

GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

L/7094

5 October 1992

Limited Distribution

Original: English

ECONOMIC REFORMS IN THE RUSSIAN FEDERATION

The following communication, dated 28 September 1992, has been received from the Russian Federation with the request that it be circulated to contracting parties.

Introduction

Since December 1991 Russia has been participating as successor to the USSR in the work of the bodies and institutions of the United Nations and other international organizations, including GATT, where the USSR enjoyed observer status.

Russia links the success of its profound political, economic and social reforms, initiated in January 1992, to a great extent with the strategy of creating an open economy, in which foreign trade would be in conformity with the principles and rules of GATT, and with effective integration into the international trading system. By submitting this information on progress in economic reforms, the first one since Russia gained national sovereignty, the Russian Government would like to inform the contracting parties of GATT about the present state of the Russian economy and measures taken to promote market relations in the country.

I. The Main Elements of the Programme of Economic Reforms

1. The Russian Government is implementing an economic reform programme aimed at gradually liberalizing the economy, stabilizing the monetary system and money supply and reviving economic growth.

2. The general programme envisages policy action in the following inter-related areas:

- economic liberalization, removal of administrative control of prices, economic ties and foreign economic activity and the development of wholesale internal trade to replace the former systems of centrally planned distribution;
- financial and national currency stabilization;
- privatization and institutional support for an effective market economy and economic growth;
- an active social policy to protect the most vulnerable population groups;

- national economy restructuring, its demilitarization and integration into the world economy;
- the creation of a competitive market environment and infrastructure.

3. The transition from a system of centralized planning and distribution to market relations has been accompanied by a sharp deterioration in the economic situation. In 1991 industrial production fell by 8 per cent compared to 1990, from January to June 1992 it declined by another 13.5 per cent. In January-June 1992 national income dropped by 18 per cent compared with the same period last year. The decline of investment activity continues which hampers efforts to restructure the economy.

4. In January-June 1992 Russian exports were estimated at \$15.8 billion, a 35 per cent decline compared to the same period of the last year. Energy and fuel accounted for 48 per cent of Russia's exports. During the same period Russia's imports totalled \$17.2 billion, representing a fall of 24 per cent.

II. Domestic Market Regulation

Pricing Policies

5. On 2 January 1992, about 90 per cent of consumer prices and 80 per cent of industrial products prices were freed from direct administrative control. In September 1992 all other prices were liberalized. Only profit rates in energy production and trade are regulated at federal level. In some regions local authorities continue to regulate prices of socially important commodities and services, such as bread, milk and dairy products, baby food, sugar, salt, electricity, certain energy products, public transport and house rent.

6. After the January price hikes, growth in prices continued albeit at a slower rate: 24 per cent in February; 21 per cent in March; 15 per cent in April; 11 per cent in May; and 13 per cent in June. As the prices have levelled out, the market has gradually become filled with consumer goods, particularly owing to the massive inflow of goods imported by private trading companies.

Privatization

7. The number of private businesses continues to grow. In 1992 every three months the number of registered joint-stock companies doubles, while the number of incorporated partnerships increases by 70 per cent, privately-owned companies by 50 per cent and businesses with involvement of foreign capital by 30 per cent. The preparatory stage of privatization has been completed. An appropriate infrastructure has been created, many different methods of privatizing enterprises have been tested and appropriated laws have been adopted.

8. The following acts provide the legal basis for privatization:

- the Law on Privatization of State and Municipal Enterprises;
- the Main Provisions of the Programme to Privatize State and Municipal Enterprises in the Russian Federation in 1992.

9. Large-scale privatization will proceed in two main directions: the privatization of small businesses (trade, services and small industrial and construction enterprises) and the privatization of big industrial factories and plants. According to the privatization programme by the end of 1993 at least 30 per cent of total production capacity will have been privatized; by the end of 1994, 50 per cent and, by the end of 1995, 60 per cent. By the end of 1992 most big industrial enterprises in Russia will have been transformed into joint-stock companies, where all shares will initially be split between the state and employees. To involve the entire population in the privatization process, the Russian Government has drafted and is now implementing a programme to provide all citizens with privatization vouchers.

10. Foreigners may participate in privatization of enterprises.

Taxation

11. In accordance with the law passed in 1991 the taxation system includes Federal taxes, taxes in regions, as well as local taxes. The main types of federal taxes are the value-added tax (28 per cent), excise taxes on certain categories of goods, security transactions tax, customs duties, as well as enterprise profit tax (35 to 45 per cent), personal income taxes and environmental taxes.

Foreign Investment Régime

12. The legal and economic basis of foreign investment in the Russian Federation are stipulated by the Law on Foreign Investment which came into effect on 1 September 1991.

13. The key provisions of the said Law define the following aspects:

i) Foreign investors are entitled to invest in the following ways:

- shareholding in enterprises established jointly with Russian legal entities and private citizens of the Russian Federation;
- the establishment of enterprises fully owned by foreign investors, as well as subsidiaries of foreign legal entities;
- the acquisition of enterprises, assets, building and structures, stocks, shares, bonds and other securities, as well as other property.

ii) Foreign investments and activities conducted by foreign investors enjoy national treatment.

iii) Foreign investment in the Russian Federation is not liable to nationalization, requisition or confiscation, except cases where such measures are taken in the public interest. Should foreign investment be nationalized, an appropriate and effective compensation shall be promptly paid to a foreign investor. Decisions on nationalization shall be adopted by the Supreme Soviet of the Russian Federation.

iv) Foreign investors shall be entitled to compensation for all damages, including lost profits, inflicted on them on the basis of instructions issued by government agencies or their officials, which contradict the law in question or owing to the inappropriate discharge by such agencies and their officials of their responsibilities with regard to foreign investors.

v) Compensation paid to foreign investors shall be equal to the actual amount of nationalized investments. The said compensation shall be payable without delay in the original investment or in any other foreign currency acceptable to foreign investors.

vi) Disputes arising from investment-related issues, including the amount, conditions or the procedure for paying compensation, shall be dealt with by the Supreme Court of the Russian Federation or the Supreme Court of Arbitration of the Russian Federation, unless otherwise stipulated by an international treaty.

vii) There are no trade-related investment measures or restrictions.

14. Over the past two years, Russia has been pursuing a consistent policy to create and improve the legal framework for foreign investment activity. During this period, Russia, as successor to the former USSR, signed or confirmed fifteen bilateral agreements on the protection and promotion of foreign investments. By the end of this year, Russian legislators intend to enact a number of acts, which specify further the legal framework and guarantees regarding activities of foreign investors in Russia. Other steps designed to create an appropriate investment climate in Russia include the adoption of a mortgage law and laws on bankruptcy and free economic zones, as well as efforts to update contractual law and guarantee foreign investors' rights in the privatization campaign now under way in Russia.

15. A package of laws on intellectual property rights, consistent with international norms, has been adopted by the Supreme Soviet and will be put in force in the near future.

The Monetary System and Banking Institutions

16. The liberalization of currency regulation constitutes one of the major efforts to reform the monetary system of Russia. Multiple exchange rate system has been totally abandoned. The single rouble market exchange rate quoted by the Central Bank of Russia on the basis of currency auctions, came into being on 1 July 1992. According to the procedure governing mandatory hard currency sales enterprises have to sell 50 per cent of their hard-currency earnings partly to the central bank and partly at the

currency exchange at the market rate. At present the internal rouble convertibility is achieved; the non-resident rouble accounts régime is under discussion.

17. The law of the former USSR on Banks and Banking has served as the legal foundation defining the creation and operation of the banking system consisting of two levels, the Central Bank of Russia and commercial banks. The upper tier, represented by the Central Bank of Russia, acts as the central emission and credit institution of Russia's banking system. The bank is independent of executive power and reports directly to the Supreme Soviet of the Russian Federation, the Republic's highest legislature. The Bank's structure comprises a total of 1,331 settlement centres, which perform the functions of cash-collecting agencies and maintain the commercial banks' correspondent accounts. The latter group of banks may conduct direct mutual settlements. The second tier is represented by commercial banks, including the former specialized banks (the Bank for Industry and Construction, the Saving Bank and the Agro-Industrial Bank). The number of commercial banks has now exceeded two thousand.

18. Inflation, viewed as the main obstacle impeding the development of Russian banks, prunes the share of long-term credits in their portfolios. Other bottlenecks include the volatility of the loan market, a limited scope of transactions, lack of risk-assessment techniques and the underdeveloped land and real estate market.

III. Foreign Trade Regulation

19. The liberalization of foreign economic activities and the opening up of the economy are among major economic goals of the Government in the mid-term. Presidential Decree No. 213 (15 November 1991) on the Liberalization of Foreign Economic Activities abolished the monopoly on foreign trade which has existed in the former USSR since 1918. The Decree allows all corporate entities registered on the territory of the Russian Federation to engage in external economic transactions.

20. The objectives of the Government of Russia in the domain of foreign economic activities are as follows:

- removal of quantitative restrictions of foreign trade;
- phasing out of differences between proportions and structures of domestic and world market prices, reduction of export tariffs and the introduction of a comprehensive import tariff;
- stabilization of rouble exchange rate;
- extension of rouble convertibility to non-residents' current account transactions;
- export promotion and improvement of access to markets for Russian goods.

Export Régime

21. Economic instability and domestic market shortages fuels the need to preserve quantitative restrictions on exports. Early in 1992 the general list of goods subject to quotas and licensing covered 159 commodity headings and 40 separate sub-headings. In July and August, 24 headings and 24 separate sub-headings were dropped from the list. Over the next few months, the Government intends to minimise the list of such goods by limiting it to energy products and goods subject to quantitative restrictions in foreign markets (for instance, textile exports). Meanwhile, the mechanism governing competitive sales of export quotas has been launched. The role of the main export regulator is being assumed by the export tariff in use since early 1992 (the latest version since 1 July), which covers altogether about 400 items. Export tariff was introduced simultaneously with price liberalization. It is applied mainly to energy and raw materials exports in order to provide for adjustment to the transition to world prices, given large initial differences between domestic and international price levels.

22. The tariff nomenclature is based on the Harmonized Commodity Description and Coding System. Export tariff rates are fixed in ECU per unit of volume or ad valorem. Barter trade is discouraged by higher export duty rates. The tariff is paid in roubles or hard currency at the Central Bank's rate of exchange. Export tariff rates are adjusted from time to time. The need for export tariff will disappear as soon as price proportions in the domestic market get closer to international ones and the rouble is stabilized.

The Import Régime

23. During the first half of 1992 the Government completely liberalized its imports policy, temporarily suspending all import tariffs and lifting all non-tariff restrictions on imports. From 1 July 1992, the Provisional Import Customs Tariff is in force which entails a unified customs duty for the majority of goods (15 per cent for the countries enjoying most-favoured-nation treatment). Somewhat higher rates apply to some products: alcoholic beverages, video recorders and players, video cameras, television sets. A number of commodities, such as foodstuffs, medical equipment, pharmaceutical and raw materials for their production, children's clothes and printed matters, are exempted from all import duties. According to the Russian system of preferences with regard to developing countries, the basic customs duty rates (m.f.n. rates) are halved, while imports from the least-developed countries have been totally exempted from duties. A new law on the Customs Tariff and Customs Code are under preparation.

IV. Relations with Former Soviet Republics

24. Russia initiated the establishment of trade and economic relations with other former Soviet republics on a treaty basis with due account paid

to the international obligations of the Russian Federation and to the principles and rules of GATT. Thus the process of bilateral negotiations with all former Soviet republics has been launched, in particular to define the trade régime. In some cases these negotiations might result in bilateral free-trade agreements, while in other cases trade régime will be based on m.f.n. treatment. The Russian Government intends to keep the GATT contracting parties informed of the results of the above-mentioned trade negotiations.