



TRADE POLICY DEVELOPMENTS PAPER NO. 26

TRADE POLICY MONITORING REPORT

OF

RUSSIA

(APRIL 2012- JUNE 2012)

VOLUME II

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Abbreviations

ACTA	-	Anti-Counterfeiting Trade Agreement
AD	-	Anti-Dumping
AID	-	U.S. Agency for International Development
AIDCP	-	Agreement on the International Dolphin Conservation Program
APEC	-	Asia Pacific Economic Cooperation
ATPA	-	Andean Trade Preference Act
AusAID	-	Australian Agency for International Development
AWSB	-	Athi Water Services Board
BIT	-	Bilateral Investment Treaty
CBP	-	Customs and Border Protection
CBR	-	Central Bank of Russia
CCC	-	Commodity Credit Corporation
COMESA	-	Common Market for Eastern and Southern Africa
CRS	-	Congressional Research Service
CTAC	-	Commercial Targeting and Analysis Center
CVD	-	Countervailing Duties
DEIP	-	Dairy Export Incentive Program
DSB	-	Dispute Settlement Board
EAE	-	Energy Allied Egypt
EEP	-	Export Enhancement Program
EIU	-	Economist Intelligence Unit
EPA	-	Environmental Protection Agency

EU	-	European Union
Ex-Im Bank	-	Export-Import Bank of the United States
FTA	-	Free Trade Agreement
GATT	-	General Agreement on Tariffs and Trade
GDP	-	Gross Domestic Product
GOT	-	Government
GSP	-	Generalized System of Preferences
ICT	-	Information and Communications Technology
IMF	-	International Monetary Fund
IP	-	Intellectual Property
PNTR	-	Permanent Normal Trade Relations
SPS	-	Sanitary and Phytosanitary Measures
STEP	-	State Trade and Export Promotion Program
SWFs	-	Sovereign Wealth Funds
TAA	-	Trade Adjustment Assistance
TBT	-	Technical Barriers to Trade
TPP	-	Trans-Pacific Partnership
TRIPS	-	Agreement on Trade Related Aspects of Intellectual Property Rights
TRQ	-	Tariff-Rate Quota
US	-	United States
USTR	-	United States Trade Representative
WIPO	-	World Intellectual Property Organization
WTO	-	World Trade Organization

EXECUTIVE SUMMARY

- The monetary base of Russia totaled 7,137.4 billion rubles in the present quarter as against 6,815.9 billion rubles during the previous quarter.
- The total value of Gross Domestic Product (GDP) at market prices was 14,571.1 billion rubles in the present quarter as compared to 13,490.6 billion rubles of the previous quarter.
- The largest oil producer in Russia (Rosneft) reported a net loss of 8 billion roubles (\$247 million). The price of crude oil has decreased from \$ 117.5 per barrel in the previous quarter to \$ 106.9 per barrel, as reported by the Central Bank of Russia.
- Russia entered into Trade agreements with Vietnam, European Union and Poland in the present quarter, which is discussed in detail in the report.
- The Eurobond Taxation Regulations were introduced. This new Legislation releases the borrowers from the duty to hold back tax on payments made on Eurobond issued before 1 January 2014, provided certain conditions are fulfilled which are discussed in detail in the report.
- Since Russia has recently acceded to the WTO, there are no disputes relating to Russia in the WTO Settlement update of the present quarter.

TRADE POLICY MONITORING REPORT OF RUSSIA FOR THE QUARTERLY PERIOD: APRIL 2012- JUNE 2012

I. INTRODUCTION

This is the second Quarterly Trade Policy Monitoring Report prepared by the Centre for International Trade and Economic Laws (CITEL), Jindal Global Law School. This report will monitor and discuss the trade and macroeconomic policy developments that took place in Russia during the period: April-June 2012.

II. ECONOMIC ENVIRONMENT

The monetary base of Russia totaled 7,137.4 billion rubles in the present quarter as against 6,815.9 billion rubles during the previous quarter.¹

The total value of Gross Domestic Product (GDP) at market prices was 14,571.1 billion rubles in the present quarter as compared to 13,490.6 billion rubles of the previous quarter. The revenue of this quarter totaled 5998 billion rubles, and the expenditure totaled 5377.6 billion rubles, leading to a trade surplus of 620.3 billion rubles. On the federal side, the revenue totaled 3234.1 billion rubles, the expenditure totaled 2893.2 billion rubles, and lead to a trade surplus of 340.9 billion rubles.²

The FOB exports with CIS countries and with non-CIS countries amounted to \$ 20179 million and \$ 11020 million respectively, and FOB imports with CIS countries and with non-CIS countries amounted to \$ 11020 million and \$ 70224 million respectively.³

The international reserves at the end of the present quarter stood at \$ 541317 million, of which \$ 46325 million accounted for gold and \$ 467992 million accounted for exchange reserves of which \$ 454907 million contributed towards foreign exchange, \$ 8630 million for SDR and \$ 4456 for reserve positions in IMF.⁴

In April 2012, the weighted average interest rate decreased from 8% to 7.4% on FX- nominated loans, and from 11.5% to 10.9% on ruble- nominated loans. In May- June, lower oil prices and a depreciated ruble triggered another round of increase in the interest rates.⁵

The average Ruble exchange rate for US dollar stood at an average of 29.47 in April 2012, followed by 30.65 and 32.91 in May and June 2012 respectively.⁶ The volume of international reserves totaled \$513.1 billion in the present quarter.⁷

¹ 'The Central Bank of the Russian Federation (Bank of Russia), External and Public Relations Department', http://www.cbr.ru/eng/press/Archive_get_blob.asp?doc_id=120629_104328eng_monbase.htm (visited 15 Sep. 2012); http://www.cbr.ru/eng/press/Archive_get_blob.asp?doc_id=120330_112209eng_monbase.htm (visited 15 Sep. 2012).

² 'Bulletin of Banking Statistics, № 9 (232), Central Bank of Russian Federation (2012), <http://www.cbr.ru/eng/publ/BBS/Bbs1209e.pdf> (last visited 15 Sep. 2012).

³ Ibid.

⁴ Ibid.

⁵ CBRE, 'Marketview H1 2012', at 3, http://www.cbre.eu/portal/pls/portal/res_rep.show_report?report_id=2027 (visited 6 September 2012).

The Government External Debt in Russia increased to \$ 585.10 billion in the present quarter from \$ 565.50 billion in the previous quarter.⁸ Russia's total gross outstanding debt stood at 5785.5 billion rubles in the present quarter.⁹

The total expenditure in April 2012 amounted to 1073.6 billion rubles, whereas budget balance was at 18.8 billion rubles and primary surplus was 26.4 billion rubles.¹⁰ In June 2012, the total expenditure was 978.5 billion rubles, budget balance was 138.6 billion rubles and primary surplus was 165.5 billion rubles.¹¹

Oil Prices

An unexpected loss of 8 billion roubles, equivalent to \$247 million, was reported by Russia's largest oil producing company (Rosneft) in the present quarter. For this result that let down analyst expectations of a \$26.6 billion profit, the company blames rouble markets, volatile oil and a high tax bill. Last year, they had reported a net profit of about 78 billion roubles. Owing to the renewed risk in aversion and high correlation to oil prices, the economy of Russia weakened over the present quarter. However, the reassurance from the side of the newly elected government regarding its commitment to the privatisation process provides some positive news as far as domestic developments are concerned. Moreover, a central depository of equities seems more achievable at present, since the bond market is open to euro. A government push for dividends from the state companies is further the cause for optimism, with Rosneft increasing its pay-out ratio and Gazprom (another leading oil producer in Russia) being asked to pay out on profits based on IFRS standards.¹²

According to the estimates by IMF, banks and non-financial companies are rather less vulnerable with the rising foreign exchange reserves, a current account surplus and GDP growth rate of around 4 percent in 2012 and 2013.¹³ Also, the price of crude oil has decreased from \$ 117.5 per barrel in the previous quarter to \$ 106.9 per barrel, as reported by the Central Bank of Russia.¹⁴

⁶ 'Bulletin of Banking Statistics, № 9 (232), Central Bank of Russian Federation (2012), <http://www.cbr.ru/eng/publ/BBS/Bbs1209e.pdf> (last visited 15 Sep. 2012).

⁷ 'The Central Bank of the Russian Federation (Bank of Russia), External and Public Relations Department', http://www.cbr.ru/eng/press/Archive_get_blob.asp?doc_id=120628_112756eng_res.htm (visited 15 Sep. 2012).

⁸ 'Russia Government External Debt', <http://www.tradingeconomics.com/russia/government-external-debt> (visited 15 Sep. 2012).

⁹ Ministry of Finance of the Russian Federation, 'National Summary Data Page (NSDP)', http://www1.minfin.ru/en/macroeconomics/dessimination/national_summary/#FISCALSECTOR (visited 3 September 2012).

¹⁰ Economic Expert Group, '2012-April', <http://www.eeg.ru/pages/407> (visited 3 September 2012).

¹¹ Economic Expert Group, '2012-June', <http://www.eeg.ru/pages/411> (visited 3 September 2012).

¹² Reuters, 'Rosneft posts surprise second- quarter loss on oil price fall, tax', 1 August 2012, <http://www.reuters.com/article/2012/08/01/us-russia-rosneft-idUSBRE87012F20120801> (visited 11 September 2012).

¹³ Global Emerging Markets Quarterly, Russia – Concerns over the oil price obscure the market's potential, Pictet Asset Management.

¹⁴ The Central Bank of the Russian Federation (CBR), 'Key Economic Indicators in 2012', http://www.cbr.ru/eng/statistics/print.aspx?file=macro/macro_12_e.htm&pid=macro&sid=oep (visited 11 September 2012).

BALANCE OF TRADE AND BALANCE OF PAYMENT

The money supply at the end of the quarter stood at 24,679,174 million rubles. The Balance of Trade for the present quarter totaled \$ 50216 million, of which \$ 9159 million was due to the trade with CIS countries and \$ 41057 with non-CIS countries.¹⁵

A significant drop in oil prices contributed to a decrease in the current account surplus from \$ 39.3 billion in the previous quarter to \$ 19.2 billion in the present quarter.¹⁶ Current account balance for the present quarter was at \$ 104.6 billion.¹⁷ Seasonal factors also contributed to lower surplus. Financial account, reflecting capital inflows and outflows, improved from a deficit of \$ 23.4 billion in the previous quarter to a surplus of \$ 2.6 billion in the present quarter.¹⁸ This is expected behavior of financial account position when current account profit decreases. If the financial account position will be able to stay positive for a sustainable period, then it could be a good signal for foreign investors. Most of the downturn came from a moderation in exports of natural gas, although imports of goods rose substantially by over \$ 10 billion, more than seasonal norms.¹⁹ However, the capital account returned to balance in the present quarter, after remaining in deficit since Q2 of 2011. Although capital outflows from banks eased in the present quarter, those from the private sector remained strong and even accelerated.²⁰ Russian corporations took advantage of stronger global positions and increased their debt holdings.²¹ The strength of domestic demand will continue to narrow Russia's current account over time. Hydrocarbon exports make up about 64% of total exports, dominating Russia's trade.²²

Net acquisition of financial assets, excluding reserve assets was estimated to increase by \$ 25.7 billion.²³ Net incurrence of liabilities was estimated at \$ 28.2 billion and change in reserve assets was estimated to increase by \$ 15 billion.²⁴ Estimated balance from current and capital account was \$ 19.2 billion.²⁵

The devaluation of the rouble via dollar is influenced by the deterioration of balance of payments due to fast growth in imports, and possible fall in oil prices to \$ 85 per barrel by the end of 2012.

¹⁵ 'Bulletin of Banking Statistics, № 9 (232), Central Bank of Russian Federation (2012), <http://www.cbr.ru/eng/publ/BBS/Bbs1209e.pdf> (last visited 15 Sep. 2012).

¹⁶ CBRE, 'Marketview H1 2012', at 3, http://www.cbre.eu/portal/pls/portal/res_rep.show_report?report_id=2027 (visited 6 September 2012).

¹⁷ The Economist, 'Trade, exchange rate, budget balances and interest rates', 8 September 2012, <http://www.economist.com/node/21562222> (visited on 8 September 2012).

¹⁸ CBRE, 'Marketview H1 2012', at 3, http://www.cbre.eu/portal/pls/portal/res_rep.show_report?report_id=2027 (visited 6 September 2012).

¹⁹ Roubini Global Economics, 'Russia's Current Account Surplus Shrinks in Q2 2012, Capital Outflows Moderate, 24 August 2012, http://www.roubini.com/critical-issues/61277.php?parent_briefing=61265 (visited 6 September 2012).

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

²³ The Central Bank of the Russian Federation (CBR), 'Balance of Payments of the Russian Federation for the First Quarter of 2012', http://www.cbr.ru/eng/statistics/print.aspx?file=credit_statistics/bal_of_payments_new_12_e.htm&pid=svs&sid=itm_48213 (visited 6 September 2012).

²⁴ Ibid.

²⁵ Ibid.

IMPORTS AND EXPORTS

Russia imports were worth \$ 26.6 billion in the month of April, \$ 27.8 billion in the month of May, and \$ 26.8 billion in the month of June, contributing to a total of \$ 81.2 billion for the present quarter²⁶.

The exports were worth \$ 45.5 billion in the month of April, \$ 45.2 billion in the month of May, and \$ 40.8 billion in the month of June, contributing to a total of \$ 131.5 billion for the present quarter.²⁷

RUSSIA'S WTO ACCESSION

The Protocol on Accession of Russian Federation to WTO was signed at the eighth WTO Ministerial Conference in December 2011.²⁸ The same was approved by the government of the Russian Federation in June 2012, and the protocol was submitted to Duma for its ratification.²⁹ The accession to the Protocol came after 18 long years of negotiations, to arrive at the set of conditions of Russia's membership to the WTO.³⁰

According to the statement made by the Russian President, Mr. Dmitry Maldev, the accession would not deter Russia from focusing on national economic priorities. A constant monitoring of the economy and learning how to respond to the actions of other rival countries would be on the agenda of the Russian Federation.³¹

Conferring to the statement made by the Russian Prime Minister, the accession would bring new challenges and features to the economy. Mr. Igor Rudensky, the head of the Duma Committee of Economic Policy, Innovation and Entrepreneurship, stated that: on 2 July 2012, an extended meeting on the subject will take place, after which on 4 July 2012, a report will be submitted to the plenary session of the state of Duma.³² Mr. Andre Belousov, the Minister of Economic Development for Russia stated that the accession will not bring any negativity to macroeconomic indicators; on the contrary, experts expect a positive impact. This could in the long run reduce business costs by \$ 900 billion.

Box: Russian Duma Ratifies WTO Accession Accord

Moscow's WTO Accession Protocol was ratified in the lower house of the Parliament by the Russian policymakers on 10 July 2012. The accord which is acknowledged as State Duma was passed in the lower chamber by a vote 238-208, with three not present and one abstention. The accord would then move to the upper chamber for acceptance and then be signed by the President. The Russians must update the global trade body by 23 July 2012 that the deal has been passed. After this statement has been submitted, Russia is

²⁶ Trading Economics, 'Russia Imports', <http://www.tradingeconomics.com/russia/imports> (visited 6 September 2012).

²⁷ Trading Economics, 'Russia Exports', <http://www.tradingeconomics.com/russia/exports> (visited 6 September 2012).

²⁸ ICTSD, Olga Nartova and Sofiya Matteoti- Berkutova, 'Russia's Accession to the WTO and Energy', Bridges, Issue 3, August 2012, <http://ictsd.org/i/news/bridgesrussian/139559/> (visited 6 September 2012).

²⁹ ICTSD, 'The Russian government has approved and submit the documents on Russia's accession to the WTO for ratification' ITAR-TASS, June 7, 2012, <http://ictsd.org/i/news/bridgesweekly/138095/>, (visited 6 September 2012).

³⁰ ICTSD, Olga Nartova and Sofiya Matteoti- Berkutova, 'Russia's Accession to the WTO and Energy', Bridges, Issue 3, August 2012, <http://ictsd.org/i/news/bridgesrussian/139559/> (visited 6 September 2012).

³¹ ICTSD, 'The Russian government has approved and submit the documents on Russia's accession to the WTO for ratification', ITAR-TASS, June 7, 2012, <http://ictsd.org/i/news/bridgesweekly/138095/> (visited 6 September 2012).

³² ICTSD, 'The Russian government has approved and submit the documents on Russia's accession to the WTO for ratification' ITAR-TASS, June 7, 2012, <http://ictsd.org/i/news/bridgesweekly/138095/>, (visited 6 September 2012).

likely to become a member in thirty days.

The voting came through after the Russian Constitutional Court came up with the decision on 9 July 2012 upholding the constitutional validity of the accession protocol and stating that it is in line with the Russian laws, which was a unanimous decision.

With the country expected to become a full WTO member, Russian officials remarked that they will push strongly for their country's interests once Moscow becomes a part of the Geneva-based trade body. The estimates submitted in World Bank suggest that the Russian economy will grow by 3.3 percent in the medium term and as much as 11 percent in the long run.

Domestic divisions persist over accession benefits

Advocates of the accession allude to stability and clarity in “foreign trade regulation and improved quality of consumer goods and services due to increased competition as among the benefits of the move” even in the presence of diverse public opinion.

US trade, human rights debate continues

The US policymakers are arguing whether to rescind the Jackson-Vanik amendment, a law which denies most-favoured nation (MFN) status to countries with restricted freedom of emigration. Although the US government has allowed Moscow waivers from the amendment since the early 1990's, without displacing the original legislation “could put US exporters at a serious disadvantage to their foreign competitors, who unlike the US would immediately enjoy the benefits of Russia's membership in the global trade body.”

In the meantime, the Russian Foreign Ministry has cautioned the US government of reactive measures should the Magnitsky bill become law.

Source: ‘Russian Duma Ratifies WTO Accession Accord’, <http://ictsd.org/i/news/bridgesweekly/138095/>.

III. TRADE AGREEMENTS AND ARRANGEMENTS

RUSSIA – VIETNAM

Bilateral trade between Vietnam and the Russia-Belarus-Kazakhstan Customs Union was significant during the past seven months of 2012. A 34 percent increase is noted in the trade between Russia and Vietnam to \$ 1.34 billion, according to the General Department of Customs. According to the Vietnam News Agency, a total of \$ 821 million was realized from Vietnamese exports including garments, computers, seafood and coffee - an increase of 34 percent. The country's imports increased to \$ 516 million, an increase of 39% per year. These included iron and steel, fertilizer, machinery and equipment.³³

It was noted that Vietnam might increase bilateral trade with the Customs Union further – a free trade agreement (FTA) is negotiated between Russia, Belarus and Kazakhstan, and Vietnam which is expected

³³ Bernama, ‘Vietnam's Trade with Russia, Kazakhstan up in last seven months’ (24 Aug. 2012), <http://www.bernama.com/bernama/v6/newsworld.php?id=689630> (visited 6 September 2012).

to bring economic and investment benefits to all the countries. "Russia is interested in an FTA with Vietnam as the country may develop a strategic position that helps Russia restore its presence in Asia, particularly in Southeast Asia," remarked the Head of the European Market Department of the Industry and Trade Ministry, Dang Hoang Hai. Vietnam's agricultural, seafood and garment exports to Russia will see a boost if the FTA is enforced. It will also enable Russia to tap the market in Vietnam for fertilizer, oil and gas, atomic energy, heavy industry and automobiles.³⁴

RUSSIA – EUROPEAN UNION

In a meeting in St. Petersburg in June 2012, the Russian President Vladimir Putin, President of the European Commission Jose Manuel Barroso, and European Council President Herman Van Rompuy, jointly said that a strong tie between Russia and EU would be forged.³⁵

The main topics discussed in the 29th EU-Russia Summit which took place on 3-4 June 2012 were energy cooperation, visa facilitation, deepened economic and trade co-operation and the development of processes of Eurasian integration, implementation of the strategy of "partnership for modernization."³⁶

Russia is a large country in close proximity with Europe and has strategically important economic ties with Europe. Alongside, EU is the source of largest FDI in Russia, and is a large customer of Russia's energy exports. A constructive dialogue between the nations has yielded good results. Of late, the WTO accession has cleared and smoothed many issues as regards visa partnership and so on. The projects under the joint initiative "Partnership for Modernization" will increase competition in both the economies. The development of a Eurasian space was also discussed.³⁷

In addition, Russia and EU are looking forward to a dialogue on the third energy package. This will lead to increase in the competitiveness and transparency, and will not create any problems for operators.³⁸

RUSSIA – POLAND LBT AGREEMENT

On 14 May 2012, the Local Border Traffic (LBT) agreement between the Government of the Russian Federation and the Government of the Polish Republic was entered into force and finalized by the Polish Government. The agreement which was signed on 14 December 2011 in Moscow, facilitates the inhabitants of "Kaliningrad Region, seven poviats of Pomeranian Voivodeship and thirteen poviats of Warmian-Mazurian Voivodeship" to travel freely across the border by holding an identity proof and a valid travel document plus an exit and a re-entry permit or a special multiple exit and re-entry permit. It is usually given for a period of two years but extendable to five years under special circumstances. This visa facilitation is also

³⁴ Ibid.

³⁵ ICTSD, 'Russia- EU summit: it is necessary to increase cooperation', Volume 3, Issue 5, <http://ictsd.org/i/news/mosty-blog/134549/> (visited 6 September 2012).

³⁶ Ibid.

³⁷ Ibid.

³⁸ Ibid.

applicable for foreign nationals residing in the place for not less than three years. This agreement paves way for 'creating a legal infrastructure facilitating legitimate movement of people between the two countries'.³⁹

On 14 June 2012, President Vladimir Putin signed the ratification of the LBT agreement, formally on behalf of Russia.⁴⁰

Russia to join Nuclear Energy Agency

In the 2012 Ministerial Council Meeting of the Organization for Economic Cooperation and Development (OECD) chaired by the United States in May 2012, Russia was invited to join the Nuclear Energy Agency, following Russia's accession to the WTO and Russia becoming a party to the OECD Anti-Bribery Convention in April 2012.⁴¹

IV. RUSSIA AND FOREIGN INVESTMENT

FDI

Russia recorded a net foreign direct investment of \$ 3.7 billion in the present quarter. The equity markets saw a net inflow of \$ 186 million in the form of foreign portfolio investment in the present quarter.⁴² Accelerating foreign direct investment (FDI) has allowed retailers to make significant inroads into the market, contributing to forecast an annual average retail sales growth of 4.9% in local currency terms.⁴³

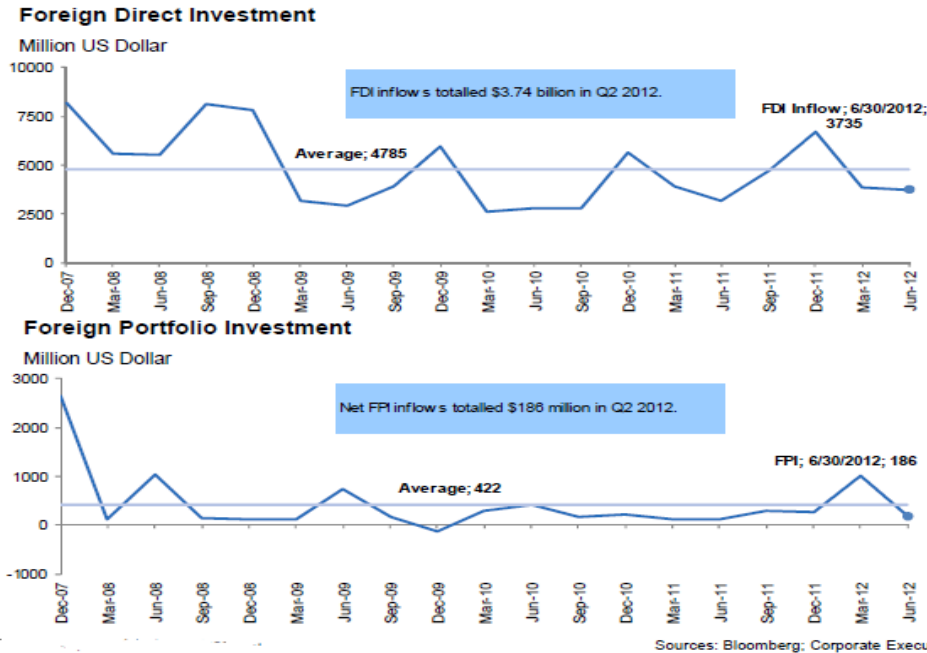
³⁹ 'Poland ratified the local border traffic agreement with the Russian Federation', EMN, http://www.emn.gov.pl/portal/ese/719/9197/Poland_ratified_the_local_border_traffic_agreement_with_the_Russian_Federation.html (visited 15 Sep. 2012).

⁴⁰ 'Putin signed an agreement with Poland on local border traffic', Visa Free Europe Coalition (16 June 2012), <http://visa-free-europe.eu/2012/06/putin-signed-a-contract-with-poland-on-local-border-traffic/> (visited 15 Sep. 2012).

⁴¹ '2012 OECD Ministerial', Bureau of Economic and Business Affairs (25 May 2012), US Department of State, <http://www.state.gov/e/eb/rls/fs/2012/191009.htm> (visited 17 Sep. 2012).

⁴² The Corporate Executive Board Company, 'Russia Economic Digest', at 10, <http://cebviews.com/uploads/2012/08/Russia-August-2012.pdf> (visited 6 September 2012).

⁴³ Research and Markets, 'Russia Retail Report Q2 2012', http://www.researchandmarkets.com/reports/2079285/russia_retail_report_q2_2012 (visited 6 September 2012).



V. TRADE POLICIES BY MEASURE

A. TRADE RESTRICTIONS

The discussion on not to resort to trade restrictive measures during the financial crisis was held at the recent G-20 Trade Ministerial in Mexico on 19 June 2012, where there was a potential trade restrictive measure. Russia, an emerging economy and a member of G-20, appears to be more inclined to not apply potentially trade-distorting measures.⁴⁴ In the meeting held on 27 June 2012 in the Ukraine-Russia Interstate Commission, Ukraine sought the intensification of trade and economic co-operation with Russia, and both the countries mutually revoked trade restrictions.⁴⁵

In the present quarter, the Ministry of Economic Development of Russia reported that twenty countries which include Australia, Azerbaijan, Armenia, Belarus, Brazil, India, Indonesia, China, Kyrgyzstan, Republic of Korea, Mexico, Moldova, USA, Thailand, Turkey, Turkmenistan, Ukraine, Uzbekistan, The Philippines, and EU member states, had adopted restricted measures against Russian goods. Majority of these anti-dumping measures relate to import of Russian ferrous metals and mineral fertilizers.⁴⁶

⁴⁴ 'Ninth Report on Potentially Trade Restrictive Measures', http://trade.ec.europa.eu/doclib/docs/2012/june/tradoc_149526.pdf (visited 7 September 2012).

⁴⁵ 'EU sounds alarm over sharp rise in protectionism across G20', <http://trade.ec.europa.eu/doclib/press/index.cfm?id=804> (visited 7 September 2012).

⁴⁶ 'Twenty countries have adopted restrictive measures against Russian goods', <http://ictsd.org/i/news/mosty-blog/130895/> (last visited 17 Sep. 2012).

B. TARIFF RATE QUOTAS

The Russian Government vide its Decision No. 408 dated 2 May 2012, temporarily reduced export tariffs on soya beans bearing HS code 1201 mainly from outside the Customs Union, from an export value of 20 percent to 5 percent, but not less than 8.5 euros per ton from a period from 2 May 2012 till 30 September 2012.⁴⁷

On 21 June 2012, a report on EU- Russia Agreement stated that Russia agreed to reduce its current export duty rates on raw materials like wood. Russia has reduced the duty on exports that are applied on quantities exported as per the quota limits, let alone the prohibitive duties on products falling outside the quota. The bilateral agreement between Russia and EU defines the general provision on the implementation of tariff- rates quotas. There was also a Protocol between the EU and the government of Russian Federation on technical modalities pursuant to that agreement. The protocol administration of tariff rate quotas is an important asset for the stability and reliability of trade relations.⁴⁸

C. SANITARY AND PHYTOSANITARY MEASURES

Russia's accession to the WTO obligates it to follow WTO science-based, sanitary and phytosanitary measures. Russia will therefore be required to notify draft rules and opportunities for public comments on rules prior to their adoption.⁴⁹ Further, Russia's compliance with its obligations will be enforceable through the use of WTO dispute settlement process.⁵⁰

The Russian Federation is likely to develop and apply international standards on SPS measures through membership and active participation in the Codex Alimentarius, the World Organization for Animal Health and the International Plant Protection Convention. The reasons for suspension, cancellation or refusal of an import permit should be consistent with international standards, recommendations and guidelines as well as the WTO SPS Agreement.⁵¹

The Russian Federation is likely to negotiate veterinary export certificates that include requirements different from those of the Custom Union, in case an exporting country made a substantiated request prior to 1 January 2013, to negotiate such a certificate. Rosselkhoznadzor, the Federal Service for Veterinary and Phytosanitary Surveillance, will not suspend imports from establishments based on the results of on-site inspection, before it had given the exporting country the opportunity to propose corrective measures, except

⁴⁷ 'Russia: Temporary reduction of export tariff on soya beans' (30 May 2012), <http://www.globaltradealert.org/measure/russia-temporary-reduction-export-tariff-soya-beans> (visited 15 Sep. 2012).

⁴⁸ 'Draft European Parliament Legislative Resolution', <http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2012-0177&format=XML&language=EN> (visited 7 September 2012).

⁴⁹ 'Secretary Vilsack Testifies on Behalf of Russia Trade Bill', <http://www.tradereform.org/2012/06/secretary-vilsack-testifies-on-behalf-of-russia-trade-bill/> (visited 7 September 2012).

⁵⁰ See SPS Information Management System, <http://spsims.wto.org/web/pages/report/report13/Report13.aspx> (visited 7 September 2012).

⁵¹ 'Working Party seals the deal on Russia's membership negotiations', http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm (visited 7 September 2012).

in cases of serious risks relating to animal or human health. Rosselkhoznadzor will also send a preliminary report to the competent authority of the exporting country for comments.⁵²

VI. CONTINGENCY TRADE

Anti-Dumping

In a case relating to a direction as regards “special protective, antidumping and countervailing measures”, the Customs Union Commission of the common customs territory of the Customs Union within the Eurasian Economic adopted the following decision on 16 May 2012 –

- Provided instructions for the completion of investigations carried out by the authorized bodies of the Customs Union member-states to the Department for Internal Market Defense of the Eurasian Economic Commission (as stated in paragraph 3 of the Customs Union Commission Decision of 17 August 2010 No. 339).
- It requested the parties to transfer the following documents and materials with due protection of confidential information, from the authorized bodies of the Customs Union member-states to Internal Market Defense of the Eurasian Economic Commission (as laid down in paragraph 1 of this Decision):
 - Investigations carried out and not completed before the period (specified in paragraph 1 of this decision by the authorized bodies of the Customs Union countries) until 6 July 2012;
 - Investigation (reviews), until 1 July 2012, completed by the authorized bodies of the Customs Union member-states until 6 July 2012;
 - On measures to protect the domestic market, operating in a single customs territory of the Customs Union before 31 July 2012.
- It referred to decision No. 802 of the Commission of the Customs Union dated 23 September 2011 "On some issues of safeguard, antidumping and countervailing measures in the common customs territory of the Customs Union" which is to be repealed from 1 July 2012.
- The ratification of this Decision would be on the thirtieth day after its official publication.⁵³

VII. MEASURES AFFECTING PRODUCTION AND TRADE

A. PUBLIC PROCUREMENT

The Federal Law “On Placement of Orders for Delivery of Goods, Performance of Works and Rendering Services for State and Municipal Needs”, i.e., Federal Law No. 94-FZ, of 21 July 2005, is the current legislation on public procurement. In June 2012, a Draft law was adopted which aims to replace the legislation.

⁵² Ibid.

⁵³ Decision (16 May 2012), No. 44, Moscow, ‘On some issues of protection of the domestic market’, http://docsonline.wto.org/imrd/gen_searchResult.asp?RN=0&searchtype=browse&q1=%28+%40meta%5FSymbol+G%FCADP%FCN%FC%2A+and+RUS%29&language=1 (last visited 15 Sep. 2012).

Under this Draft law, the following is planned to be incorporated:

- the placement of the register of the model contracts, the register of bank guarantees, etc. on the concerned official web-sites;
- institution of public control of public procurement;
- methods that may be used for calculation of the ceiling contract price by the contractor;
- circumstances when the contract may be changed or terminated by the parties and the performance requirements of the contract;
- details of the pre-trial dispute resolution and appeal procedure;
- in case the offered contract price of a bidder is 25 per cent or more lower than the ceiling contract price, the obligation of that bidder to justify this price.

The rendering of services by international financial institutions would not be subject to this Draft law's provisions.⁵⁴

B. TAX AND TAX RELATED MATTERS

The key focus in the present quarter is the Eurobond Taxation Regulations enacted due to the pressure asserted by the business community. This new legislation released the borrowers from the duty to hold back tax on payments made on Eurobond issued before 1 January 2014, provided the following conditions are fulfilled:

- Eurobonds are itemized or located on foreign exchange, or the rights of the Eurobond holders are chronicled by a foreign depository or clearing house. The Federal Service for financial markets must agree with the list of foreign exchange and foreign depository and clearing houses. This must be done in consultation with the Ministry of Finance, till when all foreign exchanges and all foreign depositories and clearing houses must meet the standard.
- A foreign unit that is an immediate beneficiary of interest income must submit a tax residency certificate on the date of payment of income (provided that the foreign entity is domiciled in a jurisdiction which has a double taxation agreement with the Russian Federation).

Income payable under guarantees, sureties and other forms of security provided by a Russian entity for the purpose of guaranteeing obligations to a foreign entity or for securing the redemption of Eurobonds relates to the removal of the duty to assess and hold back taxes on income payable to a foreign unit. Russian withholding tax also exempts any other kind of income payable to a Russian entity, provided that the details of such payments are clearly mentioned in the terms and conditions of the concerned debt instruments or if these payments are needed to be made because of changes in the terms and conditions of Eurobonds/other debt instruments, as a consequence of early redemption. Legal relations that have arisen since 1 January 2007 and negotiable bonds that will be issued before 1 January 2014 will be subject to release from the obligation to withhold tax on interest or other payments. Hence, this exemption from the Russian withholding tax applies to income from a major group of Eurobond issuances under the new law.

⁵⁴ 'Public Procurement', <http://www.russianlawonline.com/content/public-procurement-0> (visited 7 September 2012).

Russian Tax Policy for 2013–2015

The Russian Federation Tax Policy Rules for 2013 and prospectively for the next two years (2014 and 2015) was approved on 2 May 2012 by the Russian Government. The guidelines made several changes to the current tax laws, including the following:

- Termination of a tax subsidy applicable to property, proprietary or non-proprietary rights transferred by a company's or partnership's shareholders/ participants to the company or partnership with a point to escalate its net assets (sub-clause 3.4, clause 1, Article 251 of the Russian Tax Code).
- Gradual cancellation of property tax benefits applicable to the regions of the Russian Federation. It is assumed that some types of movable property can be immune from tax (such as vehicles and equipment).
- Based on the cadastral value of the immovable property, immovable property tax and wealth tax were introduced, wherein the cadastral (large-scale) valuation of capital construction investment is expected to be completed by 2012.

A cost sharing agreement concept was introduced. A taxpayer will only be required to add the amount of bonus depreciation to taxable income as per the rules governing bonus depreciation add-back, only if a fixed asset to which such bonus depreciation is applied is sold to a related party within five years after the asset is first put into use.⁵⁵

C. INTELLECTUAL PROPERTY RIGHTS

On the eve of ratification of Russia's WTO accession, the Russian IP legal framework and its compliance with TRIPS standards raised concerns and clarification requests from existing WTO members, even though Russia had amended its IPR legislations to match the standards of international IP treaties and conventions.

As far as current law development in this field is concerned, the Draft Federal Law 'On Amending the First, Second, Third and Fourth Parts of the Civil Code of the Russian Federation, and other Independent Acts of Legislation of the Russian Federation' was introduced parallel to the Accession Protocol, in the Russian State Duma, which is the lower house of the Russian Parliament. These revisions, containing more than 2000 amendments, revamping the entire first part of the civil code, are considered to be the major legislative initiative since the Code was adopted in 1995. According to Alexander Konovalov, the Russian Minister of Justice, these amendments would strike a balance between protecting interests of the right-holders on one hand, and providing stimulus for utilization and development of new technologies on the other hand.

Due to Russia's trans-border nature of internet infrastructure and huge share in the global market across copyright-based industries, the particular focus of WTO pre-accession bilateral and multilateral negotiations within the IP agenda had been on copyright protection and enforcement in the digital environment. Norms regulating the use of copyright-protected content on the internet and other information are incorporated in the above mentioned amendments.

⁵⁵ Tax Express, Issue Q2 2012, http://noerr.com/Mailings-Mos/Tax%20Express/2012/Tax_Express_II_2012_eng.pdf (visited 9 September 2012).

Licences

Russia is likely to supplement the legislation article in its Civil Code, 'On Regulating Free Reproduction of Software Programs and Databases' by a provision on simplified software licensing. This licence will form a contract of adherence of a shrink-wrap or click-wrap type licence. This licence will be considered royalty-free and limited to the period of the ownership of the copy of the software, unless agreed otherwise. Another type of open licence which will provide for the right-holder to licence the results of his/her intellectual activity on royalty-free bases will be regulated under the article 'On the Disposal of the Exclusive Right' of Civil Code.

In response to the concerns raised during WTO negotiations regarding technical protection measures by the members, the representative of the Russian Federation ensured that their relevant legislations "would be interpreted and applied in a reasonable manner in respect to technical means that were directed to circumvent technical protection measures based on criteria – whether the device or service was promoted, advertised or marketed for the purpose of circumvention, whether the device or service had a purpose or use that was of limited commercial significance other than to circumvent technical means of protection, and whether the device or service was primarily designed, produced, adapted or performed for the purpose of permitting or facilitating circumvention of technical protection".⁵⁶ Further development shall be covered in the next quarterly report.

VIII. TAX POLICIES BY SECTOR

A. AGRICULTURE

Russia is likely to flood export markets with cheap wheat and barley in 2012 as a result of an anticipated bumper grains crop. However, their global exports share is expected to decrease as 2013 settles in, as a result of slowing down of the grains production growth. As a result of the country's accession to the WTO, the subsidies to the sector will probably be phased out. As a result of fall in the dairy herd and reduced demand in Russia, growth opportunities are not expected in the dairy industry until the latter part of 2012.⁵⁷

Industry Developments

According to Industry sources forecasting, Russia's wheat exports will reach a maximum 17.0 million tonnes in 2012/13, a fall of 11.8% from the 19.0 million tonnes exported in 2011/12 as a result of lower or stagnating wheat output as 2013 settles in, despite a bumper crop in 2011/2012.⁵⁸

Key Forecasts Related to Agricultural Sector

- Wheat production growth in 2015/2016: As a result of yield gains and better access to export markets in Asia, a growth of 62.2% accounting to 67.3 million tonnes is expected.

⁵⁶ 'Special Report: Russia Amends IP Law In Advance Of WTO Accession', <http://www.ip-watch.org/2012/07/12/special-report-russia-amends-ip-law-in-advance-of-wto-accession/>

⁵⁷ Research and Markets, 'Russia Agribusiness Report Q2 2012', http://www.researchandmarkets.com/reports/2079749/russia_agribusiness_report_q2_2012 (visited 6 September 2012).

⁵⁸ Ibid.

- Poultry Consumption Growth in 2015/2016: The industry is expected to benefit from its status as the cheapest meat compared with other livestock products and will grow by 10.9% accounting to 3.8 million tonnes.
- Milk production growth in 2015/16: Growth of 10.9% to 35.3 million tonnes is expected, as yields rise following government investment in the sector. Furthermore, rising incomes are expected to lead to increased domestic demand over the long term, despite the country's falling population and the industry is expected to grow by 10.9% to 35.3 million tonnes.