# RUSSIA

## TRADE SUMMARY

In 2001, the United States had a trade deficit with Russia of nearly $3.5 billion, a decrease of $2.0 billion from the 2000 deficit of $5.6 billion. U.S. goods exports to Russia totaled $2.7 billion in 2001, an increase of $632 million (30.2 percent) from the level of U.S. exports in 2000. Russia was the United States' 35th largest export market in 2001. U.S. imports from Russia totaled approximately $6.3 billion in 2001, a decrease of $1.4 billion (18.3 percent) from 2000. The stock of U.S. foreign direct investment in Russia in 2001 was $635 million, a 23.6 percent decline from 2000.

The 1991 United States-Union of Soviet Socialist Republics (USSR) Trade Agreement provides for normal trade relations between the United States and Russia and governs other aspects of the bilateral trade relationship. The USSR signed the agreement in June 1990, and it was approved by the U.S. Congress in November 1991. The agreement, however, was not ratified during the existence of the USSR, and the United States offered the agreement (with minor technical changes) to Russia and each of the other emerging states of the former Soviet Union. Russia's parliament approved the agreement, making it possible for the United States to extend Most-Favored-Nation (now Normal Trade Relations or NTR) status to Russia on June 17, 1992.

Russia is in the process of negotiating terms of accession to the World Trade Organization (WTO). By the end of 2001, the Government of Russia had met twelve times with WTO members in formal Working Party meetings and at least that many times in informal Working Party sessions and bilaterally. Russia tabled its initial goods and services market access offers in February 1998 and October 1999, respectively. Russia has subsequently revised its goods and services offers and is currently actively engaged in negotiations with Working Party members on those offers.

## IMPORT POLICIES

Frequent and unpredictable changes in Russian customs regulations and erratic customs enforcement traditionally have created problems for foreign and domestic trade and investment. In addition, a burdensome import licensing regime, including quotas for alcohol, has depressed imports of some products, including products containing alcohol (e.g., some toiletries).

In March 2002, Russia announced a ban on poultry exports from the United States. U.S. experts are engaged in technical discussions to address concerns raised by the Russian side and ensure that the ban is lifted immediately. Prior to the ban on poultry, Russian officials had pursued other measures designed to limit poultry exports from the United States, such as banning poultry exports from Florida for a short period during 2001 due to alleged concerns with anthrax. The U.S. Government has worked with Russian officials to ensure market access for poultry and to prevent other restrictive measures, such as tariff- rate quotas on poultry, red meats and rice from going into effect. Tariff-rate quotas are currently in place on sugar and fish imports.

Depressed purchasing power, which had been the most important factor restraining U.S. exports in recent years, has ameliorated gradually, allowing U.S. export levels to rise back to pre-1998 levels in 2001. While purchasing power shortfalls account for part of the depressed level of imports, Russian companies' expanded market share at the expense of imports, particularly in the food processing and light manufacturing sectors, also accounts for the continuing low levels of imports.

Specific barriers to textile and apparel imports have not been observed in Russia, although Russia is not a major customer of U.S. textile goods at present. Customs authorities continue to assess duties on the royalty value of imported audiovisual materials, such as TV master tapes and DVD masters, rather than basing these duties on the physical value of the material.

Since 1995, Russian import tariffs have generally ranged from five percent to 30 percent, with a trade-weighted average in the range of 11.5 percent to 15 percent. In addition, value-added taxes (VAT) are applied to virtually all imports and excise taxes are applied to a small selection of goods. The VAT, which is applied to the price of the imported good plus its tariff, is currently 20 percent. Although pharmaceuticals and printed matter have been exempt from the VAT and some food products and items for children (e.g., diapers) were taxed at a lower VAT rate of 10 percent, the Government of Russia took steps to eliminate such special provisions in January 2002.

Import tariffs have declined in importance as a revenue source in recent years, but they remain significant, accounting for 5.5 percent of total government budget revenue in 2001. A major revision of the Russian tariff system took effect January 1, 2001. Under this tariff unification, tariffs were consolidated into major product groups (raw materials, semi-finished goods, foodstuffs, finished products) with tariffs ranging from five percent to 20 percent for nearly all tariff categories. However, many rates are accompanied by alternative minimum rates, making the actual applied rate less transparent. The tariff unification resulted in an overall lowering of tariff rates – the Russian Government states that in 2001 trade-weighted average tariff rates dropped from 11.4 percent to 10.7 percent. In addition, there are limited exceptions to the rate scheme, including higher rates for raw sugar (30 percent), poultry meat and automobiles (both 25 percent), and minor additional adjustments have been made. The Russian Government proceeded with the tariff unification to help combat customs fraud and improve customs collections, and while there have been some improvements in this regard, the overall weakness of Russian customs administration still leads to many abuses.

Other Russian import tariffs that are notable as particular hindrances to U.S. exports to Russia include those on autos, where combined tariffs and engine displacement-weighted excise duties can raise import prices of larger U.S.-made passenger cars and sport utility vehicles by over 70 percent. In addition, on January 4, 2002 the Governmental Commission on Protective Measures in Trade recommended that the Russian Government increase tariffs on imported second-hand cars. The existing tariff rates for 3-7 year-old cars imported by private individuals and by companies would be subjected to a tariff increase of between 10 percent and 17 percent, depending on engine displacement.

Throughout 2001, the government continued tight controls on alcohol production, including strict licensing requirements, import quotas on all distilled spirits except cognac and brandy, export duties, and increased excise taxes. Many of these controls are intended to increase budget revenues.

Import licenses are required for various other goods, including color TVs; sugar; combat and sporting weapons; self-defense articles; explosives; military and ciphering equipment; encryption software and related equipment; radioactive materials and waste including uranium; strong poisons and narcotics; raw and processed sugar; and precious metals, alloys and stones. Most import licenses are issued by the Russian Ministry of Economic Development and Trade or its regional branches and are controlled by the State Customs Committee. Import licenses for sporting weapons and self-defense articles are issued by the Ministry of Internal Affairs. In early 2002, the Russian Government submitted to the Duma draft legislation to simplify trade licensing procedures.

Pharmaceutical products are included on reimbursement lists without any objective and verifiable criteria. Reimbursement lists and state purchases do not adequately consider the quality and safety of the products. The resulting low prices discourage the level of imports.

## STANDARDS, TESTING, LABELING AND CERTIFICATION

U.S. companies report that Russian standards and procedures for certifying imported products and equipment are non-transparent, expensive, time-consuming, and beset by redundancies. Russian regulatory bodies are reluctant to accept foreign testing centers' data or certificates. U.S. firms active in Russia have complained of the limited opportunity to comment on proposed changes in standards or certification requirements before the changes are implemented. Occasional jurisdictional overlap and disputes between different regulatory bodies compound certification problems.

On July 31, 1998, amendments to Russia's Law on Certification of Products and Services went into effect which Russia claims generally meet the requirements of the WTO. The law allows a manufacturer to submit a declaration of conformity in the certification procedure for a limited number of products. The Government of Russia has established a list of 200 products eligible for this procedure. Approximately 30 percent of the 22,000 Russian standards now conform to international norms. Russian officials claim that the certification situation would be improved still further if the Duma would approve a pending bill to reduce the number of products to be certified and to streamline the process.

The Ministry of Economic Development and Trade in 2001 developed another draft law "On the Main Provisions on Technical Regulation, Standardization and Conformity Assessment." The law is intended to streamline the adoption of standards and the certification process for imported goods. Under the provisions of this draft law, many currently mandatory standards will become voluntary. Passage of this law, which will be submitted to the Duma in early 2002, is a part of Russia's legislative work plan for WTO accession.

The current Russian product certification regime makes it difficult to get products into the Russian market. Manufacturers of telecommunications equipment, construction materials and equipment, and oil and gas equipment have reported serious difficulties in obtaining product approvals. Certification is particularly costly and prolonged for telecommunications equipment, which is tested for compliance with standards established by both the State Standards Committee (Gosstandart) and the Ministry of Communications and Information. This process has been known to take as long as 12-18 months. Self-certification in this area is currently not possible.

Russian sanitary and phytosanitary (SPS) measures are burdensome and sometimes of questionable scientific or food safety value. As Russia continues its efforts to join the WTO, a more transparent, science-based and WTO-consistent SPS system will need to be developed. Biotechnology food products are likely to attract regulatory attention from Russian authorities in the coming year.

## GOVERNMENT PROCUREMENT

Russian ministries and government agencies are frequent purchasers of equipment, goods and services for their own needs or for the needs of various domestic organizations or groups (i.e., the military, regional health organizations, or population centers located in remote areas). In April 1997, the Russian Government established procedures for public tenders for some government procurement, but this process needs improvement and clearer guidelines. A government procurement bill, based on competitive bidding, is before the Duma, but has yet to be adopted. Domestic suppliers currently are not accorded many official advantages or privileges in competing for government procurement. Nonetheless, the Russian government's strong political bias toward supporting domestic industries may work in favor of Russian suppliers.

On January 13, 1999, an amendment to the Federal Law on Communications went into effect, which appears to encourage government agencies purchasing communications equipment to give priority to systems using Russian-produced equipment. This has motivated some major U.S. suppliers to begin production in Russia.

## EXPORT SUBSIDIES

The Russian government's industrial policy guidelines emphasize export promotion and import substitution. In practice, there has been limited budgetary funding for such initiatives. In December 1999, then-acting President Putin proposed the establishment of a Russian export credit guarantee agency, but no action has been taken to date to implement this proposal. Russia has no explicit export subsidies on agricultural products, although it has suggested in WTO accession talks that it would like to reserve the option to use agricultural export subsidies in the future.

## INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

According to industry sources, estimated losses to U.S. copyright industries due to intellectual property piracy exceeded $800 million in 2001. Video piracy remains high, although levels are somewhat lower in Moscow than in other regions. Of special concern in 2001 has been large increases in illegal DVD production far in excess of demand in the Russian market, with pirated products apparently intended not only for domestic consumption, but also for export. Piracy of music and software remained high in 2001 at approximately 70 percent of sales. Russia is also a major destination and transhipment point for pirated optical media products.

With the exception of protection of pre-existing copyrighted works and sound recordings, the Russian government has made considerable progress in constructing a legal framework to bring Russia up to world standards in its protection of intellectual property (IP). Since 1992, Russia has enacted generally acceptable laws on trademarks and appellations of origin, patents, protection of layout designs for integrated circuits, and copyrights, including protection for computer software.

Russia is a member of the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Geneva Phonograms Convention, the Universal Copyright Convention and other major multilateral intellectual property conventions. The U.S.-Russia bilateral trade agreement also requires Russia to provide protection for intellectual property. As part of Russia's accession to the WTO, Russia will be required to fully meet obligations under the WTO's Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement) upon accession. The Russian Patent and Trademark Agency (Rospatent) has drafted amendments to five existing laws covering the various forms of intellectual property that should bring Russia's legislation largely in line with TRIPS standards. This legislation was submitted to the Duma in June 2001, but the Duma has yet to pass the package of amendments.

There are some marginal improvements in anti-piracy actions by Russian law enforcement agencies, including raids by police, but overall enforcement of IPR remains inadequate. Enforcement actions depend on proactive initiatives by rights holders to investigate violations and then refer investigations to law enforcement agencies. Strengthened criminal penalties for IPR infringement went into effect on January 1, 1997, and even stronger penalties have been proposed by the Russian Government in draft legislation. But, while the Russian Government has begun to pay more attention to enforcement, there are still few cases in which existing penalties have been applied, and even when violators have received jail sentences, the sentences are often suspended or general amnesties are issued, and no time is actually served. In addition, goods seized during enforcement actions are rarely destroyed and consequently may return to the stream of commerce.

As the copyright industries' estimated losses attest, piracy of U.S. videocassettes, films, music recordings, books, and computer software is extensive in Russia. The government's Licensing Law, adopted in August 2001, did retain licensing for optical media producers, but U.S.copyright industries believe that this provision is inadequate to control optical media piracy.

Some U.S. companies have had difficulty registering well-known trademarks, although proposed legislation, if adopted, would improve protection for well-known marks. U.S. and multinational companies continue to report counterfeiting as a serious problem, especially for consumer goods and pharmaceuticals. Recognizing that counterfeit pharmaceuticals are a serious concern, in 2001 the Ministry of Health set up an interagency working group to address this problem at the urging of international industry groups.

Administrative and judicial review bodies are only beginning to become active in protecting IP in Russia, and the number of police and judges with relevant expertise is still small but is expanding. U.S. copyright industries believe that at the prosecutorial and judicial levels officials often do not consider IP infringements to be serious offenses compared to other crimes, although an increasing number of prosecutors are willing to file cases related to copyright piracy.

U.S. investors also consider the Russian court system to be ill prepared to handle sophisticated patent cases. However, a specialized higher patent chamber has been established at the Russian Patent and Trademark Agency, which should bring greater expertise and efficiency to resolution of trademark and patent disputes.

## SERVICES BARRIERS

Discrimination against foreign providers of non-financial services are in most cases not the result of federal law, but can stem from the abuse of power, sub-national regulations, and practices that may violate even Russian law. For example, a few foreign providers of services have sometimes noted discrimination in obtaining licenses from local authorities. Foreign providers are forced to pay a range of fees that domestic companies allegedly bypass via bribes.

The federal law on "Banks and Banking Activity of 1996" permits foreign banks to establish subsidiaries in Russia. The law allows the Central Bank to impose a ceiling on the total amount of foreign bank capital calculated as a percentage of the total bank capital in Russia. The percentage ceiling is currently set at 12 percent, although it is unclear whether the 12 percent limit is operative. Russia has been asked to clarify the situation and remove the limit as part of its WTO accession. The Central Bank has indicated it does not want this limit to dissuade foreign banks from operating in Russia. Since 1997 the Central Bank has required foreign banks to have a minimum of Euro 10 million in capital and to have at least 75 percent of the bank's employees and 50 percent of the bank's management board be of Russian nationality. Heads of foreign banks' Russian offices are required to be proficient in the Russian language.

In the insurance sector, a law took effect in October 1999 which implicitly allows majority-foreign owned insurance companies to operate in

Russia for the first time but restricts their total market capitalization and prohibits them from selling life insurance or obligatory types of insurance. The law contains a “grandfather clause” exempting the four foreign companies currently licensed in Russia from these restrictions. Insurance companies with a minority foreign participation (49 percent or less) are not subject to these restrictions.

The Ministry of Communications and Information is reviewing the operations of alternative telecommunications carriers, which in many cases have foreign investment. Digital overlay companies – spun-off from slower-growing, under-capitalized traditional operators and providing modern, alternative networks to high-margin business customers – have raised concerns at the Ministry of Communications. The Ministry is currently drafting changes and amendments to the Communications Law.

Included in the new draft Communications Law are proposals to streamline the licensing procedure to make it easier for small and medium businesses to enter the telecommunications market. Operators in Russia continue to complain about the Russian Government's lack of transparency in licensing and have criticized the five-year term of the licenses, which they argue do not allow them sufficient time to recoup their investment.

Russian entities with over 50 percent foreign ownership are prohibited from sponsoring television or video programs, or establishing television organizations capable of being received in more than 50 percent of Russia’s territory or by more than 50 percent of the population. The Ministry of Communications announced on September 5, 2000 its intention to confiscate valuable frequency bands from two existing cellular providers for possible transfer to a new entrant. Minister of Communications Reyman, after receiving a wide range of criticism, rescinded the order, offering instead to investigate opportunities to convert military frequencies to civilian use.

Central Bank regulation 721-U requires that purchases of foreign currency of greater than $10,000 for a limited number of imported services, mainly in the hospitality and tourism sector, must receive advance permission from the Ministry of Finance. While intended to combat capital flight, this measure has the potential to delay financial transactions and impede the participation of foreign firms in this sector.

Tax preferences formerly provided to Russian film producers were abolished effective January 1, 2002.

## INVESTMENT BARRIERS

A Bilateral Investment Treaty (BIT) was signed between the United States and Russia in June 1992. The treaty was approved by the U.S. Senate in October of the same year, but it cannot enter into force until ratified by the Russian Duma. The Duma did not actively consider ratification of the BIT in 2001.

Despite the passage of a new law regulating foreign investment in June 1999, Russian foreign investment regulations and notification requirements can be confusing and contradictory. The law on foreign investment provides that a single agency (still undesignated) will register foreign investments and that all branches of foreign firms must be registered. The law does codify the principles of national treatment for foreign investors, including the right to purchase securities, transfer property rights, protect rights in Russian courts, repatriate funds abroad after payment of duties and taxes, and receive compensation for nationalizations or illegal acts of Russian government bodies. However, the law goes on to state that federal law may provide for a number of exceptions, including, where necessary, for “the protection of the constitution, public morals and health, and the rights and lawful interest of other persons and the defense of the state." The potentially large number of exceptions thus gives considerable discretion to the Russian government.

The law also provides a "grandfather clause" that existing "priority" foreign investment projects with foreign participation over 25 percent be protected from unforeseeable changes in the tax regime or new limitations on foreign investment. The law defines "priority" projects as projects with a foreign charter capital of over $4.1 million and with a total investment of over $41 million. However, the lack of corresponding tax and customs regulations means that any protection afforded investors by this clause is only theoretical.

The new Land Code that was passed in 2001 allows equal treatment of domestic and foreign entities to buy land and buildings, although purchase of agricultural land by foreigners is still prohibited. Foreign entities are restricted from buying land close to federal borders and in areas the President determines are critical to national security.

Current Russian legislation restricts foreign investment in the aerospace industry to 25 percent of an enterprise. Foreign investment in the natural gas monopoly, Gazprom, is formally limited to 20 percent and in the electrical power giant, Unified Energy Systems, to 25 percent. In practice, these limits have been exceeded, and there is discussion of whether to eliminate or raise the limits. Foreign investment in Russian spirits concerns is limited to 49 percent. In 2001, the Duma rejected draft legislation which would have prohibited and/or allowed restriction of foreign investment in a wide range of sectors in the economy.

A major tax reform law that became effective January 1, 2001, reduced tax-related investment barriers. It substantially amends the value-added tax (VAT), excise taxes, personal income tax and unified social tax. These reforms will reduce the nominal tax burden from 41 percent of GDP (only 37 percent actually collected) to 39 percent in 2001. The Government of Russia has stated that it hopes to reduce the tax burden to 34 percent of GDP by January 2004. An amendment enacted in 2001 lowered the corporate profits tax to 24 percent from 35 percent, effective January 1, 2002.

Under its new tax law, which established a flat income tax rate for residents and a 30 percent income tax rate for non-residents as of January 1, 2001, six taxes were abolished entirely: the 1.5 percent social and housing turnover tax; the Employment Fund tax; the state border clearance fee; the vehicle tax; the vehicle acquisition tax; and the oil and lubricant product sales tax. The road users turnover tax was reduced from 2.5 percent to 1 percent of turnover, and is to be abolished entirely in January 2003. Regions and municipalities received authority to grant exemptions to the regional portion of profits taxes. Some regions received specific regional exemptions, particularly the Leningrad oblast. However, regions will no longer be able to grant individual tax exemptions.

Notable VAT tax changes since 2000 include VAT tax relief for small businesses; considerable clarification to deductibility rules; reduction of import VAT exemptions; and, an attempt to provide a zero VAT tax on exports, although the VAT refund system still does not function well. Excise duties on oil and gas have been adjusted several times over the past few years, being raised or lowered as oil and gas prices fluctuate so as to capture "windfall profits." The new law expands the list of dutiable activities and objects, but several additional transactions became exempt, including exportation when conducted by the producer of the goods (except oil).

Crime and corruption in commercial transactions and problems with the implementation of customs regulations also inhibit investment. In addition, Russian trade and investment would benefit, for example, from improved dispute resolution mechanisms, the systematic protection of minority stockholders rights, conversion to international accounting standards, and the adoption and adherence by companies to business codes of conduct. Initiatives are underway to address these shortcomings, either through regulation or government-sponsored voluntary codes of conduct. More transparent implementation of customs and taxation regulations is also necessary.

Adequate conforming legislation and implementing regulations (known as “normative acts”) for Production Sharing Agreements (PSAs) continue to be necessary in order for the PSA regime in the oil and gas sector to be complete. However, movement on an adequate PSA regime has been slow. After a long delay, new PSA legislation was adopted at the beginning of 1999 when the State Duma finally approved remaining necessary legislative components of Russia's PSA framework. By the end of 2001, the Russian government had yet to complete drafting the roughly one dozen normative acts necessary to create a functioning regime in Russia.

The Russian finance and tax ministries oppose PSA implementation on revenue grounds, while nationalists object to the "special treatment" for foreign companies that they believe PSAs grant. The Ministry of Finance is complicating coordination of the tax regime in the new Tax Code with the extant PSA law. Western energy companies insist that PSA legislation, while not adequate in itself, is a precondition for major Western energy investment in Russia. Companies also highlight the importance of harmonizing Russia's draft Tax Code to make it consistent with PSA legislation, as well as the need for the Duma to pass additional "list laws" approving individual projects for PSA development. Over $1 billion invested to date in the Sakhalin II consortium and ExxonMobil's announcement that it is proceeding with a $12 billion development plan for Sakhalin I, both "grandfathered" PSA projects protected from the current struggle over PSA laws, demonstrate the tangible benefits to Russia of foreign energy investment on PSA terms.

Elsewhere in the energy sector, progress and money spent on the $2.6 billion Caspian Pipeline Consortium project, inaugurated in 2001, shows how decisive Russian government support can be in making mutually-beneficial energy investment projects possible. Regulations concerning environmental permitting and pipeline access remain of concern to potential U.S. investors. Central Bank restrictions on medium-term loans (more than 180 days) of hard currency for the purchase of imported inputs have also presented an obstacle to foreign investment projects in Russia’s energy sector. Existing PSA legislation retains a 70 percent local content requirement for equipment and requires 80 percent local labor content. There is no reference to the period in which these targets must be achieved, and U.S. companies believe they will be manageable provided that the Russian government develops appropriately flexible regulations. A separate PSA amendment limits the total amount of foreign investment to 30 percent of Russia’s “strategic” oil reserves. The precise meaning and import of this restriction remains unclear.

Russia has assumed obligations under Article VIII of the IMF Articles of Agreement to permit free payment of current transactions, but the Central Bank continues to maintain controls on capital flows, despite several new currency control amendments enacted in 2001. The only major change was to lower from 75 percent to 50 percent the mandatory requirement to surrender hard currency by exporters, without reducing the 100 percent repatriation requirement. Russia continues to maintain restrictions on profit repatriation with respect to investments in restructured Russian sovereign domestic debt (S accounts), although now investors can repatriate coupon payments on government and corporate bonds and invest in other bonds. However, licenses are still required for most transactions transferring money into or out of Russia, with exporters incurring exchange fees and substantial compliance expenses.

Of potential concern to some investors also are export tariffs imposed since 1999 by the Russian Federation, which have become a very significant revenue source for the government, accounting for 10 percent of revenues in 2001. Export tariffs are levied on a range of goods, including oil, gas, forest products, ferrous and non-ferrous metals and scrap, hides and skins. Export tariff rates for oil and gas, like excise rates, have been raised and lowered in parallel with changes in oil price levels.

A presidential decree signed in early 1998 provides investment incentives for large investments in the auto industry that meet local content requirements. Although the decree is technically still in place, the Government of Russia has stated that it plans to cancel the decree in the near future. In practice, U.S. investors in this sector have faced difficulty in obtaining relief promised by the Russian Government from local content requirements and for special customs treatment.

The Ministry of Communications and Information's Order No. 8 mandates that certain types of telecommunications switching equipment be manufactured only in Russia. This has motivated some U.S. telecommunications suppliers to set up manufacturing operations or joint ventures in Russia, rather than import the equipment.

**Aircraft**

With more than 70 percent of Russia's civil aviation fleet over 10 years old and suffering from outmoded avionics and engines, replenishment of the fleet is a looming priority. Aircraft replacement, however, has not been going forward because of the difficulties faced by the Russian aircraft manufacturers, including the financing of aircraft. In 1994, the government provided protection to the ailing industry by raising tariffs on imported aircraft from 15 percent to 50 percent. Subsequently, tariffs were lowered to the still prohibitive level of 30 percent in 1995, and then to 20 percent in 1999.

In 1996, the United States and Russia concluded a Joint Memorandum of Understanding (MOU) that addresses U.S. concerns about barriers to the Russian civil aircraft market and the application of international trade rules to the Russian aircraft sector. The MOU states that U.S. aircraft manufacturers will be able to participate in the Russian market and share in its growth. The MOU also makes clear that the Russian aircraft industry will in time be fully integrated into the international economy. Russia pledged to eventually undertake the same international trade principles in the aircraft sector as the United States and many others have done as embodied in the WTO Agreement on Trade in Civil Aircraft.

In the interim, before Russia accepts its full international trade obligations, the MOU commits Russia to take steps, such as the granting of tariff waivers, to enable Russian airlines to meet their needs for non-Russian aircraft on a non-discriminatory basis. On July 7, 1998, the Russian government issued Resolution 716 which required Russian airlines to commit to the purchase or lease of Russian-made aircraft in order to receive duty reductions and exemptions for foreign aircraft acquisitions. In August 2001, the Prime Minister approved a decree that, among other things, canceled Resolution 716 and instructed the Russian Aerospace Agency and the Ministry of Transport to review the 20 percent customs duty currently levied on all aerospace imports with the goal of reducing tariffs. The proposal for tariff reductions, pursuant to this review, was recently submitted for government approval. While it recommends significant tariff reductions on aerospace items not produced in Russia, it does not recommend tariff reductions on aircraft.

Current law stipulates preferential treatment (tax holidays, guarantees on investment) for Russian and foreign investors in aviation-related research and manufacturing ventures. It also limits the share of foreign capital in aviation enterprises to less than 25 percent and requires that board members and senior management staff be Russian citizens. The government, however, is looking to reorganize and revitalize Russia's aircraft industry in the context of a larger restructuring plan for Russia's defense industry. Specifically, the government is considering large-scale consolidation of the aircraft industry through mergers and the provision of state guarantees on leases of domestically manufactured aircraft. Moreover, to support leasing of Russian-manufactured aircraft, the government in August 2001 concluded a deal with Ilyushin Finance and Finance Leasing Company (FLC) to take a controlling interest in their aircraft leasing operations in exchange for an $80 million infusion of government money in Ilyushin's IL-96 project and $25 million in FLC's TU-214 project.

## ELECTRONIC COMMERCE

Russian law does not currently provide identical legislative protection for both electronic and paper documents. Settlement issues need to be considered in conjunction with applicable currency control provisions. Registered trademarks are not recognized as entailing rights to the equivalent domain names and the property rights which trademarks secure for their registered owners are currently not protected for the purposes of Internet advertising and commerce through web sites. Tax implications from electronic commerce are unclear.

Electronic Russia (E-Russia) 2001-2010 is a $2.6 billion, nine-year plan announced by President Putin in July 2001 to boost information technologies and Internet usage in Russia. It includes proposals to improve the telecommunications infrastructure of the country and to implement legislation to facilitate electronic commerce. The Ministry of Communications and Information's 2001-2006 draft program on electronic commerce may be integrated into the E-Russia program.

A law on electronic digital signatures was approved by the Duma in December 2001 and signed into law by President Putin in January 2002. The law defines electronic signatures strictly, making public key technology the sole acceptable digital signature technology. The law also requires certification of hardware and software, and the establishment of digital signature authentication centers. An electronic commerce bill is also under consideration. This bill, while closely following an International Chamber of Commerce model bill, nevertheless has problems, including the fact that it limits electronic transactions to the sale and purchase of moveable goods, services agreements, and shipments. The adoption of the new WIPO Copyright Treaty and the WIPO Treaty on Performers and Performances Treaty also would promote the development of electronic commerce in Russia.

The Supreme Court of the Russian Federation on September 25, 2000 struck down a provision of a Ministry of Communications order that required certain communications service providers in Russia to install special eavesdropping equipment on behalf of the Federal Security Service (FSB). The intercept scheme, known as the System of Operative and Investigative Procedures (SORM), allows the Government to intercept voice and data, e.g., email transmissions, supposedly for reasons related to law enforcement. The ultimate impact of the court's ruling is still disputed, and for the time being operators have left the installed intercept systems in place.