

# Russian Federation

## 1 Bilateral Trade Relations

According to the statistics from China Customs, bilateral trade volume between China and Russia reached US \$ 33.39 billion in 2006, 14.7% up from the previous year. Specifically, China's exports to Russia amounted to US \$ 15.83 billion, 19.8% up from the previous year, while China's imports from Russia came up to US \$ 17.55 billion, 10.5% up from the previous year. China had a trade deficit of US \$ 1.72 billion with Russia. China mainly exported to Russia such consumer goods as clothing, leathers, machinery and electronic equipment, luggage, and footwear, while Russia mainly exported to China such products as minerals, iron and steel, fuels, timbers and chemicals.

According to the Ministry of Commerce (hereinafter referred to as MOFCOM), by the end of 2006, the accumulated turnover of engineering contracts completed by Chinese companies in Russia had reached US \$ 1.89 billion, and the volume of completed labor service contracts had reached US \$ 2.47 billion.

According to MOFCOM, China's total non-financial foreign direct investment (FDI), approved by or filed with MOFCOM, reached US \$ 470 million in 2006. Russia investors invested in 126 projects in China in 2006, with a total contractual investment of US \$ 233 million and an actual utilization of US \$ 67.2 million.

## 2 General Introduction to the Trade and Investment Regimes

As Russia speeded up the process of acceding to the WTO, the country continued to make greater efforts in establishing the relevant systems, laws and regulations in the foreign economic field.

### 2.1 Trade Regime and its Developments

Russia's laws and regulations related to foreign trade administration mainly include the Customs Code of the Russian Federation, the Law on Tariffs, Federal law on the Fundamentals of State Regulation of Foreign Trade Activity, the Law on State Regulation of Foreign Trade Activity, the Federal Law on Special Safeguards, Anti-dumping and Countervailing Measures Applied to Imports, and the Law on Measures

for the Protection of State Economic Benefits in Foreign Trade.

### 2.1.1 Tariff System

On August, 2006, the Russian Government announced the Government Decrees, the Measures for the Assessment of the Customs Values of Goods illegally Transported into the Customs Territory of the Russian Federation, the Measures for the Assessment of the Customs Values of Inward Goods Damaged by Accidents or Force Majeure, and the Measures for the Assessment of the Customs Values of Goods Transported out of the Customs Territory of the Russian Federation, which stipulate for the rules and procedures to be complied with by Customs Houses when assessing the customs values of the relevant goods.

In September, 2006, the Russian Federal Customs Service promulgated the Decree on Determining the Forms for Correcting Customs Duty Paying Values and Correcting Amounts of Payment to the Customs and the Regulations on Correcting the Levy of Customs Duty, which set forth the rules for correcting Customs duty paying values declared to the Customs on Customs declaration forms, and the rules for filling out forms for correcting Customs duty paying values and amounts of payment to the Customs when correcting Customs duty paying values and when releasing goods.

On September 1, 2006, the Russian Federal Customs Service issued the Rules on the Format of Customs Values Declaration Forms and on the Filling out of Customs Values Declaration Forms, and the Regulations on the Format of Procedure Forms for Correcting Customs Values and Customs Charges and on the Correction of Customs Values. As stipulated, Russia Customs should, as from January 1, 2007, introduce international standard practices into Customs clearance procedures by using the new Customs Values Declaration Forms. Furthermore, the Regulations on the Format of Procedure Forms for Correcting Customs Values and Customs Charges and on the Correction of Customs Values stipulate for Customs charges to be paid only in roubles.

On September 16, 2006, after amending the Regulations on Imposing Uniform Customs Duties and Taxes on Goods Carried into the Customs Territory of the Russian Federation by Natural Persons for Self consumption (Government Decree No.718 dated November, 2003), the Russian Government issued the Decree on Balancing the Customs Duties and Charges Paid by Judicial Persons and Natural Persons for Certain Means of Transport Entering the Customs Territory of the Russian Federation, which shall come into effect on January 1, 2007. The Decree requires that the generally applied rules and regulations on customs duties and taxes should be applied to the means of transport of natural persons carrying products Customs Code

Nos. 8704, 8705 and 8709 into the customs territory of the Russian Federation. And at the same time, the Decree sets out specific provisions for the relevant measures dealing with customs declaration, the imposition of customs duties and taxes.

During the year 2006, the Russian Federal Government lowered the import tariff rates on many kinds of technological equipment. On March 24, 2006, the Russian Federal Government issued Government Decree No.168 on Levying Interim Import Duties on Certain Technological Equipment, which stipulates that, within a period of 9 months, import duty exemption should be applied, once and for all, to over 700 types of high tech equipment which can not be domestically made, including modern equipment and machinery to be used in the fields of the light industry, the processing industry, the food industry, the pharmaceutical industry, the mining industry, the construction industry and agriculture. And on June 26, 2006, the Prime Minister of the Russian Federal Government issued the Decree on the Reduction of Import Duties on Technological Equipment Used in the Aviation Industry. As stipulated in the Decree, import duties on lathes and milling machines for manufacturing aero engines should be reduced, within a period of 9 months, to 0—10% from 5%—15%.

### 2.1.2 Import Administration

In June, 2005, Russia adopted Resolution No.363 concerning the Approval of the Regulations on Imposing Supervision on the import and Export of Certain Categories of Commodities, and Resolution No.364 concerning the Approval of the Regulations on Granting Licences in the Field of Foreign Commodity Exchange and on Establishing the Federal Data Bank for Licences, requiring the application of licensing administration to the import of different commodities. Currently, in Russia, there are 17 categories of commodities whose import is subject to licensing, mainly including radio active substances and products thereof, explosives and articles of fireworks, psychedelia, narcotics, pharmaceuticals, information safety equipment, and spirits, and import licences are granted by such Russian Federal Government agencies as the Federal Atomic Energy Agency, the Federal Industrial Agency, the Federal Bureau for Monitoring Health care and Social Development, the Federal Security Bureau, and the Federal Taxation Bureau.

In August, 2006, the Russian Federal Bureau for Monitoring Health care and Social Development promulgated 28 items of technical regulations on the administration of the import and export of pharmaceuticals, covering such issues as product inspection, the grant of licences, and the administration of import and export. And before the promulgation of these 28 items of technical regulations, the Russian Commission on the Reform of Public Administration, launched the first 3 items of regulations directly related to normalizing the Russian pharmaceutical market, namely, the Regulations on the Registration of Pharmaceuticals, the Regulations on the Registration of Medical

Instruments, and the Regulations on Imposing Technical Supervision over Pharmaceuticals and on Applying Assessment to the Effectiveness, Safety and Quality Controllability of Pharmaceuticals. Of these items of regulations, the Regulations on the Registration of Imported Pharmaceutical Preparations have been submitted to the Ministry of Justice for examination. Russia is to apply strict control and supervision to the import of pharmaceuticals by implementing these regulations.

#### 2.1.3 Export Administration and its Changes

On March 24, 2006, the Russian Government adopted the amendments to Government Decree No.830 dated November 30, 2001 and Government Decree No. 1364 dated December 9, 1999 regarding certain varieties of raw wood. The amendments stipulate for a breakdown of the product category under Tariff No. 4403 based on the diameters and lengths of wood and also provide that the product category be supplemented with certain varieties of raw coniferous and deciduous wood. The amendments took effect on May 31, 2006, and after that, the relevant shipping documents and the documents submitted for Customs declaration were required to indicate the specific diameters and lengths of the wood shipped according to the related appendix. And the amendments also require that wood with different specifications should not be packed together for shipment.

#### 2.1.4 Trade Administrative Bodies and their Adjustments

The Ministry of Economic Development and Trade is the competent authorities to administrate foreign trade in Russia. For the purpose of promoting the country's export trade, Russia planned in August, 2006, to establish a new government agency, the State Export Support Agency, intended to integrate the advantageous positions enjoyed by such organizations as Russia's Trade Representative's Offices in foreign countries, the Import and Export Bank, the Federation of Industry and Commerce, the Union of Exporters, the foreign trade departments of local governments and the Science Academy of Foreign Trade. The new agency was also intended to improve the legislature on Customs and to foster connections with the relevant regions.

#### 2.2 Investment Regime and its Developments

Russia's Federal Law on Special Economic Zones entered into effect on January 1, 2006. As required by the law, all the special economic zones within the territory of the Russian Federation except the special economic zones in the States of Magadan and Kaliningrad were eliminated. And in their place, two types of small sized special economic zones (SEZ) were set up: SEZ for industrial production and SEZ for

technological dissemination. The former were established to attract investments in high tech production so as to satisfy Russia's domestic economic needs and promote the export of industrial products, while the latter were established to make scientific research commercially successful. The operating entities in both types of SEZ shall enjoy a preferential treatment in respect of taxation and Customs arrangements.

In November, 2006, China and Russia officially signed the Agreement between the People's Republic of China and the Russian Federation Concerning the Encouragement and Reciprocal Protection of Investment. The Agreement stipulates that the two Governments should undertake to apply equal terms to access of mutual investment, and ensure that investment from enterprises of either country should not be subjected to confiscation or discrimination in the other country, unless such measures are taken for a public purpose. The Agreement gives protection to investors by stipulating that investors should be duly compensated in case they suffer a loss owing to the outbreak of hostilities or disturbances.

## 2.3 Trade and Investment Related Administration and its Developments

### 2.3.1 Foreign Exchange Control

At the end of June, 2006, the Russian Federal Government adopted the relevant amendment to the Law on the Regulation and Surveillance of Foreign Exchange, and since July 1, 2006, has eliminated the restrictions on the movement of capital in foreign exchange, and therefore, the roubles under capital accounts have been made freely convertible. The Russian Federal Government has eliminated the practice of collecting foreign payments for imports and exports, and liberalized the controls over Russian banks' transactions in foreign exchange. In addition, residents, whether natural persons or judicial persons, have been allowed to open accounts outside the Russian territory, and the limit on the remittance by a natural person to an account outside the Russian territory to US \$ 150,000 has been lifted. The amendment has, to a certain extent, streamlined the formalities that foreign investors have to complete when entering the Russian market, placed foreign enterprises in a better position to liquidate their assets within the Russian territory, lowered the risk that foreign enterprises may face when making investments in Russia, and strengthened the ability of foreign enterprises to evaluate projects and raise funds.

### 2.3.2 Administration of the Residence and Stay of Foreigners

In July, 2006, President Putin issued the Russian Federal Law on the Registration of Immigrant Foreign Citizens and Persons without any Nationality, and the Amendment to the Russian Federal Law on the Legal Status of Foreign Citizens. The two Federal Laws will enter into effect on January 15, 2007. The Russian Federal Law on the

Registration of Immigrant Foreign Citizens and Persons without any Nationality stipulates that, except in border areas, enclosed military camps and areas struck by ecological disasters, the written notification procedures, rather than the existing compulsory registration procedures, should be applied to the registration of foreign citizens and persons without any nationality, and that foreign citizens and persons without any nationality may register themselves with the competent department or the post office in the place where they stay. And the amendment to the Russian Federal Law on the Legal Status of Foreign Citizens eliminates the quota set by the Russian Federal Government every year on foreigners who are permitted to enter the territory of the Russian Federation for temporary residence without an entry visa, and it also stipulates that the competent government agency should not refuse the applications of such foreigners for contemporary residence. But pursuant to the law, such foreigners are required to register with the relevant department subordinated to the Federal Immigration Administration each year and submit their relevant personal documents in proof of their permanent or temporary residence in the Russian Federation. The amendment also provides for the immigration card to function as proof of the right of temporary residence in Russia of foreign citizens and persons without any nationality.

In November, 2006, to fulfill the national task of institutionalizing the administration of immigrant workers, the Russian Federal Immigration Administration made a proposal to the Duma to amend the relevant provisions of the above mentioned two federal laws. According to this proposal, for foreign citizens holding a multiple entry exit visa, the period of stay in the territory of the Russian Federation should be shortened from 180 days to 90 days, and an employer does not need to obtain a permit when employing “visa exempted” immigrant workers, but needs to handle taxation registration, and provide the competent government department with details of the nationalities and jobs of the immigrant workers. The Regulations on Granting Quota on Foreign Citizens Invited to Work in Russia in 2007 issued by Russia in November, 2006 set the quota, for the year 2007, on foreign workers allowed to enter Russia on a visa at 308,000, showing a decrease of 20,000 as compared with the figure for the year 2006.

### 2.3.3 Land Administration

On April 18, 2006, President Putin issued the amended version of the Russian Federal Law on Hidden Resources, and on October 26, the same year, adjustments were made to some of the provisions of the law. The amended law clearly defines the right of the state to own land, and stipulates that all plots of land, and all land belong to the Russian Federation, the entities of the Russian Federation, and the civic organizations. And at the same time, the amended law stipulates for the state registration procedures for the right of property of land. Besides, the law makes it possible for a vertically integrated company to have a two way transfer of the right to use land with its affiliates.

#### 2.3.4 Administration of Forest Resources

In November, 2006, the Russian Duma ratified the new version of the Russian Federal Forestry Code, which shall enter into force on January 1, 2007. As stipulated in the Code, forest resources should be categorized according to their economic, ecological and social functions. Forest resources to be leased must be those forest reserves owned by the state, and the local governments, or those registered and recorded after state investigations. According to the Code, the term of lease must be shortened, the term of lease based on an auction agreement can be a period of 10 to 49 years, and in other cases, the term of lease should be a period of 1 to 49 years. The Code also states that forest resources are property of the Russian Federation. Moreover, the Code provides a legal basis for the exploitation of forest resources, the development of forestry, the construction of infrastructure of forestry and wood processing. And at the same time, the Code grants the entities of the Russian Federation great autonomy. As stipulated, as from January 1, 2007, all powers related to the administration of forestry, except those relevant to seed breeding, medical control of plants, forestry education, and the preparation and approval of regulations on forestry, shall be determined by the entities of the Russian Federation themselves.

#### 2.3.5 Tax Administration

In July, 2006, the Russian Federation Council ratified the Amendment to the Tax Law. The Amendment clearly stipulates the frequency and times of tax inspection to be conducted, which will help to reduce arbitrary action taken by tax collectors against enterprises. In accordance with the Amendment, the Russian Federal tax collectors can conduct tax inspection only in two forms: inspection at a fixed point and circuit inspection; the frequency of circuit inspection on one tax payer, including a subsidiary or a representative office of a foreign enterprise, should not exceed twice a year, and the time allowed for each circuit inspection should not exceed two months (but, in special circumstances, it may be extended to six months). Moreover, the Amendment reduces and defines the types of document to be submitted to tax collectors during circuit inspection. And it also stipulates that tax payers should have the right to demand necessary explanation from tax authorities when required to present supplementary information in proof of the authenticity of the tax declaration forms which have been submitted to tax authorities.

#### 2.3.6 Copyright Administration

In May, 2006, the Russian Federal Government, in compliance with the Russian

Federal Law on the Grant of Licences for Certain Categories of Activities, promulgated the Regulations on the Grant of Licences for the Duplication(Production) of Audio visual Products. The Regulations provide detailed stipulations for the procedures of granting licences for the duplicating(producing) of audio visual products by judicial persons and / or private dealers(hereinafter referred to as licensed business activities). The licences for licensed business activities shall be valid for a period of five years, and the Russian Federal Bureau for Supervising the Protection of Cultural Heritage and the Regulations on Mass media shall be the authorities responsible for granting licences.

### 2.3.7 Competition Policy

In July, 2006, the Russian Federal State Duma passed the Amendment to the Law on the Protection of Competition. The Amendment has defined the power of the Federal Anti monopoly Authorities, and modified a series of basic concepts in the Law on Anti monopoly. The Amendment made the following changes to the Law: business entities that are in a “dominant position” are redefined as business entities that have a market share of 50% instead of 65% as originally stipulated; a practice shall be established that allows enterprises to challenge the decisions and rules made by the Anti monopoly Authorities within three months from the date of receiving such decisions and rules or from the date of notification of such decision and rules, and, during the legal proceedings, the implementation of the decisions and rules of the Anti monopoly Authorities shall be suspended until the ruling of the court of law becomes effective; any merger and acquisition transaction involving a business organization with total assets of 3,000 million roubles or a total income of 6,000 million roubles shall be subject to prior approval by the Anti monopoly Authorities; and any merger and acquisition transaction involving a financial institution whose amount of total assets meets the criteria set by the Russian Federal Government shall also be subject to prior approval by the Anti monopoly Authorities.

### 2.4 Administrative Measures Applied to Specific Commodities

The Russian Federation levies excise duties on alcohols, tobacco, automobiles, gasoline, diesel, motor oil, etc. In accordance with Federal Law No. 107 in which the Russian Federation made an amendment in 2005 to the Federal Tax Code, the Russian Federal Customs Service issued an order to “levy excise duties”. By this order, all Russian Customs houses, including the Far east Customs House, have been applying new excise rates to most of the imported commodities since January 1, 2006. The following products are subject to new excise rates: the excise duty on light automobiles with an engine capacity between 90 to 150 H.P.(inclusive of 150 H.P.) has been increased to 16.5 roubles per H.P.from 15 roubles per H.P.; the excise rate on light automobiles with an engine capacity exceeding 150 H.P.has been increased to



167 roubles per H.P. from 153 roubles per H.P.; the excise duty on motorcycles with an engine capacity exceeding 150 H.P. has been increased to 167 roubles per H.P. from 153 roubles per H.P.)

### **3 Barriers to Trade**

#### **3.1 Tariff and Tariff Measures**

Russia's import tariffs are categorized into ad valorem duties, specific duties, and compound duties with over 13.1% of the country's import commodities subject to specific duties and compound duties. Russia's ad valorem duty rates are graded 0%, 5%, 10%, 15% and 20%, with a weighted average rate of approximately 9.5%. Specifically, the weighted average tariff rate on agricultural products is 8.8%, and the weighted average tariff rate on finished products is 9.6%.

Although the year 2006 saw a slight decline in Russia's average tariff rate on import commodities, over 10% of the country's import commodities were still subject to a high tariff rate of over 25%. The average import duty rate applied to such commodities as automobiles, plastic articles, certain textiles materials and clothing, white sugar, tobacco, and alcohol was as high as 30%. Russia's tariff peaks have constituted a barrier to the export of Chinese products with a competitive advantage to Russia.

In 2006, Russia issued several Government Decrees to raise import duties on selected commodities. On March 3, 2006, the Russian Federal Government issued Government Decree No.118 to increase the import duty on textile fibers HS No.7019320009 to 15% from 5%. On April 17, 2006, the Russian Federal Government issued Government Decree No.214 to raise the import duty on some raw and modified starches to 20% from 10%, requiring that the import duty on such products should not be less than 0.06 euros per kilo. And on May 31, 2006, the Russian Federal Government issued Government Decree No.325 to impose a nine month interim import duty of 5% on electrodes used in apparatuses for electrolyzing aluminium and other electrodes. At the same time, Russia applies different tariff rates to certain commodities different in price. On July 25, 2006, the Russian Federal Government issued the Government Resolution on the Modification of the Customs Tariff System for Certain Categories of Dairy, which requires that, starting from September, 2006, the practice of levying import duties on cheese at a rate of 15% of its import prices but not less than 0.3 euros per kilo should be abolished, and that specific duties should be imposed on imported cheese categorized by price. According to the Resolution, the import duty rate on cheese whose prices are lower than 1.65 euros per kilo shall remain at 0.7 euros per kilo, and the import duty rate on cheese

whose prices range between 1.65 to 2.00 euros per kilo shall be 0.65 euros per kilo. The Russia's new practice of levying import duties has actually raised the import duties on the relevant commodities, thus restricting the import of such commodities.

Russia levies import duties on textiles imported from China at a rate as high as 11% though it applies an import tariff rate of 6%—7% to textiles imported from other countries. And, while China, as a developing country, is included by Russia in its list of countries enjoying GSP rates, Russia excludes many of China's competitive products from its list of products enjoying a favourable treatment. Bulk commodities, such as light industrial products, textiles, clothing, and leather goods, exported to Russia by China are usually subject to higher tariff rates. For instance, Russia applies an import tariff rate of 15% to imports of footwear, and moreover, it charges an extra import duty of 1.70 euros on each pair of leather shoes imported, and 0.7 euros on each pair of synthetic leather shoes imported. China has expressed its concerns about Russia's inability to meet its commitments with respect to most favoured nation treatment.

### 3.2 Tariff rate Quotas

Russia continues to apply tariff rate quotas to imports of swine meat, bovine meat and poultry meat. In 2006, Russia's volume of tariff rate quotas on the import of poultry meat reached 1.1308 million tons with an import duty of 25% but not lower than 0.2 euros per kilo on quota imports, and 60% on non quota imports; swine meat, 476,100 tons with an import duty of 15% on quota imports but not lower than 0.25 euros per kilo and 60% on non quota products; bovine meat, both fresh and chilled, 27,800 tons with an import duty of 15% but not lower than 0.2 euros per kilo on quota imports and 55% on non quota imports.

### 3.3 Barriers to Customs Clearance

For the purpose of rectifying the “grey Customs clearance”, Russia is currently applying special measures to the Customs clearance of imported goods of Chinese origin. And these measures include: reducing the number of Customs ports for clearance of imports from China; pooling all imports from China; imposing an extra Customs duty of 30% on imports from China; and levying the Customs duty on any import from China at a rate of US \$ 3.5 per kilo.

Moreover, the Russian Customs has set the lowest Customs declaration prices for certain products imported from China. As an example, the Customs declaration price of Chinese made down coats is US \$ 20 per piece, but the Russian Customs has fixed the lowest Customs declaration price for down coats at US \$ 50 per piece, thus

increasing the import duty on down coats by 150%. From April, 2004, the Russian Customs began to raise the Customs declaration prices for 21 categories of general consumer products imported from China to a level not lower than US \$ 3.4 per kilo from the previous level of US \$ 0.2—1.4 per kilo, and this practice by the Russian Customs has greatly reduced the competitiveness of Chinese products in the Russian market. The Chinese side believes that the above move made by the Russian Customs deviates from the relevant provisions of the WTO Agreement on Customs Valuation, has resulted in a sharp increase in tariff rates and reduced the competitiveness of the relevant Chinese products.

On June 10, 2006, the Russian Federation issued the Notice on Strengthening Controls over Customs Values of the Commodities Categorized under Chapters 42 and 43 of the Russian Federal Catalogue for Foreign Economic Activities. According to the provisions of the above document, the Russian Customs shall exercise controls over the Customs values of imported products of Chinese origin under HS chapters 42 and 43, and shall charge specific duties on such products imported from China at rates ranging from US \$ 5 to US \$ 90 per kilo. The above measure applied by Russia is discriminatory against the relevant Chinese exports, and has severely affected the normal export of the relevant Chinese products. The Chinese side is much concerned about that.

### 3.4 Discriminatory Taxes and Charges Levied on Imports

In addition to Customs duties, Russia levies excise duties on such products as alcohol, alcohol beverages, tobacco and articles thereof, jewellery, gasoline, and automobiles. And at the same time, Russia applies to certain imports special tax rates different from the excise rates applied to its domestic products. For instance, according to the Russian Tax Law, excise duties on domestically made cars are levied at 5%, while specific duties are imposed on imported cars at different rates based on their cylinder capacities. Russia applies different taxation systems to imported products and domestically made products, and this might lead to discrimination against imported products in respect of taxes. Therefore, the Chinese side hopes that Russia will apply the same taxation system both to imports and to domestic products.

### 3.5 Technical Barriers to Trade

Since the Law on Technical Regulation entered into force on July 1, 2003, Russia's technical standards and certification system have improved progressively. However, Russia currently has 22,000 technical standards in effect, about 70% of which are not in conformity with international standards, and at the same time, insists that any product certified in compliance with generally accepted international standards should

be retested. In Russia, there is still a lack of transparency in the process of preparing and amending technical standards. Although Russia established an enquiry point in 1998, as required by The Agreement on Technical Barriers to Trade, the enquiry point has provided little prompt and valid information.

Russia's administration of technical standards and certification is rather complicated. Though the Russian Federal Bureau for Technical Regulation and Measures and the organizations authorized by it are the main bodies or agencies responsible for the application of administration to technical standards and certification, other government bodies such as the Ministry of Agriculture(for agricultural products), the Health Ministry(for medical equipment and pharmaceuticals), the State Commission on Communications(for telecommunication equipment and services), and the State Commission on Inspection and Surveillance of Mining(for mining equipment, petroleum and natural gas equipment), also participate in the application of administration to technical standards and certification. And as a result, many products have to undergo overlapped certification, which adds to the cost of the relevant exporters.

### 3.6 Sanitary and Phytosanitary Measures

Russia has brought under the unified administration of the Federal Veterinary and Phytosanitary Supervision Bureau all bodies or agencies responsible for preparing agricultural product criteria and certification. But, for agricultural products and foods, entry into the Russian market is often difficult, as Russia's sanitary and phytosanitary measures are intricate in procedures and lacking in scientific basis. And what's more, Russia usually prevents the import of so-called "sensitive foods" while there is not enough scientific evidence. Following the imposition of import prohibitions on the meat products of Chinese origin in September, 2004, Russia once again prohibited the import of any meat product of Chinese origin in July, 2006 on the grounds that "the conditions of foot and mouth, bird flu and other diseases in China are complicated, that Chinese-made meat products are found to be illegally circulating and that the system of China's veterinary agencies for monitoring enterprises engaged in the processing of meat products delays disclosing information". The Chinese side is much concerned about the ill-grounded import prohibitions.

In December, 2006, Russian Animal and Plant Inspection and Quarantine Agency issued an order to suspend the import of rice, and to stop using the licences granted for the quarantine of imported rice. The reason for the import prohibition was that such poisonous substances as metallic additives, mercurial compounds, pesticides and genetically modified ingredients had been found. As a result of Russia's enforcement of the import prohibition, a considerable number of Chinese exporters had to suspend their export contracts, and, therefore, incurred a great loss. The

Chinese side is concerned about this.

### 3.7 Trade Remedies

By the end of 2006, Russia had taken six trade remedies against China. Following the application of special safeguard measures to ammonium chloride imports from China in October, 2005, Russia, in accordance with the Federal Law on the Application of Special Safeguards, Anti-dumping and Countervailing Measures to Imports, issued Government Decree No.50 on January 28, 2006, declaring the application of a special safeguard measure to white-hot light bulbs. According to the above safeguard measure, Russia set a 3-year import quota on white-hot electric light bulbs with a wattage less than 200 watts and a voltage higher than 100 volts (except ultra-violet and infra-red ray bulbs, light bulbs with halogenated Tungstic filaments, and reflective light bulbs) at 136.7 million per year.

In November, 2006, Russia initiated anti-dumping investigations against roller bearings of Chinese origin. The case involved products under seven 8-digit tariff numbers with a total export value of US \$ 21.53 million.

### 3.8 Export Restrictions

Russia applies export restrictions to certain strategic and resource-based products. In compliance with Resolution No.363 concerning the Approval of the Regulations on Imposing Supervision on the import and Export of Certain Categories of Commodities, and Resolution No.364 concerning the Approval of the Regulations on Granting Licences in the Field of Foreign Commodity Exchange and on Establishing the Federal Data Bank for Licences, both dated June 9, 2005, Russia has applied export licensing to 16 categories of product including non-ferrous metals, timbers, oil and minerals.

Additionally, Russia levies export duties on selected products to restrict their export. In 2006, the country imposed export duties on up to 476 categories of product, mainly including raw materials containing hydrogen carbonate compounds, unprocessed wood, precious stones and valuable accessories, certain metals and chemicals.

In March, 2006, the Russian government issued a Government Decree declaring that, starting from May, 2006, the export duty on logs and unprocessed sawn wood was to be raised from the rate of 6.5% but not lower than 2.5 euros per cubic meter to a rate of 6.5% but not lower than 4 euros per cubic meter. And at the same time, the Russian

government decided to impose an export duty on wood particles and scraps at 6.5% but not lower than 4 euros per cubic meter with effect from April 7, 2006. And soon after that, the Russian government decided that, starting from July 1, 2007, the export duty on logs was to be raised from the rate of 6.5% but not lower than 4 euros per cubic meter to a rate of 10% but not lower than 6 euros per cubic meter, and was planned to be further increased to a level of 20% but not lower than 24 euros per cubic meter by the year 2010. As Russia is currently China's largest exporter of logs, Russia's repeated rise in the export duty on logs has increased the import cost of those Chinese importers of raw materials such as logs as well as the production cost of those Chinese exporters of traditional products such as floorboards and furniture. Therefore, the Chinese side is concerned about this.

And in addition to the above, in 2006, Russia repeatedly raised the export duties on oil, and oil-related products such as greases, propane, butane, ethylene, propylene, butylene, and butadiene. The highest export duty on oil has reached US \$ 237.6 per ton, the highest export duty on such products as propane, butane, ethylene, propylene, butylene, and butadiene has reached US \$ 172.4 per ton, the export duty on greases and oil preparations will be raised to US \$ 92.9 per ton.

### 3.9 Barriers to Trade in Services

#### 3.9.1 Telecommunications Services

The Law on Telecommunications effective as of January 2004 contains special regulations on the intercommunication between the network of alternative operators and the network of Russian public telephones. According to the regulations, both the contracts and expenses with regard to the intercommunications are placed under the tight control of the Federal Ministry of Telecommunications. Meanwhile, according to the law, the license is valid for only 5 to 10 years, during which time the telecommunications operators are unlikely to recover their investments.

#### 3.9.2 Construction Services

It is stipulated that only natural persons with Russian nationality can obtain the permit to provide architectural services. Only by jointly providing service with Russian citizens or permitted Russian commercial firms can foreigners provide architectural services.

It is also stipulated that when more than 100 employees are employed at a

construction site, more than 50% of them should be Russian citizens.

### 3.9.3 Transport Services

Russia has not yet opened the market for passenger and cargo transportation by railway. Meanwhile, no joint venture is allowed to engage in cargo handling, container yard operation, shipping agency, or customs clearance. No foreign business is permitted to provide maintenance service to railway transportation equipment. Moreover, certain non-national treatment restrictions are imposed on Chinese companies that provide cross border road transportation services,

At present, Both Russian and foreign investors engaged in aviation related research and manufacturing are granted by the Russian legislation some favorable treatments, including tax holiday and investment guarantee. However, foreign ownership is not allowed to be more than 25% of the whole share of an aviation enterprise. Moreover, directors and senior managers must be Russian citizens.

### 3.9.4 Retail Services

On November 15, 2006, the Russian Federal Government issued the regulations restricting the entry of foreign citizens into the retail trade. According to the regulations, effective from January 1, 2007, immigrant workers shall be prohibited from retailing alcohol beverages and pharmaceuticals in Russia, and effective from April 1, 2007, all immigrant workers shall be prohibited from providing retail services except shop based retail services.

## **4 Barriers to Investment**

Although, in order to attract foreign investment, Russia has taken numerous measures aimed to reduce restrictions on business operations of foreign investors, the investment regime prevailing in Russia still constitutes a barrier to the business operations of foreign investors.

The Law on Foreign Investment promulgated in 1999 clearly stipulates that the Russia Federal Government must establish a single registration administration agency for foreign investors, but so far, the stipulations have not been implemented. In practice, Russia, on the contrary, requires foreign investors to file registration for every new affiliate they set up within the territory of Russia. And this has caused much

inconvenience to the business operations of foreign investors and added to their operating expenses.

While the Law on Foreign Investment promulgated in 1999 also stipulates that foreign invested enterprises should enjoy the same treatment as that accorded to domestic enterprises in Russia in respect of purchases of securities, transfer of property, judicial protection and profit remittance, it also specifies a great number of exceptions such as the principle of maintaining the constitutional system, ethics and the protection of other people's health, the protection of other people's rights and legal rights, the guarantee of national defense and security. These exceptions allow the Russian government great discretion in administrative affairs, and as a result, foreign investors can not really enjoy national treatment in Russia.

The Russian Federal Law on Land promulgated in 2001 stipulates that foreign investors shall enjoy the same right as that accorded to domestic enterprises in Russia in respect of purchases of land and its attached buildings, but, restricts purchases of farm land by foreign enterprises, and prohibits foreign enterprises from purchasing any land close to Russia's border areas on grounds of ensuring national security.

According to the Russian Federal Tax Code, Russia applies a personal income tax rate of 13%, but, Part II of the Tax Code also requires that tax payer not filed in the Russian Federation should be subject to a personal income tax rate of 30%. The stipulations on the application of different personal income tax rates to residents and non residents are contrary to the principle of national treatment.

And in addition, Russia prohibits foreign investment from entering into 39 strategic industries including the production of weapons, the production of nuclear materials, the construction of nuclear facilities, the construction of water conservancy facilities in oceanic fishing ports, health and quarantine, and exploitation of strategic mines. Though Russia allows foreign investment to enter certain industries, there are restrictions on its entry, and among them are the following:

(1) the telecommunications industry: according to the relevant stipulations of Russia, foreign investment entry is not allowed to be incorporated as a wholly owned foreign invested enterprise except as a part of a joint venture enterprise with foreign investment limited to 49% of its ownership. The integrated telecommunications equipment used in Russia's communications internet must fully satisfy Russia's current technical requirements for such equipment, and must have the permit to enter into the internet issued by the Russian state.

(2) the white wine industry: according to the regulations of the Russian Federal



Government, foreign investment in the white wine industry is limited to 49% of the ownership interest of an enterprise.

(3) the aviation industry: according to the relevant stipulations of Russia, foreign investment is limited to 25% of the ownership interest of an aviation enterprise engaged in processing, production, experimenting, repairing, and using technology, foreign investors are not allowed to participate in the administrative work of the shareholders general meeting and the board of directors.

(4) the banking industry: Russia allows foreign banks to establish joint venture banks within the territory of Russia, but does not allow the establishment of branches of foreign banks. And at the same time, Russia does not allow foreign invested banks to conduct borrowing or lending business. The percentage of the local staff of a foreign invested bank established in Russia must not be lower than 75% of the total staff of the bank.