RUSSIA

In 1996, the U.S. trade deficit with Russia was $221 million, a decrease of $987 million from the U.S. trade deficit of $1.2 billion in 1995. U.S. merchandise exports to Russia were more than $3.3 billion, an increase of $514 million (18.2 percent) from the level of U.S. exports to Russia in 1995. Russia was the United States' thirty-first largest export market in 1996. U.S. imports from Russia were nearly $3.6 billion in 1996, a decrease of $474 million (11.8 percent) from the level of imports in 1995.

Trade relations between the United States and Russia are governed by the U.S.-Russia trade agreement, signed in June 1990 with the USSR and approved by the U.S. Congress in November 1991. The USSR ceased to exist before ratification of the agreement, but the United States offered the agreement (with minor technical changes) to each of the emerging states of the former Soviet Union. The Russian Parliament approved the agreement, making it possible for the United States to extend most-favored-nation status to Russia on June 17, 1992. Russia is in the process of acceding to the World Trade Organization (WTO).

IMPORT POLICIES

The combination of high import duties, a 20 percent value-added tax charged on most imported goods (selected food products are assessed at 10 percent), and excise taxes assessed on certain imported goods (automobiles, cigarettes, alcoholic beverages, gasoline) depresses demand for imports. Frequent changes in customs regulations without warning have created problems for foreign and domestic traders and investors. The government has raised import duties several times since 1992. In mid-1995, on the advice of the International Monetary Fund (IMF), the government rationalized its duties, establishing rates of 5 to 30 percent on most goods. In 1996, the government raised tariffs on alcoholic drinks, chicken, and some other food products, resulting in an average weighted tariff of 14 percent, as calculated by the IMF.

In February 1996, the Russian Ministry of Agriculture announced that its veterinary service would deny import certification for many U.S. poultry processing facilities, effectively barring all U.S. poultry imports from the United States' largest poultry export market, valued at approximately $700 million in 1995. In March 1996, the United States reached an agreement with Russia whereby Russia recognized that the U.S. inspection system is acceptable for the Russian market. Furthermore, following negotiations with the United States, the Government of Russia withdrew a reference price system that practically doubled the actual customs value of poultry imports. U.S. poultry exports to Russia increased in 1996 over 1995 levels.

In August 1996, Russia announced that in January 1997 it intended to impose safeguard quotas on U.S. vodka and ethyl alcohol exports and requested consultations under the safeguard provisions of the bilateral trade agreement. In the course of the consultation, the United States determined that Russia did not have a credible case for a safeguard action, and requested Russia to withdraw the proposed quotas. On December 30, 1996, the Russian Government withdrew the decree imposing the quotas. Russia maintains high tariffs and excise taxes on imported spirits. In early 1997, it instituted an import licensing system for vodka and ethyl alcohol.

Russia

In early 1997, the Ministry of Communications circulated a draft regulation entitled "Order No. 8," which limits Russian purchases of foreign-made switchgear. Although it is uncertain how broadly the language of Order No. 8 will be interpreted, it is sufficiently ambiguous to pose the potential for significant protectionist restriction of access to the Russian market for this equipment.

Importers from the United States have experienced delays and unexpected costs due to individual interpretation of Russian customs codes by each port of entry.

STANDARDS, TESTING, LABELING, AND CERTIFICATION

Russia's July 1993 Consumer Protection Law requires official certification (by Gosstandart) of imported products for conformity to Russian technical, safety, and quality standards. Certification is based on a combination of international (notably EU) and Russian standards. All food items imported into Russia are subject to food quality and safety standards and require a certificate for each shipment. Manufactured items can receive certificates allowing import of a good over a three-year period. Import licenses are required on the normal range of dangerous and harmful materials and goods. U.S. companies have complained of costly procedures and arbitrary certification requirements. Due to the many difficulties experienced by U.S. companies in this area, the American Chamber of Commerce in Moscow recently named standards and certification as one of four main obstacles to increased U.S. trade and investment in Russia.

Russia is establishing reciprocal standardization with the United States and other countries, and acceptance of foreign certification by accredited institutions. A joint Russia-U.S. communique of December 1993 pledges cooperation on improving and simplifying certification, testing, and quality assurance of U.S. and Russian products in each other's markets. A February 1994 Memorandum of Understanding between the U.S. Food and Drug Administration and the Russian Ministry of Health and Medical Industry established a framework for cooperation and exchange of information on drugs and biological products to speed their importation.

Attempts to agree on a testing procedure for fresh U.S. pork acceptable to U.S. pork producers and the Russian Veterinary Department so far have been unsuccessful. No fresh U.S. pork officially enters Russia, although the United States does export frozen pork to Russia.

GOVERNMENT PROCUREMENT

The Russian Government has virtually eliminated the Soviet practice of centralized imports through state-owned foreign trading companies, but an organized system of government procurement with standardized regulations and procedures does not yet exist. Some large-scale trade deals (such as oil-for-sugar barter deals between Russia and Cuba) still take place. Typically, however, the government awards the right to implement such deals on its behalf to private or quasi-private trading houses.

Russian ministries and government agencies frequently purchase 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). However, these purchases are done on an ad hoc as-needed basis, are not subject to uniform procedures or supervision, and are usually accomplished through direct negotiations with selected potential suppliers rather than through publicly announced competitive tenders. While domestic suppliers are not accorded any official advantages or privileges in competing for such procurement, the Russian Government's strong political bias toward supporting domestic industries probably works in favor of Russian suppliers.

EXPORT SUBSIDIES

The Russian Government's industry policy guidelines appear to emphasize export promotion and import substitution. It is unclear to what extent the guidelines have been implemented. Discussion to date indicates that they will have very limited budgetary funding and be aimed at stimulating exports of manufactured goods. Russia has no explicit export subsidies on agricultural products.

LACK OF INTELLECTUAL PROPERTY PROTECTION

The Russian Government has made considerable progress in establishing the legal framework to bring the country up to world standards in the area of intellectual property protection. Strengthened criminal penalties for infringement on intellectual property rights (IPR) went into effect January 1, 1997. The U.S.-Russia bilateral trade agreement also requires Russia to provide protection for intellectual property. Since 1992, Russia has enacted generally acceptable laws on trademarks and appellations of origins, patents, protection of semiconductor chips and computer software, and copyrights. A major deficiency in Russia's IPR regime is that is does not provide retroactive copyright protection for U.S. works, including sound recordings. Russia is a member of the Paris Convention, the Universal Copyright Convention, and other major multilateral intellectual property conventions. In 1995 Russia acceded to the Berne and Geneva Conventions.

Even though Russia has passed laws that generally meet world standards, enforcement of those laws to date has been limited. There is currently extensive piracy of U.S. video cassettes, films, music, recordings, books, and computer software in Russia. Some U.S. companies have had difficulty registering well-known marks. Administrative and judicial review bodies are only beginning to become active in IPR protection. The United States will continue to monitor IPR enforcement carefully and will provide assistance to help the Russian Federation improve enforcement. In March 1996 the U.S.-Russia working group on IPR was revived, and met again in December 1996. The U.S.-Russia bilateral trade agreement calls for a side letter on mutually acceptable provisions on compulsory licensing. The text of a letter was agreed in September 1994, but the Russian Government has not signed the side letter.

SERVICES BARRIERS

Discriminatory measures against foreign providers of non-financial services are not so much the result of federal policy as sub-national regulations or practices that may even violate national law. For example, foreign providers of services have sometimes noted discrimination in obtaining licenses from local authorities, often having to pay several times the fees paid by domestic companies.

Russia

INVESTMENT BARRIERS

The United States and Russia signed the U.S.-Russia Bilateral Investment Treaty (BIT) in June 1992. The BIT was approved by the U.S. Senate in October of the same year, but has not entered into force because it has not been approved by the Russian Duma.

According to a survey by the Russian/EU Center for Economic Performance conducted between February and May 1995, foreign investors in Russia indicated strong concern over the legal system. They were particularly concerned about shareholders' rights and weak contract law. As foreign investors must seek approval for their projects on the federal, regional, and local level, the vagueness of existing laws can lead to differing interpretations and conflicting requirements on the different levels. Much of the legal system is being rewritten, an inherently slow process. Ownership of real property, particularly land, is highly controversial. The land code, having passed the third and final reading in the Duma, failed in the Upper House and is currently under consideration by a reconciliation commission. The Duma's version did not grant the right to trade in farm land, but there are other bills on the Duma's agenda to establish the right of ownership for land and property for small gardening and construction plots.

Economic disincentives were also ranked high by foreign investors, with particular concern about the incoherence of the tax system. The government has made significant progress on inflation through greater fiscal and monetary discipline in 1996, with the yearly average rate falling to 21.8 percent from 131 percent in 1995. The government's target inflation rate for 1997 is 11.8 percent. The tax system, however, remains a major disincentive to investors. Crime and corruption in commercial transactions are also an inhibiting factor; in both 1995 and 1996 the government undertook highly publicized efforts to reduce corruption in the police force. The primary political concern of foreign investors surveyed in late spring of 1995 was Russia’s commitment to reform. Recent government decisions affecting foreign investment have been mixed. In February 1994, the government began to allow foreigners to purchase up to 10 percent of each month's issue of government securities, a market previously off limits to foreigners. This market was further liberalized in 1996, and the Central Bank has announced its intention to fully liberalize this market in 1977. The commercial banking law passed in December 1995 allowed the moratorium on foreign and joint-venture banks to expire on January 1, 1996. Foreign banks entering as branches may open only one branch, and the capital of all foreign banks cannot exceed 12 percent of the capital of the entire banking sector. The law on production sharing agreements (PSA) for the oil, gas, and minerals sector was signed by President Yeltsin in 1996, but it fell short of what most foreign investors were seeking. Discussion is underway about its possible amendment. Enabling legislation is also need to bring existing tax and regulatory laws into conformity with the PSA law. As of February 1997, the Duma had not acted on legislation needed to identify PSA-eligible energy and mineral deposits.

Regarding purely financial disincentives, most foreign investors list concerns about profit repatriation. Since Russia has assumed obligations under the IMF's Article VIII, there are no longer any legal barriers to profit repatriation. At present dividends must be paid into special accounts, before being converted into hard currency and repatriated. This has given rise to some perception of vulnerability to possible changes in the currency and banking laws, but the government has promised to do away with this requirement in the course of 1997. Investors have also expressed concern about their inability to get accurate information about potential business partners.

OTHER BARRIERS

In an effort to curtail capital flight accomplished through export and import operations, the Russian Government instituted a "passport" system for exports and imports. Such additional bureaucratic steps could potentially add time and cost to the process but they have not elicited serious complaints so far.

Aircraft

Russia raised its tariffs on imported aircraft from 15 to 50 percent in March 1994. Although these tariffs were lowered to 30 percent in 1995, they are still at a prohibitive level. There are also concerns about non-tariff barriers protecting the Russian domestic market while Russia supports its domestic aircraft industry.

On January 30, 1996, Vice President Gore and Russian Prime Minister Chernomyrdin concluded the Joint Memorandum of Understanding (MOU) on Market Access for Aircraft that addresses U.S. concerns about barriers to access 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 to 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 undertake the same international trade disciplines as have the United States and other aircraft manufacturers.

In the interim before Russia accepts these trade obligations, the MOU commits Russia to provide fair and reasonable access to its market. Russia agreed to take steps, such as the granting of tariff waivers, to enable its airlines to meet their needs for U.S. and other non-Russian aircraft on a non-discriminatory basis. As the Russian economy and the demand for aircraft strengthen, the granting of tariff waivers is to increase and Russian tariffs on aircraft are to be steadily reduced. In early 1997, the United States raised concerns about the implementation of the MOU, and senior Russian officials reaffirmed Russia’s commitment to the MOU.