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## SUMMARY

1. The Russian Federation became the 156<sup>th</sup> WTO Member in August 2012. This is its first Trade Policy Review. Following the dissolution of the Soviet Union at the end of 1991, the Russian Federation embarked on a reform program aimed at transforming a centrally-planned economy to a market-oriented one. It has largely met this objective creating an outward-oriented economy. Liberalization of trade and investment, driven by commitments taken during its accession to the WTO and the entry into force of the Eurasian Economic Union (EAEU) Treaty on 1 January 2015 have been major milestones in this process.

2. The State continues to play a major role throughout the Russian economy, with state-owned enterprises (SOEs) still accounting for about half of GDP despite a recent decline in their number, partly a legacy from the Soviet system. Some of the largest SOEs occupy a dominant position in key sectors, notably in banking, transport and energy. The Russian authorities are taking steps to improve corporate governance and privatize SOEs in order to increase overall productivity, competition and efficiency. The bulk of the privatization programme 2014-2016 has been postponed mainly due to adverse market conditions (low asset prices) compounded by the economic slowdown.

3. The Russian Federation was hit exceptionally hard by the global economic crisis during 2008-09. A strong economic rebound in 2010-12 was subsequently dampened by political instability in the region after developments in the Crimea. Since then, real GDP growth rates slowed down in 2013 and 2014, and contracted by 3.7% in 2015. The main cause for this significant fall in GDP growth was the oil price slump below US\$50 amid insufficient diversification of Russian exports. Economic sanctions imposed by some Western countries and the countermeasures by the Russian Federation have also played a role. The economic uncertainty caused by these developments resulted in strong capital outflows, a sharp decline in the value of the Rouble (the national currency), and an increase in inflation.

4. The Government responded with an anti-crises plan aimed at stabilizing the banking sector, a fiscal stimulus, switching to a floating exchange rate regime, and introducing an import substitution programme. This programme is a major part of a new industrial policy, which was introduced in 2014, and has been implemented through several new laws during 2015 and 2016. Incentives provided under the industrial policy take many forms, including direct grants to infrastructure, tax breaks, and preferences in government procurement contracts.

5. According to the IMF, the Russian Federation is on a stabilization course; it expects GDP growth to contract by 1.8% in 2016 and to grow by 0.8% in 2017. Nonetheless, slow structural reforms, weak investment, and adverse population dynamics are affecting potential growth. In particular, excessive regulation, weak governance, and significant government intervention in the economy have discouraged investment. The Russian authorities acknowledge the need to accelerate economic reforms and aim at enhancing competition in goods and services markets, improving property rights, and revamping transport and telecommunications infrastructure to improve the business climate and boost investment.

6. Traditionally, the Russian Federation has enjoyed surpluses in both the trade and current accounts of its balance of payments on the back of its significant oil and gas export revenues. The current account surplus, as percentage of GDP, fell from 3.3% in 2012 to 1.5% in 2013, and then recovered reaching 5% in 2015 as imports declined sharply reflecting both weak domestic demand and expenditure switching due to the Rouble's depreciation. For 2016, the IMF expects a current account surplus of 4% of GDP.

7. The Ministry of Economic Development, the Ministry of Foreign Affairs and the Ministry of Industry and Trade are responsible for foreign trade. When the Russian Federation joined the EAEU, the authority over many aspects of its foreign trade regime was transferred to EAEU institutions, notably the Eurasian Economic Commission (EEC). Some of these issues include import tariff rates, transit trade, non-tariff measures (e.g. tariff-rate quotas, import licensing, and trade remedy procedures), customs policies (customs valuation, customs fees, and country of origin determinations), border enforcement of IPRs, establishment and administration of special economic and industrial zones, and the development of technical regulations and SPS measures.

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As a result, trade policy formulation in the Russian Federation is implemented through both national institutions and legislation and EAEU bodies and laws.

8. During its accession to the WTO, the Russian Federation made wide-ranging commitments on market access for goods and services. It is a party to the Information Technology Agreement and an observer to the plurilateral Government Procurement Agreement (GPA). The Russian authorities have stated that GPA accession negotiations will start in the second half of 2016. The Russian Federation does not take part in the plurilateral Agreement on Trade in Civil Aircraft. It has made regular notifications to the WTO, with only a few outstanding. The Russian Federation has participated in ten trade disputes: four as complainant and six as respondent. In addition, it has been involved as a third party in 28 cases, most on contingency trade measures. The Russian Federation grants at least MFN treatment to all its trading partners.

9. Since mid-2012, the Russian Federation has been taking steps to improve customs operations through an action plan that sets out a series of measures to simplify customs procedures and improve efficiency for both imports and exports. In addition, the EEC is working on developing the basis for a single window mechanism including streamlining and harmonizing customs formalities. A unified information platform, Seaport Portal, is being implemented as an electronic single window for handling and customs processing of cargo at Russian seaports. On 22 April 2016, the Russian Federation deposited the instrument of acceptance of the Trade Facilitation Agreement. The Russian Federation has recently put in place measures that restrict transit trade through its territory.

10. Foreign investment, technology transfer, and innovation are considered by the Russian authorities as critical to the economic modernization of the country. In this context, high-tech parks, industrial clusters and special economic zones (SEZs) are being promoted through special tax and infrastructure incentives, available to both local and foreign investors. Some investment privileges are also granted in the context of the Auto Investment Programme and agreements concluded under this programme. The Russian Federation has confirmed that it will eliminate the WTO-inconsistent measures applied under the Auto Investment Programme by 1 July 2018.

11. When investing in the Russian Federation, the key concerns of foreign investors include corruption, transparency, rule of law, tax rates and complexity of tax regulations, access to financing, and respect for property rights. To address these challenges, various measures have been implemented, including adopting the National Anti-Corruption Action Plan, amending the Criminal Code and the Code on Administrative Violations, and ratifying the OECD Anti-Bribery Convention, banning bribes to foreign officials. Moreover, the National Business Initiative Program, the Institute of the Entrepreneurs' Ombudsman of the President of the Russian Federation, and other regulatory reforms have been established over the last few years to attract larger FDI inflows and improve the business climate.

12. On acceding to the WTO in 2012, the Russian Federation bound all tariff lines with reductions to be phased in by 2020. At the end of the implementation period, the simple average final bound tariff will be 8.4%. Since 2012, MFN applied tariffs have been reduced from a simple average of 11% to 8.3% including AVEs of non-*ad valorem* duties. In 2016, the average applied MFN rate on agricultural products (14.6%) was slightly higher than the final bound levels (13.6%), while for non-agricultural goods the average MFN applied rate of 6.5% was slightly below the final bound levels (7.1%). Since 1 January 2015, the Russian Federation has applied the common external tariff of the EAEU. Non-*ad valorem* duties (mixed and specific) are levied on 14.8% of tariff lines.

13. The Russian Federation has ten regional trade agreements in force encompassing 12 partners: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Republic of Moldova, Serbia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. In 2014, merchandise trade (exports and imports) with RTA partners accounted for 12.2% of the Russian Federation's total trade. In the EAEU customs union, there are no tariffs or other border measures on trade among members of the EAEU. At end-June 2015, EAEU members were providing preferential access to 103 developing countries and 48 least developed countries. About 24% of all tariff lines are covered by the GSP scheme. For these tariff lines, developing countries qualify for a 25% discount on the MFN rate and least-developed countries qualify for duty-free access.

14. Under the EAEU, its members may apply the following common non-tariff measures: a prohibition on imports; quantitative restrictions on imports; the exclusive right to import; automatic licensing (monitoring) of imports; and authorization procedures for imports. There is a common list of goods subject to import prohibitions, and non-automatic licensing or permits. In acceding to the WTO, the Russian Federation bound six tariff quotas in its Schedule for: fresh and chilled beef; frozen beef; fresh, chilled and frozen pork; pork trimming; fresh, chilled or frozen poultry; and for whey and modified whey.

15. Since 2012, the Eurasian Economic Commission's Department for Internal Market Defense has been responsible for conducting investigations and imposing trade remedy measures. Decisions to impose trade remedies are taken by the Board of the Commission and are binding on all EAEU Member States. The Russian Federation has become an important user of anti-dumping and safeguard measures. As at May 2016, it had two safeguards and 16 definitive anti-dumping measures against imports from China, Germany, India, Italy, Turkey, and Ukraine.

16. In the Russian Federation, the legal framework for standards, technical regulations and conformity assessment systems is the EAEU Treaty and national legislation. The EEC sets a common list of products to which technical regulations of the EAEU or national mandatory requirements of its members may be applied. Similarly, the EEC is responsible for coordinating the development and implementation of SPS measures by EAEU members and setting common general principles, and safety requirements for goods marketed within the EAEU.

17. The Russian Federation has not harmonized VAT and excise tax regimes with the other EAEU partners. While intra-EAEU trade is duty-free, and hence outside customs control, it remains subject to VAT and excise taxes. In the Russian Federation, excise taxes are identical for imports and domestically-produced goods and may be levied on specific, *ad valorem* or compound bases, depending on the good. Excise taxes are levied on beer, wine and spirits; tobacco and tobacco products; petroleum products; and motor vehicles. Typically, the rates are revised annually. VAT is applied at a standard rate of 18% although a reduced rate of 10% applies to certain items, including basic foodstuffs. Some supplies, including exports, are zero-rated and are thus eligible for VAT refund on inputs, while VAT exemptions apply for social assistance and economic development objectives.

18. During 2012-2016, besides making adjustments to certain tax rates and tax bases, the Russian authorities took steps towards easing the administrative burden of tax compliance. Tax calculations and record keeping were made simpler by the introduction of standard templates and the trimming of requisite supporting documentation. At the same time, the approval of various privately-developed software solutions facilitated electronic tax filing and data submission. Procedural innovations included a shift towards risk-based tax audits and recourse to administrative review as a mandatory step in the dispute resolution mechanism.

19. In acceding to the WTO, the Russian Federation undertook to bind and reduce export duties on 703 tariff lines at the ten-digit level. For 495 of these tariff lines, the export duty should be reduced to zero by the end of the implementation period, which ranges from one to five years. The Russian Federation also undertook to establish two export quotas for wood products with in-quota export duties of 13% and 15%. There is a common list of goods subject to import/export prohibitions or restrictions to/from the customs territory of the EAEU.

20. The EAEU Treaty provides for the application of joint-measures to promote exports of goods originating from the member States to third-party markets; work on the elaboration of such measures is ongoing. In the Russian Federation, legal and institutional reforms intended to boost exports have largely been framed by the "Support for Exports and Access to Foreign Markets" road map and the Government programme on "Development of Foreign Economic Activity" (2013-2018), which had been devised as part of a broader initiative to modernize the Russian economy and to improve the investment climate.

21. Public funds in support to Russian businesses seeking to launch or increase export sales are made available at both the federal and sub-federal levels of government. The types of support and eligibility criteria applied under sub-federal programmes are not standardized; these programmes may be co-financed, on a competitive basis, with federal funds. Statistics on sub-federal export support disbursements are not collected by the federal authorities.

22. At the federal level, the state corporation Vnesheconombank (VEB) is involved in export support both directly and through its specialized subsidiaries, including Eximbank of Russia, the Export Insurance Agency of Russia, and the Russian Export Centre. The latter was set up in 2015 as a single window for financial and non-financial support to Russian exporters. A former VEB subsidiary, the Russian Direct Investment Fund, may also make equity investments in medium-sized, non-energy companies with export potential. According to the authorities, these entities do not follow uniform directives on minimum Russian content and sectoral or geographical priorities in export support.

23. Various tax incentives are available at both the federal and sub-federal levels in the Russian Federation. There is considerable tax rate dispersion across regions, economic activities and types of taxpayers, and the administrative burden on applicants for tax concessions could be rather high. Tax concessions are also available to the residents of SEZs, territorial development zones, territories of advanced development, the Skolkovo Innovation Center, and the Free Port of Vladivostok. In addition, the Russian Federation provides support at the federal level to several sectors through capital contributions, partial compensation for interest charged on loans, grants, etc. At the sub-federal level, the support is provided via tax incentives, compensation for interest on loans, direct grants, and equity injections.

24. In 2013, a new Government Procurement Law was adopted with the aim of establishing a comprehensive government procurement system, promoting procurement efficiency, and tackling corruption. Significant achievement has been made in enhancing procurement planning and monitoring, and business confidence in public procurement has increased. On 25 March 2014, a 15% price preference in public procurement for domestically-produced goods was introduced.

25. Under the EAEU Treaty, the EEC is responsible for combatting anticompetitive agreements, abuse of dominance, and unfair competition on cross-border markets. The EAEU Treaty also provides for the harmonization of member States' national legislations in the area of competition policy. The Russian competition regime has been improved over the period under review with a view to enabling the Federal Antimonopoly Service of Russia (FAS) to focus on serious violations of the law "On the Protection of Competition". On the other hand, the somewhat broad mandate of the FAS, which also includes control of public procurement, compliance with the law on advertising, and foreign investments in strategic industries, has been expanded with additional competences over price regulation and defence procurement.

26. During the review period, the Russian Federation has made significant IPR reforms in terms of legislative, administrative and enforcement systems, notably the amendment of IP chapters of the Civil Code in 2014 and the establishment of the Intellectual Property Rights Court in July 2013. Under the Strategy for Innovative Development of the Russian Federation 2020, innovation and effective protection of IPRs have become key priorities for ensuring FDI inflows and international cooperation in the development of new technologies necessary to achieve sustainable economic growth.

27. Regarding sectoral issues, the EAEU Treaty sets out the basic objectives and a coordinated agricultural policy for the Russian Federation and the other members. These are: balanced development of production and markets for agricultural products; fair competition among the entities of the member States, such as equal access to the common agricultural market; standardization of requirements related to the circulation of agricultural goods; and protection for producers of agricultural goods in the member States on domestic and foreign markets. According to its notifications to the WTO Committee on Agriculture, the Russian Federation did not provide export subsidies during 2012-15, while the State Programme for Agricultural Development supports specific agricultural products and agriculture in general.

28. Import substitution has become a key factor in the agricultural policy of the Russian Federation. In August 2014, in response to economic sanctions imposed by some Western countries, the Russian Federation introduced a one-year ban and limits on imports of agricultural and food products against such countries. The banned products include certain fresh fruits, vegetables, meat, poultry, fish, and dairy products. Sanctions and counter-sanctions have subsequently been extended.

29. The Russian Federation has the largest forest area in the world but the sector faces several problems, including weak infrastructure development, depletion of resources in traditional harvesting areas, and lack of capacity to use low-grade resources. A policy of intensive forest use and forest reproduction is being implemented. The Russian Federation is one of the biggest fishing nations in the world. A policy of fisheries management is being operated and enforced through a total allowable catch system based on scientific data on reserves of species.

30. A key priority of the Russian Federation is to diversify its economy away from its abundant mineral and energy resources. It is the world's second-largest oil and gas producer, the fourth-largest producer of electricity, and has become one of the most energy-intensive economies. A strategic goal has been set to reduce the energy intensity of GDP by 40% by 2020 through energy saving, improving efficiency, eliminating regulatory constraints, and encouraging the development of renewable energy, including geothermal, solar and wind energy. Despite the significant fall in oil prices in recent years, oil-related activities still contribute some 20% to GDP, represent two thirds of merchandise exports, and just under half of federal government revenues.

31. Services are the main contributor to the Russian Federation's output (over 62% of GDP in 2015). As part of its WTO accession commitments, the Russian Federation has eliminated the 49% foreign equity limitation in telecommunications. The Russian Federation fully applies the WTO's Basic Telecommunications Agreement. The right to foreign capital participation in the banking system of the Russian Federation is limited to 50%. Foreign insurance companies will be allowed to establish branches nine years after the accession of the Russian Federation to the WTO (August 2021).

32. The main objectives of the Russian Federation's trade policy are to help modernize its economy, foster its global competitiveness, and create favorable conditions for its continuous growth and sustainable development. In this regard, WTO Membership locked the Russian Federation into a generally liberal trade regime towards the rest of the world. Nonetheless, political and economic reforms in the Russian Federation face challenges from vested interests, governance issues, and the relative complexity of its economic environment. In the short to medium term, the Russian Federation's economic performance will also be determined by, *inter alia*, the evolution of oil prices and its ability to resolving political issues with countries in the region and elsewhere. However, in the long-run, consistent and determined implementation of reforms will help lift the Russian economy towards its true potential.