ECO-ACCORD
Center for Environment
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Russian Trade Policy

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Introduction

A country's foreign trade policy can serve as an important instrument, affecting all constituents of sustainable development: the dynamics and quality of economic growth, human well-being, and environmental conditions, – in the country itself as well as its partner states.

The objectives of the report are:

- To analyze basic trends in Russia's foreign trade policy and to evaluate their influence on sustainable development;
- To develop recommendations on the improvement of Russian foreign trade policy in the context of sustainable development.

1. Overview of major changes in foreign trade policy after USSR: moving forward to WTO

The late 20th – early 21st century witnessed some dramatic changes in the Russian Federation's trade policy. Alongside with the country's economic set-up and business environment, the role and principles of its trade policy have changed.

The two characteristic features of the Soviet Union's trade policy are known to have been rigid protectionism and state monopoly on foreign trade. Together with pegged domestic prices, the overvalued rouble, whose rate had hardly changed over the last three decades of the USSR, and strict prescriptions as to goods and capital to be imported/exported, it made Soviet economy virtually insusceptible to external influence, either negative or positive. The function left to customs authorities was that of registering trans-border shipments. Only a few authorized foreign trade associations could engage in export/import activities, all calculations as to customs duties done by the central office. Many of state-owned Soviet foreign trade associations are still alive and well; they have switched to a different form of ownership but maintained their old-time contacts.

Up until the beginning of perestroika, practically the only channel of global market influence on Soviet economy was oil price, which determined the state's income from this mineral stock. In other respects, the Soviet republics' markets were hardly affected by global pricing environment due to the strictly observed isolation regime.

After 1991, Russia's trade policy swung from rigid protectionism to the excessively liberal principles of free market. The 1990's witnessed a substantial change in Russia's export/import priorities, as well as those of all other CIS countries.

Following the breakup of the Soviet Union and COMECON, Russia's foreign trade geography changed based on the redistribution of freight traffic among the former Soviet republics and East European countries. Developed Western countries were perceived as the most attractive markets because such contracts provided the inflow of convertible currency, which, till almost the end of the 1990's, remained a crucial factor for companies engaged in foreign trade activity. During that decade, the country's economic situation remained quite tight, with high, unstable inflation, stagnating production, problems with the balance of payments and monetary system as a whole, excessive external debt, and relatively low world average prices for key export items.

By the mid 1990's, Russia's geographical priorities in trade policy were formalized in the form of agreements on economic partnership and cooperation with most Western countries and an application for World Trade Organization (WTO) membership. The latter fact affected and still affects all aspects of Russian economy. Although the negotiations on Russia's WTO membership are still in progress, over the past 15 years Russian legislation was more or less harmonized with WTO requirements and regulations, which made it more transparent and predictable for the whole of the outside world. Thousands of amendments to various laws were adopted, and it is still an on-going process.

Following the 1998 crisis, domestic production in Russia started to grow, which soon resulted in yet another transformation of the country's trade policy pattern, characterized by an increased role of the state and a growing trend towards import substitution. The main reason behind such changes was a sharp and considerable devaluation of the rouble against the U.S. dollar, which increased the competitive power of Russian goods in both domestic and outer markets. Since the early 2000's, this tendency was "encouraged" by the growth of global prices for key Russian export goods as well as the gradual strengthening of the national currency.

The general economic upturn gave a boost to the country's external economic activity that covered both goods and services; in a short period of time, Russia merged into global economy, while the Government started to make use of the wide range of existing trade and political instruments. The adjustment of Russian laws to WTO standards played a great role in this process, which went on almost simultaneously with the sophistication of Russia's trade and political armory and the integration of many WTO rules into national legislation.

As of today, the following essential steps towards the harmonization of Russian law principles with those of WTO have been taken:

1. The principle of free trade has been recognized, including the right of legal entities and individuals to close export/import deals;
2. The Customs Tariff has been declared the main regulating instrument of foreign trade, suggesting the minimization of the usage of all other regulation mechanisms;
3. The most favored nation principle in foreign trade has been recognized, which regime is now applied to over 120 partner states, including all major international trade players;
4. The principle of national treatment of imported products has been recognized, providing a unified approach to domestic and imported goods as far as their certification (awarded on the basis of their conformity to Russian standards) and domestic taxation is concerned;
5. The principle of national treatment in intellectual property rights has been recognized, referring to the country's legal obligation to equally protect residents' and non-residents' intellectual rights;
6. A commitment to give up on export subsidization has been declared;
7. The generally recognized Customs Tariff Nomenclature based on the Harmonized Commodity Description and Coding System has been accepted;
8. A customs control system based largely on GATT principles has been accepted, including the procedure of declaration, control and customs clearance of goods, as well as that of establishing their customs value on the basis of actual values of corresponding foreign contracts.

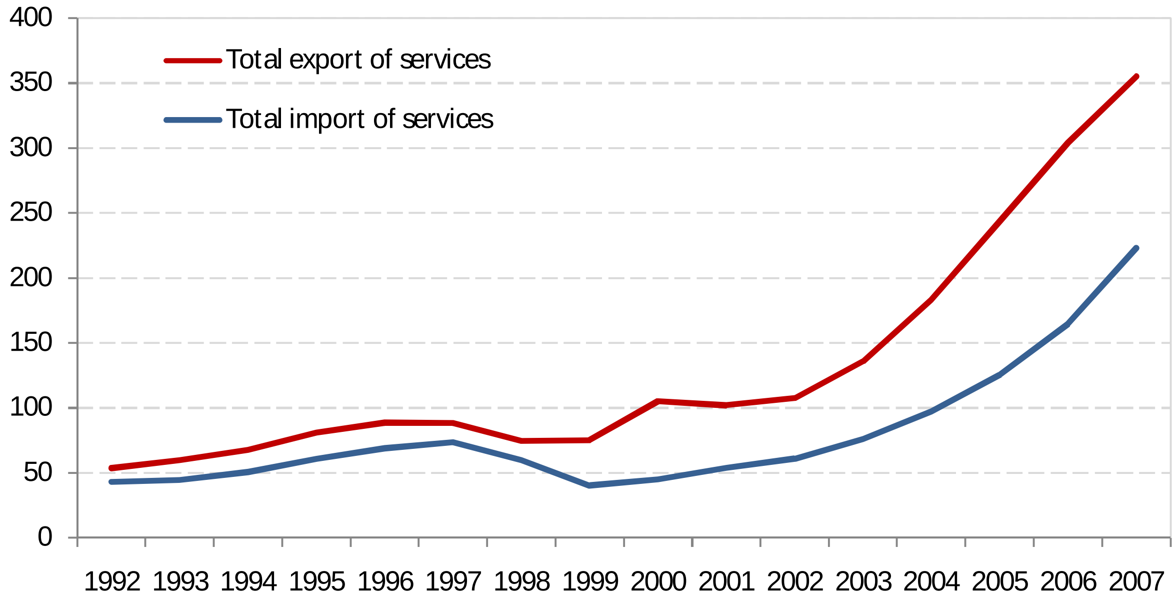
At the time the current crisis broke out, Russia was in a more favorable situation than in 1998: although the country's economy had grown more dependent on energy exports[1], certain experience in using various trade and political instruments had been acquired, as well as sufficient budgetary funds to support export-oriented industries.

It is now, in the midst of the crisis, that the question of elaborating an efficient trade policy, adequate for the country's needs, turns out to be more urgent for Russia than ever. Unfortunately, in many industrial sectors trade policy performs either purely protectionist or only monetary functions instead of being used at full capacity as a convenient sustainable development tool.

2. Russian foreign trade in goods: structure, recent dynamics and problems

The liberalization of Russia's external economic activity in the 1990's resulted in the removal of barriers impeding the entrance of national manufacturers to foreign markets and the penetration of imported goods and foreign investment into the domestic market. This led to a substantial increase in external turnover. Since the earliest 1990's, Russian exports and imports were growing. After a temporary reduction in 1997–1998 due to the financial crisis (which, at the same time, increased the competitiveness of Russian goods), there was a new upsurge in the country's external turnover.

Diagram 1. **Russian foreign trade in goods**
(according to the balance of payments methodology, U.S. $ bln)[2]



[1] In August 2008, the correlation ratio between the Russian Trading System index (http://www.rts.ru/en/index/rtsi) and the world oil price amounted to 0.8 compared to 0.6 in August 1998.

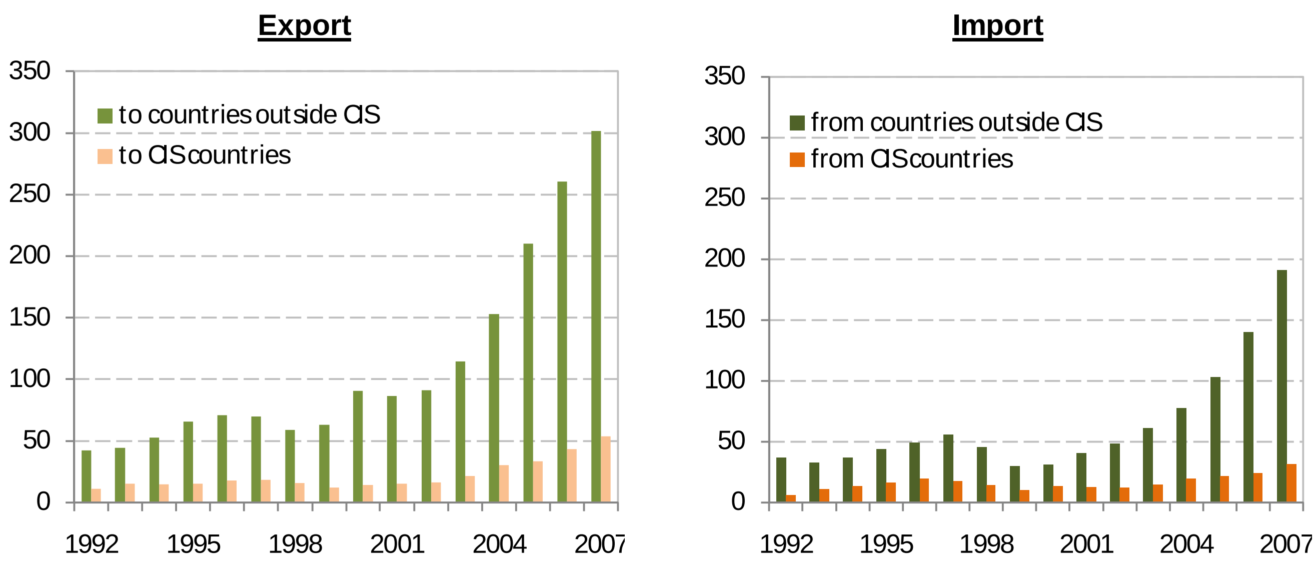
[2] See Annex for initial data referred to in the diagrams of this report.
Source: Russian Statistic Yearbook, Rosstat, Moscow, publications of 2000–2008 (Rus.)

Rapid exports growth was primarily driven by a significant increase in world prices for raw commodities. During the 2000's, oil prices continued to make record gains, with a historical peak in the summer of 2008. Slightly behind timewise, natural gas prices were going up at the same pace. A \$1 per barrel raise in oil prices has been estimated to increase the value of Russian exports by about \$2.2–2.3 bln. Another factor to stimulate exports was the weakening of state regulation mechanisms, which was particularly true for the 1990's. For example, in 1993, 77% of all exports of commodities were licensed trade, while by 1996 this figure was reduced to 12%. In 1996, the abolition of export duties also took place.

Almost in step with exports, imports grew in the 1990's, this growth stemming from the liberalization of trade and the opening of the previously closed Soviet/Russian market. In the 2000's, imports lagged behind exports in terms of dynamics but still continued to grow, which should be attributed to both disposable incomes growth and the strengthening of the rouble. In the future, exports are expected to fall due to reduction and stabilization of oil prices, while imports are predicted to keep growing, subject to Central Bank's consistent monetary policy.

Following Russia's transition from planned to market economy, <u>the geographical constituent of the country's trade policy</u> changed dramatically. The Soviet Union's trade policy was determined by political more than any other considerations. Thus, COMECON countries and developing countries, with respective shares of 60 and 10%, accounted for the major part of foreign trade turnover. After the breakup of the Soviet Union, economical factors came to the fore, which resulted in constant growth of non-CIS countries' share in the structure of Russia's external trade turnover. The growth of Russian exports to these countries was driven by both decreasing paying capacity of former socialist countries and the need to repay debts under credit via raw materials and energy shipments, as well as by barter transactions in which raw materials and fuels from Russia were shipped abroad as a payment for incoming commodities.

Diagram 2. **Russian foreign trade in goods: by groups of countries** (U.S. \$ bln)



The growth of imports from countries outside CIS and the gradual loss of competitive power by CIS goods were determined by their increasing production costs, due to rising prices for imported primary resources, and the insufficient quality of CIS-produced goods.

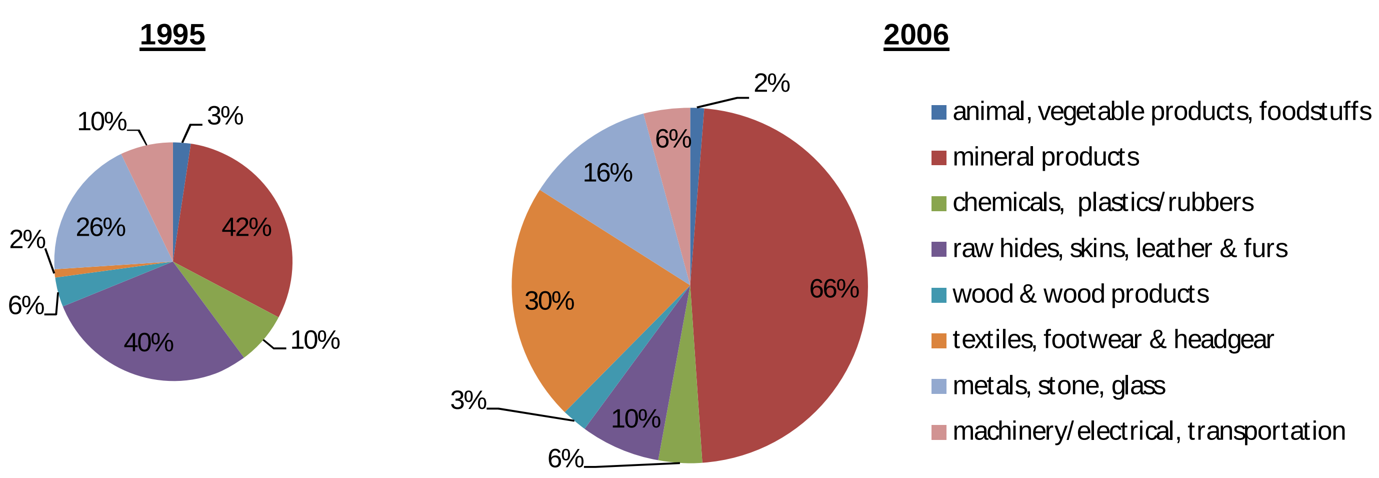
The current leader in terms of foreign trade turnover with Russia is the EU, although its share is starting to shrink. The second place belongs to Asia-Pacific Economic Cooperation (APEC) countries: in 2007, Russia's foreign trade turnover with this group increased by 37% compared to 2006, with exports going up by 16% and imports more than 1.5 times. According to customs statistics, external turnover with CIS countries also shows steady growth. Over the specified period of time, it increased by almost 30%, with exports rise exceeding 20% and imports going up by over 40%.

Thus, the share of APEC, CIS and other countries in the structure of Russian exports increased, with a simultaneous decrease in EU states' share. In the imports structure, the share of APEC grew while those of CIS and the EU reduced.

The commodity structure of Russian exports reflects the primary goods orientation of the country's economy. The absolute exports leader among industries is the mineral raw materials sector, and particularly the energy sector, their positions constantly strengthening and exports volumes going up. While in 1995 the industry accounted for slightly over 40% of exports structure, its share reached 65% by 2007.

The second largest group of exported Russian goods is metals and metal products. Although many countries restrict the access of Russian metalware to their markets by placing strong antidumping barriers, it remains highly competitive, even if referred to as 'goods in process' (on the other hand, it is no longer a raw material, which is already a good thing). In 2006, metals and metalware accounted for over 15% of Russian exports, which is 10% less than in 1995. This drop should be attributed primarily to the restrictions on imports of Russian metal products, imposed by a number of countries. The second reason was the decrease in shipments to East and South-East Asia due to the growing share of China-made rolled metal on their respective markets (as well as on other regional markets, it must be said).

Diagram 3. **Commodity structure of Russian exports in 1995 and 2006** (%%)

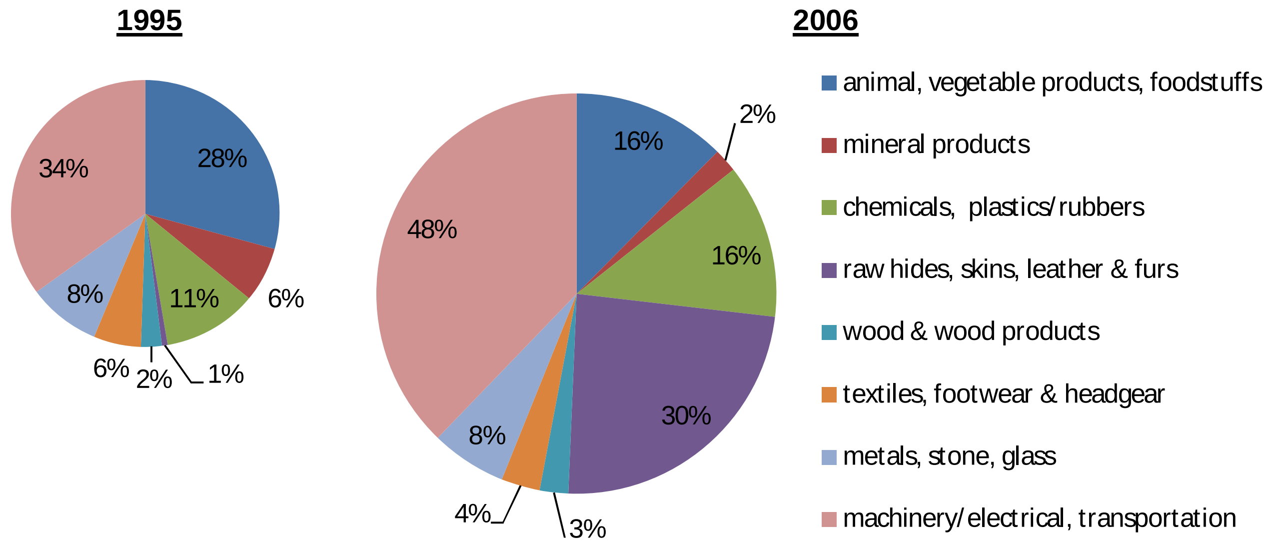


Other important Russian export items are chemicals (primarily mineral fertilizers) and machinery (with about 50% of all exported machinery and equipment going to CIS countries), but these categories' respective shares in export shipments are also decreasing.

Thus, the share of processed goods in the structure of Russian imports is very low and, what is more, steadily decreasing (according to World Bank's evaluation scale, the latest figure for Russia does not exceed one fourth). It would be fair to say that Russia's international specialization as an oil, gas and mineral raw materials producer, quite acceptable under certain conditions as a short-term plan, has not yet evolved into more developed forms of economic activity. The current trade policy of the Russian state does not focus on promoting deeper processing of natural resources, which is a serious impediment to Russia's expansion into overseas markets. It also makes the country highly dependent on global prices for raw materials. In the context of deepening financial crisis and a slump in global oil and metals stock indices, the negative consequences of such policy are quite tangible.

By contrast, the share of processed goods in the commodity structure of Russian imports is quite large. The top import item is machinery and equipment, whose share has been growing at the same pace as world prices for exported oil, gas and metals during the last three years. Like many other exporters of raw materials, Russia spends its respective proceeds on high-technology machinery and equipment (produced mainly by those very countries it sells raw materials to), which can hardly be characterized as a forward-looking strategy from the point of view of the country's long-term economic development. The failure to reverse this trend is one of the most obvious miscalculations in Russia's trade policy of late years.

Diagram 4. **Commodity structure of Russian imports in 1995 and 2006** (%%)



The share of machinery and equipment in Russian imports of commodities has been constantly increasing. In 2006 it amounted to almost 50%, up from 35% in 1995. Interestingly, the imports of machinery and equipment from non-CIS countries are higher than those from CIS, which can be explained by on-going production facilities modernization as well as growing consumer demand for more expensive high quality / durable goods. As a result, Russia actually swaps its mineral resources for equipment. The current import duties on equipment are not liberal enough and thus unfavorable to the development of Russian economy.

Food products and agricultural commodities represent the second largest share in the overall export of goods. While their share has somehow decreased comparatively to 1995, it is still very high and endangers food security of the country – Russia had long ago exceeded 20% threshold of the share of imported food in the overall Russian food consumption.

So, the contemporary trade policy of Russia, that relies on export-oriented economy, results in a situation when patterns of Russia's participation in international trade exchanges facilitate some processes in the national economy, that – if allowed to develop further – might endanger future economic growth and undermine the country's transition to sustainable development. Growing export of predominantly basic communities (oil, gas, fertilisers and timber) and growing import of finished industrial goods provoke a “heavier” structure of industrial production. Shares of mining and primary processing industries in the overall industrial production grow, while shares of engineering and consumer goods industries gradually decrease. In the period of market reforms in Russia, the share of fuel industry, metallurgy, chemical and timber-processing industries in the overall industrial production output increased from about 35% to almost 50%, while the share of engineering industries decreased from 24 to 22%, and the share of light and food processing industries decreased from 20 to 17%.

Should the above trend sustain, deindustrialisation of the national economy and conservation of the contemporary export capacity of the country might become inevitable. In such a case, Russia faces a risk of transformation into a territory with domination of mining and environmentally burdensome production facilities. Besides that, the country's substantial dependence on demand and supply fluctuations at international markets might persist.

In order to ensure competitive advantages, to provide support and protect interests of Russian exporters at foreign markets, to enhance economic capacity and increase shares of hi-tech products in the overall Russian exports, a system of <u>state support measures was developed to support export of industrial products</u>, stipulating application of trade, economic, organisational, finance, information and consultative tools. The system covers the following dimensions:

1. Finance support, including export loans, provision of guarantees for export operations, partial export loan rate indemnification. In other countries, specialised institutions were established for implementation of finance measures for export support – export loan agencies and export-import banks. Most often, these organisations accumulate funds from public budgets, use funds of their own or borrow. Until recently, finance support measures for export operations were not paid a sufficient attention in Russia: finance support for export of industrial products was mainly provided through provision of loans to foreign governments – such arrangements covered large-scale complex deliveries, construction of facilities abroad and facilitation of defence and industrial co-operation (covering only a tiny fraction of the overall industrial exports).

   As a result, in 2003, the Concept of Development of State Finance (Guarantees) Support for Industrial Export in Russia was drafted. According to the Concept, annual allocations from the state budget for support of industrial export in Russia should reach US $ 1 billion (guarantees for export of industrial products) plus 3 billion roubles for loan rates subsidies.

2. Information and consultative support for exporters.

3. Preferential tariffs. According to the UN classification, Russia is a transition economy – as a result, Russian exporters may be granted a preferential mode of market access for their products.

4. Establishment of the Development Bank.

5. State support for exhibitions and fairs.

Notwithstanding a range of the measures applied, a recent series of governmental reshuffle steps resulted in a situation, when functions of state export support became functions of minor importance in the Russian policy and actually lost their underlying organisational framework (however, even earlier, the export support was not "up to the mark"). Accounting for these considerations, first and foremost it is necessary to consolidate these functions in the framework of the executive branch and make them organisationally fixed. Export support is a general economic task and a major structural objective of a balanced trade policy – therefore, it would be appropriate to re-establish the Governmental Commission for Export Support and substantially strengthen relevant activities of the Ministry of Economic Development of Russia. To make the export support efficient, federal and local authorities, the civil society and businesses should work jointly, a large-scale nation-wide campaign for export support should be implemented, with involvement of high officials and mass media outlets. Objectives of promotion of Russian exports should become a priority factor for consideration in the course of planning of foreign visits of Russian high officials, in activities of all missions abroad, not limited to activities of trade missions only.

Tariff regulation measures represent important components of trade policy of any country. Average rates of import duties in the due Russian customs regulations vary depending on estimation methodologies applied, but at all events these rates exceed 10%. At the same time, in developed countries, these rates are set at the level of about 4–5%, or about 6% for finished goods (however, application of differential rates allows to ensure efficient protection of narrow but important sectors for an individual national economy).

In early 2008, weighted average import tariffs in Russia reached 15% (26% for agricultural products and 13% for industrial goods).

Average levels of import tariffs in Russia[3]

Sector Code	Description	Average tariff
1	Live animals; animal products	23.81%
2	Vegetable products	11.07%

[3] Data in the Table of average import tariffs rates were taken from online database of WB, IMF and WTO – "Market Access Map" (as of December 2008).

Sector Code	Description	Average tariff
3	Animal or vegetable fats and oils and their cleavage products, prepared edible fats; animal or vegetable waxes	13.37%
4	Prepared foodstuffs; beverages, spirits and vinegar; tobacco and manufactured tobacco substitutes	39.59%
5	Mineral products	3.58%
6	Products of the chemical or allied industries	9.66%
7	Plastics and articles thereof; rubber and articles thereof	16.31%
8	Raw hides and skins, leather, furskins and articles thereof; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)	35.53%
9	Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	19.52%
10	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard; paper and paperboard and articles thereof	14.06%
11	Textiles and textile articles	21.87%
12	Footwear, headgear, umbrellas, sun umbrellas, walking-sticks, seat-sticks, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair	32.07%
13	Articles of stone, plaster, cement, asbestos, mica or similar materials; ceramic products; glass and glassware	19.41%
14	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	24.78%
15	Base metals and articles of base metal	12.06%
16	Machinery and mechanical appliances; electrical equipment; parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	7.21%
17	Vehicles, aircraft, vessels and associated transport equipment	18.32%
18	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; clocks and watches; musical instruments; parts and accessories thereof	6.44%
19	Arms and ammunition; parts and accessories thereof	26.84%
20	Miscellaneous manufactured articles	32.94%

As for export duties, while in 1990s, these duties were applied rather actively and more than 1,000 such duty rates were set, in late 1990s – early 2000s they were gradually almost completely removed from the Russian foreign trade legislation. Export duties still exist for some raw materials (fuel and scrap metals). Export duties for oil and oil derivatives fulfil the most substantial fiscal function – these duties are estimated at the base of monthly monitoring of global prices. For example, in December 2008, the export duty rate for crude oil reached about $200/ton.

In the range of non-tariff regulation tools, countervailing and counter-dumping measures play a particular role. These measures seek to prevent unfair competition (dumping and specific subsidies). Besides that, special protection measures are used to mitigate adverse impacts of import surges.

According to the federal legislation, special protection measures may be applied in the case of a proved import of certain goods to the Russian Federation in such amounts and under such terms and conditions that generate substantial adverse impacts on a certain Russian industry or pose risks of such impacts. Special protection measures should be applied in a non-discrimination manner, regardless a country of origin of the goods, and should cover – if applied – the goods delivered to the customs territory of the Russian Federation from all countries.

Unlike special protection measures, counter-dumping and countervailing measures should be applied selectively – i. e. against imported goods from countries, where national exporters supply goods to the customs territory of the Russian Federation using dumped prices or are granted governmental subsidies in the course of production, export or transportation of their goods.

Specific trade policy measures

Application of such specific tool as quotas, in Russia is now predominantly of political nature: import quotas are set for beef, port, poultry, white sugar and raw sugar. Efficiency of the tool itself and its practical applications (tenders, etc.) is rather dubious and it just confirm that industrial lobbying does exist in Russia – a negative but almost inevitable phenomenon.

Export quotas are set for products that – if exported – may endanger economic or environmental security of the country: caviar and some other fish products, raw fuel and some fuel processing products, some metal products, etc.

Application of the tool of import/export licensing is also of strategic (and almost extra-economic) nature. Licensing requirements are applied to goods listed in the list of goods of strategic importance, that must meet special rules of movement through the customs border of the Russian Federation. The list is frequently updated and covers some other spheres in addition to foreign economic relations (for example in the case of precious metals). At the same time, in some other cases, licensing is of more common nature, e.g. in the case of pharmaceutical goods.

Besides that, such tools as special technical regulations are also applied in Russian trade policy practices.

The due Russian legislation stipulates that some goods may be exported to the Russian Federation, provided that in addition to a custom declaration, the exporter should provide to customs authorities some documents that certify that the goods meet some mandatory technical requirements. All such goods should be listed in the list of products under requirements of mandatory certification of compliance (such lists should be approved by the Government according to technical regulations).

Technical regulations belong to the range of the most common tools for regulation of foreign economic activities in many countries throughout the World.

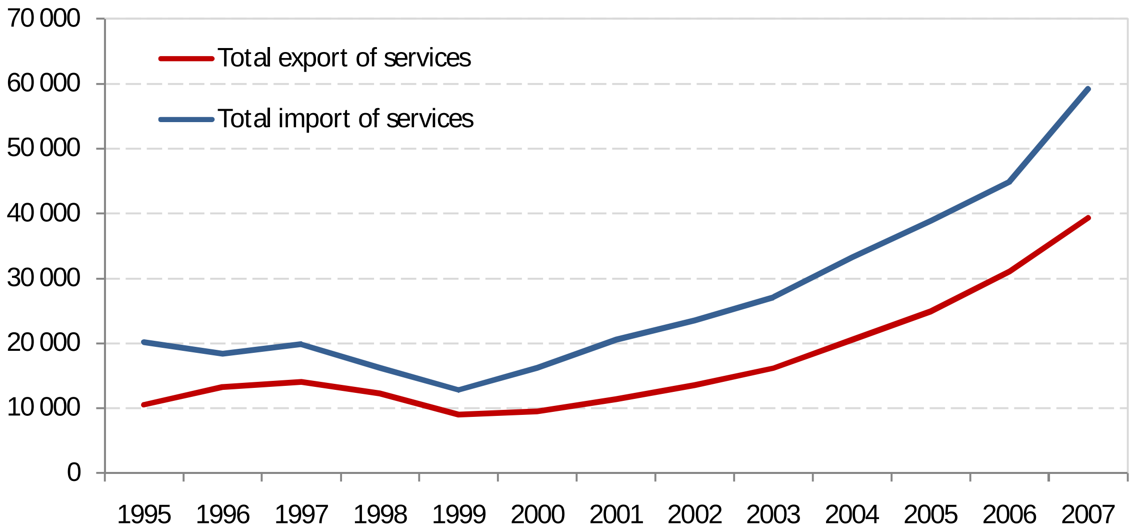
So far, two technical regulations had been approved in Russia: on requirements to vehicle exhaust and on requirements to petrol and other types of fuel. However, the Government has not yet approved lists of products that are covered by the above technical regulations with specific foreign trade codes for goods.[4]

3. Russian trade policy for the foreign trade in services: structure, partners, main challenges

Foreign trade in services in Russia started to develop intensively in early 1990s. The trade was affected by the crisis of 1998–1999, due to substantial reductions of both export and import of services, associated with the finance crisis, changes in exchange rates of the rouble and the real demand of the country's residents. However, since 2000, the sector resumed its growth. Data of 2007 suggest that in monetary terms Russia exported about $ 40 million and imported about $ 60 million of services.

Diagram 5. **Russian foreign trade in services**

(according to the balance of payments methodology, U.S. $ mln)

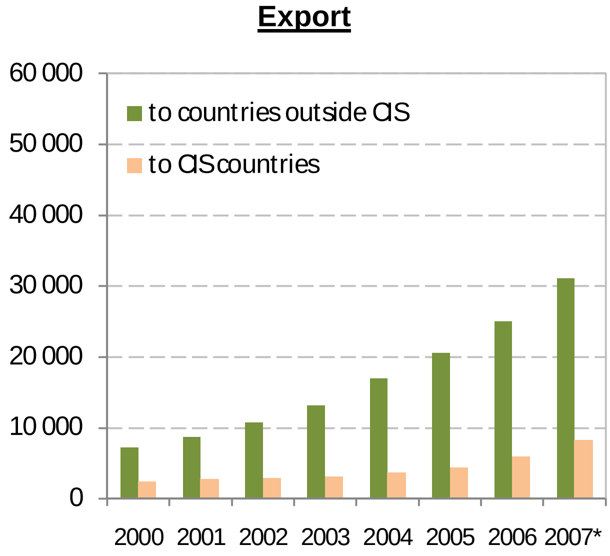


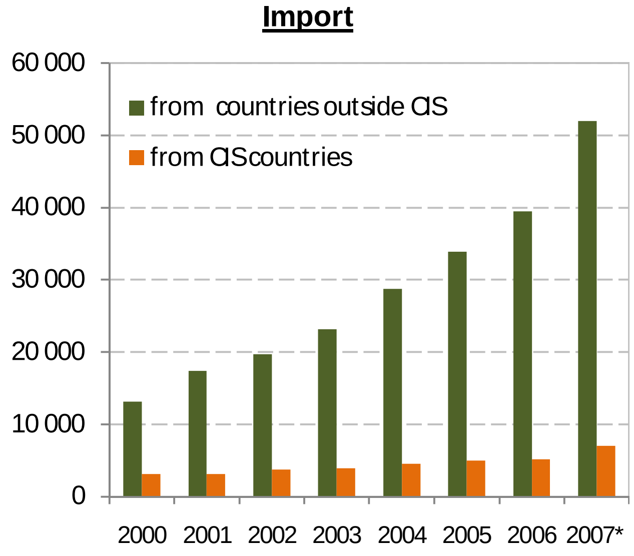
Unfortunately enough, country-specific distribution of Russian trade in services may be provided only as trade with CIS and non-CIS countries, as governmental statistic bodies do not publish other statistical data. Figures of 2007 suggest that the share of CIS countries in services import substantially increased: now it reaches about 20%, while a year ago (data of 2006) it reached only 12%. The share of CIS countries in Russian export of services is more stable and now reaches about 20%.

[4] Information provided by the Deputy Chief of the Russian Customs Service in the course of his interview (August 2008).

Diagram 6. **Russian foreign trade in services: by groups of countries**

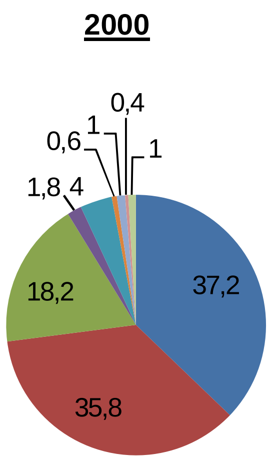
(U.S. $ mln)

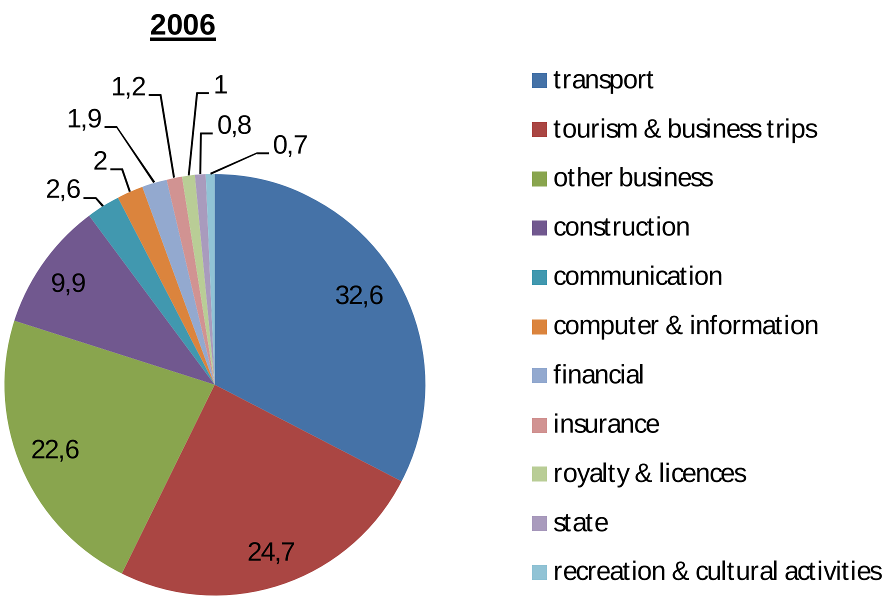




There were no similar radical changes in the structure of foreign trade in services in a few recent years: transportation services still prevail (air, railway and road transportation) – their share reach about a third of the overall export of services. Shares of tourism and business services are also high: about 25% and 23%, respectively. Only the share of construction services demonstrated a substantial growth (due to construction and investment boom in recent years): from less than 2% in 2000 to 10% now.

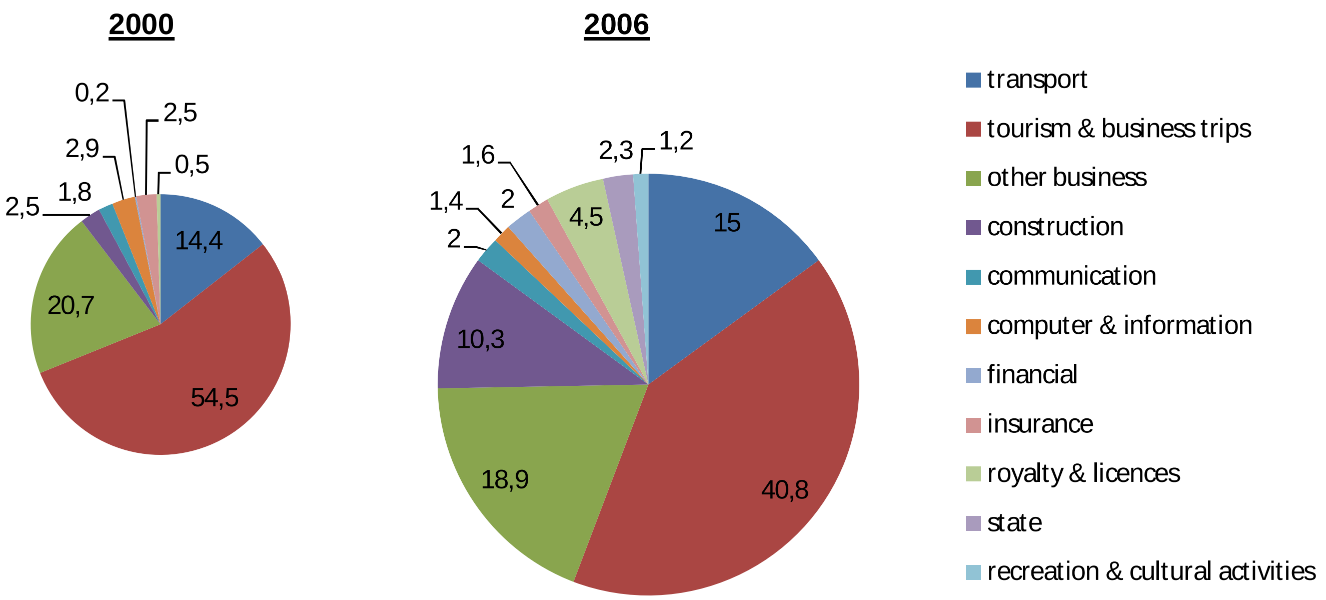
Diagram 7. **The structure of Russian export of services in 2000 and 2006** (%%)





Individual citizens, companies and governmental bodies of the Russian Federation predominantly import tourist services (mainly business trips and recreation abroad): however, the share of these services gradually decreases: while in 2000 it reached more than a half, in 2006 it reached about 40%. Shares of transportation services (15%) and other business services (about 20%) are also substantial contributors in the structure of Russian import – shares of these sectors are relatively stable. The share of imported (as well as exported) construction services substantially increased – from 2.5% to more than 10%.

Diagram 8. **The structure of Russian import of services in 2000 and 2006** (%%)



While in the former USSR, there was some trade policy (albeit rather limited) in the sphere of foreign trade in goods, the situation in the sphere of foreign trade in services was different: the sphere of services and its foreign trade component experienced the stage of active development in Russia rather recently – as a result, trade policy in the sphere of services was formed in late 20th century. Earlier, the trade policy was limited to restrictions for movements of individuals, terms of transportation of passengers and cargo and (to a lesser extent) to communication and construction services (the latter services were provided mainly in the framework of co-operation with COMECON countries and as support for African countries, etc. for construction of infrastructure and industrial facilities).

Maybe due to "immaturity" of the contemporary trade policy of the Russian Federation in the sphere of services, it still remains predominantly of prudential and regulative nature: it pays low attention to development of competition at service markets and to improvement of competitive capacity of Russian service providers.

However, the trade in services is the sphere that might experience a radical transformation in the foreign trade policy when (and if) Russia will become a WTO member. In many respects, WTO rules would radically alter approaches to regulation of foreign trade in services, as they mainly cover modalities of transboundary provision of services instead of types of services themselves.

Due to the fact that services-related commitments in the course of WTO accession actually represent a list of retained or reserved exceptions or limitations (instead of a complete list of conditions as in the case of goods), these commitments are easier for Russia to negotiate: the services negotiations are practically completed. Access to the Russian market of financial services was the most controversial issue in the course of these negotiations. The preliminary negotiated outcome stipulates preservation of the current Russian ban for activities of direct subsidiaries of foreign financial services providers: as earlier, only daughter companies would have access to the market, but limits for their market presence would be increased (in terms of shares of the overall nominal capital of all participants at the market). Now, relevant ceilings for market shares are set at the level of 12% for banking entities, and at the level of 25% – for insurers. [However, shares of foreign companies in these spheres in Russia have not ever exceeded the current quotas.] Similar quotas would remain at the stock market, however, these limitations are expected to be lifted in the future for market participants (brokers, dealers, etc.).

There are no foreign trade policies, specially developed by Russian authorities in the majority of services sectors. One of the most efficient barriers for access to the Russian services market is altogether outside the trade policy sphere – i. e. currency regulations. For example, the most serious problem for foreign finance management service providers is associated with the fact that they cannot offer their finance management services to Russian companies:

- Russian subsidiaries of foreign corporations cannot open/operate bank accounts abroad unless they are granted a special permit of the Central Bank of the Russian Federation, because opening of a bank account abroad is understood as “a capital flow associated transaction.” As a result, foreign companies operating at the Russian market cannot efficiently co-operate with banks – members of clearing houses and treasuries or participate in capital pools with international corporations;
- Russian subsidiaries of international corporations may use only individual hedges and are obliged to submit all necessary documents to a resident bank in the Russian Federation, they are unable to use a global hedge for an open currency position (a potentially less time-consuming option) or co-operate with their banks – members of a clearing house (a generally cheaper option).

The above-mentioned regulations are, in fact, limitations preventing both smooth and efficient operations of foreign financial institutions in the Russia market and choices of forex management instruments they would be willing to use. This might be the reason why so few international service providers expand their business in Russia. And, of course, all these restrictions are a serious limitation of choices for Russian consumers, infringing on their interests by introducing artificial and unnecessary restrictions on market competition.

In general, the current situation with the trade policies of Russia in the field of financial services is as follows: access of foreign companies to all the financial services sectors suffers from a very serious limitation. This is why, for instance, the quota for the participation in the aggregate charter capital of foreign banks has not been taken up.

Meanwhile, the inefficient banking system and undeveloped financial market are still significant obstacles to the Russian economic growth. Lifting restrictions on the foreign capital inflows into these sectors is a prerequisite for the modernization of the Russian economy. More than any other sector, the banking sector needs the inflow of foreign capital and increased competition.

Russia has the following restrictions on market access for foreign financial companies and institutions: the limitations to the participation of foreign capital in shares or investments and limitations in the number of service providers:

1. The above mentioned quota of 12% for foreign capital participation in the banking system;

2. The 49% threshold of foreign capital for insurance companies, if they intend to engage in life insurance, compulsory insurance, compulsory state insurance and insurance for the government procurement;

3. The total quota for the participation of foreign capital in the insurance sector is not more than 15% (the current value is less than 10%);

4. The above mentioned requirement for a special type of legal persons to provide services in the banking and insurance sectors; it is impossible to operate in Russia through the offices of foreign companies; such operations may only be conducted by a business entity registered in Russia. For credit institutions, the Central Bank should, in principle, allow the establishment of a credit organization with foreign investments, i.e. participation of each non-resident must be specifically agreed upon with the Central Bank;

5. Complex, long and expensive procedure for issuing licenses for new branches of banks with foreign participation;

6. Qualification requirements for foreign entrepreneurs (presenting proof of skills and qualifications), as well as quantitative limits on the composition of the governing body of the credit institution: Russian citizens should constitute 50% of the collective governing body of the credit organization, while in the key positions in the insurance company, Russian citizens should comprise not less than 49%. In addition, in the insurance companies, the positions of director general and chief accountant must be occupied by citizens of the Russian Federation.

7. National discrimination: special requirements, creating less favorable conditions for foreign companies as compared with the Russian services providers: i.e. the minimum charter capital in the insurance companies with foreign investment is 250 000 of minimum monthly wage, which is significantly higher than the same requirement for Russian companies; the charter capital of insurance companies with foreign participation should be fully paid in cash by foreign parties, while, for the Russian insurers this requirement is not mandatory.

In the tourism services sector, Russia applies a restriction, which is similar to the one in the banking sector: mandatory registration of a Russian legal entity and payment of taxes in the Russian Federation. The few foreign tourist operators making business in Russia use the scheme of reverse takeover involving offshore companies: in this way they can, without violating the law, acquire Russian tourist companies they are interested in.

For foreign health and education service providers, Russia established strategic restrictions: they are not allowed to operate in the basic segments (compulsory school education, compulsory health insurance, etc.). There are also licensing, certification and occupational requirements. Such providers must also maintain a specific quantity of Russian citizens both among the managers and common staff.

In addition to the above, the educational institutions must adhere to the international agreements concerning recognition of Russian diplomas abroad. Such agreements were signed by the Russian Federation with many countries.

4. Russia as a participant of the system of trade preferences

In Russia, as in many other countries the system of trade preferences is an important component of overall policy and trade policy in particular. Under the applicable Russian legislation, trade preferences are granted on a bilateral and regional level.

With the overwhelming majority of countries, Russia signed agreements on mutual most-favored nation regime. With many countries Russia also signed bilateral general trade agreements on cooperation in various trade-related areas and the maximum benefits clause, in accordance with which, imported goods enjoy lower tariffs. With some countries there are bilateral preferential trade agreements, such as: free trade agreements on economic cooperation, on collecting indirect taxes in mutual trade, protocols on phasing out exemptions from the free trade regime. Similar agreements have been concluded with most of the former republics Soviet Union: Azerbaijan, Armenia, Kyrgyzstan, Moldova, Tajikistan, Uzbekistan, Ukraine, as well as part of Serbia and Montenegro (limited range of products)/

As for foreign trade between Russia and Georgia, Kazakhstan and Turkmenistan there are only free trade agreements and no additional agreements on cooperation, long-term prospects or the avoidance of double taxation. With the Republic of Belarus Russia signed the Union State treaty.

The problems arising from such agreements (unfair competition, unclear legal framework for imposing temporary restrictions in mutual trade, the WTO accession on terms that are more liberal than those for Russia, on access to markets, etc.) are assessed by the Ministry of Economic Development at U.S. $ 1.5 billion (the amount of unpaid duties).

At the regional level, Russia is a member of:

- the Commonwealth of Independent States (Russia, Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Uzbekistan and the Ukraine);
- the Eurasian Economic Community (Russia, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan, and recently joined Uzbekistan) created for the formation of the Customs Union and single economic space;
- the single economic space of Russia, Belarus, Kazakhstan and Ukraine.

It should be noted that for Russia the political dimension of participating in the above preferential agreements is for now much more important than the macroeconomic one (and in particular trade policy aspects). All the above agreements with the neighboring nations that belong to Russia's foreign trade priorities must be accompanied by the harmonization of trade policy legislation in the participating countries (to a varying degree). But so far, despite a high degree of integration on paper, Belarus and Russia, for example, have different systems of both tariff and non-tariff regulation, different currency legislations, principles of certain protectionist measures, ways of regulating the economy customs mechanisms, etc. Harmonization of trade policy and trade legislation with the neighboring countries is one of the most important challenges for Russia in the near future.

Since 1993, Russia is participating in the U.S. General System of Trade Preferences and supplies to the USA markets duty-free ferrochrome, caprolactam (and black caviar until its supplies were banned internationally). Within this framework some products are supplied with quantitative restrictions: forge titanium raw materials, aluminum, hydrocarbons and vanadium. The involvement of Russia in this system, which supports developing and especially least developed countries, is gradually declining. The US Administration keeps on imposing new restrictions commenting quite logically that it is no good combining the G–8 membership with the participation in the General System of Trade Preferences.

Russia is also a member of the Generalized System of Preferences, providing in the framework of its national system of preferences a more favorable regime for products from developing countries and duty-free import of products from the least developed countries.

Trade policy measures can also include some actions taken by Russia as part of its informal commitments as a member of G–8. At the Genoa summit of this club of world leaders, G–8 agreed to promote import of products from the least developed countries and, where possible, write off their debts.

5. Conclusions, recommendations

Для того, чтобы торговая политика содействовала устойчивому развитию, на наш взгляд, первоочередными задачами является диверсификации и повышению глобальной конкурентоспособности российской экономики. Для этого необходимо:

In order to make Russian trade policy work for sustainable development of the country it seems necessary to diversify and strengthen the global competitiveness of the Russian economy. To achieve these long-term goals it is important to:

- Promote technological modernization of the Russian economy by facilitating access to advanced foreign equipment and technologies;
- Expand the use of customs and tariff exports incentives including the reduction of duties on raw materials and equipment for the production of export products, establishment of special zones for the processing of export products with preferential customs and tax regime. Such zones while contributing to the expansion of value added exports are quite common in many other countries including China and many emerging nations. In Russia, projects for the establishment of such zones in Free Economic Zone “Nakhodka” (together with the Republic of Korea) and Svyatogorsk area of Leningrad Region (with Finland) are in stagnation despite the existence of detailed feasibility studies and government decisions;
- Take all possible measures to eliminate various restrictions to Russia’s exports to the international markets through a broader and stronger application of retaliatory measures: today Russia is a critically important market for a wide range of foreign goods. Therefore, our partners may face a high risk of the potential losses due to reduced imports to Russia;

- encourage the development of technology cooperation with foreign companies ("imports of production rather than imports of goods"). It is possible to realize an increase in the rates of customs duties as the depth of product and the creation of minimum duties on raw materials, components, and the maximum for finished goods;
- improve the competitiveness of the Russian markets, protect developing markets, sensitive to imports;
- expand and improve Russia's participation in the regional integration processes, in particular, with the countries participating in the Eurasian Economic Community as this will provide pricing benefits in the markets of the participating countries against third countries who do not enjoy preferential treatment. This will require adaptation of the customs and tariff policy instruments to the **requirements of the customs union** and duty free zones;
- promote localization projects by introducing **differentiation rates** of customs duties against the **value added** of products;
- strengthen the regulatory role of customs tariffs and ensure **balanced and rational protection of domestic markets**;
- encourage the development of the manufacturing and technological cooperation by developing the **economic customs treatments** (processing of products in the customs territory for the purpose of exports promotion; processing of products to meet the needs of domestic consumption and promote local manufacture of goods for the domestic market; free customs zones to combine export promotion and development of the manufacturing potential;
- abandon unreasonable restrictions to Russian exports by **optimizing the application of export customs duties**;
- **optimize customs tariffs** through the application of seasonal duties and tariff quotas in the agricultural sector; through a flexible response to needs (temporary reduction or increase of duty rates); through the application of special safeguard, anti-dumping and countervailing measures;
- **optimize** the national system of **trade preferences**;
- reduce in the consistent way the **tariff preferences** that distort the regulatory role of customs tariffs;
- ensure **stability and transparency** in the application of customs and tariff regulations; complete the establishment of a foreign trade information system (establishment of such a system has been under discussion for more than 6 years) and make it available on-line to a wide range of users including to the users in the Russian regions; ensure information exchange between the federal ministries and departments, their regional and foreign offices to meet the needs of foreign trade actors;
- gradually increase the level of competition in the domestic market of services such as banking, insurance, tourism, etc., eliminating discriminatory restrictions on foreign companies and improving prudential measures and foreign exchange controls.

ANNEX

Table 1

Russian foreign trade in goods (according to the balance of payments methodology, U.S. $ bln)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
• Total export of goods	53,6	59,6	67,5	81,1	88,6	88,3	74,6	75,1	105,0	101,9	107,3	135,9	183,2	243,8	303,9	355,2
• Total import of goods	43,0	44,3	50,5	61,0	68,8	73,7	59,8	40,2	44,9	53,8	61,0	76,1	97,4	125,4	164,7	223,1

Table 2

Russian foreign trade in goods: by groups of countries

(U.S. $ bln)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007*
Total export of goods:																
• to countries outside CIS	42,4	44,3	53,0	65,6	71,0	69,9	58,8	62,8	90,8	86,6	90,9	114,6	153	210,2	260,6	301,5
• to CIS countries	11,2	15,3	14,5	15,4	17,6	18,3	15,8	12,3	14,3	15,3	16,4	21,4	30,2	33,5	43,4	53,7
Total import of goods:																
• from countries outside CIS	37,0	32,8	37,0	44,1	49,1	55,9	45,4	30,2	31,4	40,7	48,8	61,0	77,5	103,5	140,1	191,2
• from CIS countries	6,0	11,5	13,6	16,8	19,7	17,8	14,4	10,0	13,4	13,0	12,2	15,1	19,9	21,9	24,6	31,9

Table 3

Russian foreign trade in services (according to the balance of payments methodology, US $ mln)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
• Total export of services	10567	13281	14080	12371	9040	9565	11441	13611	16229	20595	24970	31102	39347
• Total import of services	-20205	18406	19829	16222	12829	-16230	20572	23497	27122	-33287	-38865	-44839	-59182

Table 4

Russian foreign trade in services by groups of countries

(US $ mln)

	2000	2001	2002	2003	2004	2005	2006	2007*
Total export of services								
• to countries outside CIS	7168	8692	10726	13158	16972	20589	24982	31000
• to CIS countries	2396	2749	2885	3071	3622	4381	5945	8300
Total import of services								
• from countries outside CIS	13108	17420	19718	23155	28724	33885	39548	52000
• from CIS countries	3122	3152	3779	3967	4563	4979	5191	7050

*Data for 2007 – preliminary estimates, based on the total trade volumes and previous years' trends

Basic principles of regulating foreign trade in Russia – summary of the provisions of the federal law #164:

- Protection by the State of the rights and legitimate interests of foreign trade actors (domestic and foreign), as well as the rights and the legitimate interests of the Russian manufacturers and consumers of goods and services;
- Equality and nondiscrimination of foreign trade actors, unless otherwise provided for by the federal law;
- Commonality of the customs territory of the Russian Federation;
- Reciprocity in relation to another state or group of states, i. e. provision of a specific international trade treatment in response to availability of the same treatment;
- Complying with Russia’s commitments under international treaties; ensuring the rights arising from these treaties;
- Selecting foreign trade regulations that are no more burdensome to foreign trade actors than is required to ensure the effective achievement of the purposes for which they will be applied;
- Transparency in the development, adoption and application of measures to regulate foreign trade;
- Validity and objectivity of regulation;
- Preventing unnecessary interference in foreign trade of the government or its bodies including preventing damage to the national economy and foreign trade actors;
- Ensuring the necessary level country's defense and security of the state;
- Ensuring the right to appeal in court or otherwise as stipulated by the legislation for illegal action (inaction) of state bodies and their officials, as well as the right to challenge regulatory acts adopted in Russia, restricting the right of foreign trade actors to trade;
- Single system of state regulation of trade;
- Uniform approach to the application the state regulation methods in this area throughout the Russian Federation.