

Implementation of electronic declaration has led to acceleration, raising the transparency and decreasing the impact of human factor while making decision by customs officials, that favourite much the activity of loyal participants of foreign trade. On an average the time of checking the customs cargo declaration takes about 30 minutes.

3. *Again, while the level of detail in this area is appreciated it would be helpful in making our assessments of the table at the end of Part II could be completed. This would give us a useful summary of progress since Shanghai and the areas that are still to be completed.*

**Answer:** Below is represented completed Overview on Implementation of Trade Facilitation Actions and Measures since Shanghai Accord by the end of 2007.

Updated information on 2008 will be available by June of this year.

<i>Menu of Actions and Measures</i>	<i>No of Items Selected</i> [a]	<i>No of Items Implemented</i> [b]	<i>No of Items Completed</i> [c]	<i>No of Items in Progress</i> [d] = [b] - [c]	<i>No of Items Pending Implementation</i> [e] = [a] - [b]
<b>Customs Procedures</b>	44	36	13	23	8
<i>Standards</i>	20	19	8	11	1
<i>Business Mobility</i>	3	3	3	0	0
<i>Electronic Commerce</i>	16	10	2	8	6
<i>Others (if any)</i>	1	1	1	0	0
<b>Total</b>	<b>84</b>	<b>68</b>	<b>24</b>	<b>44</b>	<b>16</b>



## XVI. The APEC Food System (AFS)

1. *The APEC Food System is one area where it could be argued that we need to give particular attention to future problems and needs, and to be very forward looking. With this in mind, could Russia give an overview of any studies that have been completed of the adequacy of the existing food production and distribution system, and point to any areas in which key improvements need to be made?*

**Answer:** The Ministry of agriculture is leading surveys regarding food production and distributing system. The Ministry of agriculture, other Ministers and Agencies have developed the Project of Doctrine of the agriculture safety of the Russian Federation.

One of the areas of this Project is the analysis of current situation on the agriculture market and possible tendencies of the development taking into consideration international experience.

2. *Similarly, what studies have been completed on the impact of climate change on Russia's future food production?*

**Answer:** Currently the All-Russian scientific research of the agriculture meteorology carries out the scientific research on technological development of condition monitoring of crops, expected productivity of the agriculture products and their efficient placement, based on economic, hydro meteorological and satellite information and taking into consideration the bioclimatic potential and consequences of the climate fluctuation.

Data of meteorological surveys will allow to work out the technology of current operation monitoring of quantitative assessment of crops growing conditions every decade, as well as to reveal the anomaly in crops growing and timely to plan and implement measures on minimizing of losses.

3. *In particular, how efficient are the food production and distribution systems in the Russian Far East and in particular in the regions bordering other APEC members? Do reliable statistics exist on the extent of cross-border food trade in these regions?*

**Answer:** Unfortunately, we don't have reliable official cross-border food trade statistics for Far East Regions.

4. *To what extent will the meeting of Russia's future food import requirements involve trade with other APEC members, and what are the estimates of Russia's future food exports to other APEC members?*

**Answer:** The level of self-sufficiency in major food products can be found in the table below (%):

	2002	2003	2004	2005	2006
Meat	64,4	65,4	64,7	62,3	62,6
Milk	88,0	87,3	84,6	82,5	82,4

	2002	2003	2004	2005	2006
Eggs	98,7	98,8	98,4	98,7	98,9
Potatoes	96,9	106,5	101,5	103,3	104,2
Other vegetables	91,7	99,3	93,7	94,3	94,4

*The share of import products in daily consumption (%):*

	2005	2006	2007
Meat	36	35,2	33,7
Milk	17,8	18	16,5
Edible Oils	29	21,4	24
Sugar	54,8	40,2	39,1

Total Russian export of food products in 2007 reached USD 5 123.4 mln. (excluding CIS economies).

Russian imports of food products in 2007 was USD 20 747.3 mln. (excluding CIS economies).

It was not specially calculated any data on the share of APEC members in these figures in Russia.

## **XVII. Transparency**

- How will Russia ensure compliance with the Statement to Implement APEC Transparency Standards (“Leaders’ Statement”), adopted by APEC Leaders on October 27, 2002 in Los Cabos, Mexico with regard to its customs procedures, in particular customs valuation? [submitted by the United States].*

**Answer:** Russian legislation regarding customs procedures generally is in compliance with the Statement to Implement APEC Transparency Standards.

In particular all laws, regulations and other measures connected with the exportation of goods, including those related to statistical control, customs clearance, documentation, and any changes to these laws, regulations, and other measures as well as information concerning inquiry points are published and posted on the official websites of the responsible governmental bodies e.g. [www.customs.ru](http://www.customs.ru). Advance rulings are available for interested parties upon request.

Importers are provided with the right of administrative or judicial review of customs actions. These rights are granted by the provisions of the Constitution of the Russian Federation and Customs Code of the Russian Federation. In all cases an importer, has the right to appeal a decision, action or inaction of a customs authority without penalty to a judicial authority or higher custom’s authority.

In accordance with the provisions of the Customs Code of the Russian Federation on a request of a person concerned the federal executive governmental body charged with customs affairs and the other customs bodies designated by the federal executive governmental body charged with customs affairs shall take a preliminary decision on the classification of commodities in compliance with the Commodity Classification for Foreign Economic Activity in respect of a specific good, on the origin of a good from a specific country (the country of origin of a good).

It should be mentioned that all customs procedures of the Russian Federation have been brought in conformity with the WTO rules. In particular the rules for determining customs values are based on the provisions of the WTO Agreement on Implementation of Article VII of GATT 1994 ("Customs Valuation Agreement"). The requirements of Article 16 of the Customs Valuation Agreement on Implementation of Article VII of the GATT 1994 were contained in existing legislation, e.g., that upon written request, the importer shall have the right to a written explanation as to how the customs value was determined. The customs authority should offer the declaring agency (entity) the opportunity to comment in case a declared customs value gave rise to doubt.

2. *Some mention is made of the use of internet and other electronic means to advance transparency, but could Russia please give more details of how it intends to harness such technologies in the future to ensure greater transparency?*

**Answer:** There is no mandatory requirement to distribute the new normative legal acts via Internet. But there are a number of official Internet sites where the texts and information on relative legal acts, as well as links to other official sites, can be found, in particular:

- [www.president.kremlin.ru](http://www.president.kremlin.ru) (the official site of the President of the Russian Federation);
- [www.duma.ru](http://www.duma.ru) (the official site of the Federal Assembly of the Russian Federation. Most of the draft legislation can be found on this site as well);
- [www.government.ru](http://www.government.ru) (the official site of the Government of the Russian Federation), which is a route e-portal containing the references to web pages of the regulatory bodies of the Russian Federation;
- [www.economy.gov.ru](http://www.economy.gov.ru) (the official site of the Ministry of Economic Development of the Russian Federation);
- [www.customs.ru](http://www.customs.ru) (the official site of the Federal Customs Service);
- [www.nalog.ru](http://www.nalog.ru) (the official site of the Federal Tax Service);
- [www.cbr.ru](http://www.cbr.ru) (the official site of the Central Bank of the Russian Federation); etc.

From the date of its accession to the WTO the Russian Federation will establish or designate an official journal or website, updated on a regular basis and readily available to individuals and enterprises, dedicated to the publication of all laws, regulations, decisions, orders, administrative rulings of general application, and other measures pertaining to or affecting trade in goods, services, and intellectual property rights.

3. *In the broad area covered by the APEC Leaders' statement on transparency what mechanisms exist within Russia not only to make decision making and policy development transparent but to gain feedback from relevant organisations and community groups and to allow appeals to be made against decisions or policy settings?*

**Answer:** In respect of the feedback assessment the respective authorities have mechanisms of receiving the views of the interested parties, including organizations and community groups, on both implementation and drafting stages.

When draft of legislative act is being elaborated the body responsible for its elaboration is entitled to invite third persons to conduct consultations in respect of such draft.

For example, in accordance with Article 15 of the Federal Law of 8 December 2003 No. 164-FZ "On the Fundamentals of the State Regulation of Foreign Trade Activity" when the legal act of the Russian Federation pertaining the carrying out foreign trade activities is being elaborated the federal executive body responsible thereof is authorized to invite the subjects of the Russian Federation, Russian entities and entrepreneurs, whose economic interests might be affected by adoption of such act under elaboration, to submit their suggestions and comments in respect of this act.

Such authorized body decides on the form of the consultations to be held, as well as on the form and means of dissemination of the information on the course and results of the consultations among interested parties submitted their suggestions or comments. In case there is a relevant international treaty authorized bodies of the foreign States, foreign entities and entrepreneurs are invited to submit their suggestions and comments as well in accordance with the provisions of this treaty.

All interested parties are entitled to submit their opinions in respect of draft or adopted legislation as well as implementation practice for the consideration of the authorized bodies.

As for the right to appeal of the affected parties, pursuant to Article 46 of the Constitution of the Russian Federation, decisions and actions (or inactions) of bodies of the State authority and local governments, public associations and officials may be appealed to the court of appropriate jurisdiction. In case of appeals against administrative action or inaction, at the discretion of the appellant, an appeal can also be addressed to either the Government or a Government agency overseeing the administrative body responsible for the decision. In case of judicial procedure, the decisions and awards of lower courts may be appealed on the merits or on procedural grounds.

The right of appeal to judicial and administrative procedure in case of violation of civil rights of natural and legal persons is also foreseen by Article 11 of the Civil Code. Article 18 of the Federal Law No. 164-FZ "On the Fundamentals of State Regulation of Foreign Trade" also provides the right of any participant of foreign trade to appeal to a court or administrative procedure against a decision, action (or inaction) of a State authority (or its officer), if, in his view, his personal rights or legal interests had been violated by such decision, action (or inaction).