

RUSSIA

TRADE SUMMARY

The U.S. goods trade deficit with Russia was \$18.6 billion in 2012, down \$7.7 billion from 2011. U.S. goods exports in 2012 were \$10.7 billion, up 28.7 percent from the previous year. Corresponding U.S. imports from Russia were \$29.3 billion, down 15.4 percent. Russia is currently the 28th largest export market for U.S. goods.

The stock of U.S. foreign direct investment (FDI) in Russia was \$9.7 billion in 2011 (latest data available), up from \$8.3 billion in 2010. U.S. FDI in Russia is led by the manufacturing, banking, and mining sectors.

Membership in the World Trade Organization

On August 22, 2012, Russia became the 156th member of the World Trade Organization (WTO). On December 14, 2012, President Obama signed legislation authorizing the termination of the application of the Jackson-Vanik amendment and the extension of permanent normal trade relations to Russia. On December 21, 2012, the United States and Russia each simultaneously filed a letter with the Director General of the WTO notifying the WTO that they each withdrew their notices of non-application and consented to the application of the WTO Agreement between them. As a consequence, following nearly 20 years of negotiations, the United States and Russia are applying the terms and conditions of the WTO Agreement to each other.

Russia-Kazakhstan-Belarus Customs Union

On January 1, 2010, the Russia-Kazakhstan-Belarus Customs Union (the Customs Union or CU) adopted a common external tariff (CET) with the majority of the tariff rates established at the level that Russia applied at that time. On July 1, 2010, a common CU Customs Code entered into effect, and on July 1, 2011, the CU Parties abolished all customs posts on their internal borders, allowing for the free flow of most goods among the CU countries. As a result of Russia joining the WTO, the CU adopted Russia's WTO schedule of tariff bindings. Beginning in early 2012, the Eurasian Economic Commission (EEC) replaced the CU Commission as the supranational body charged with implementing external trade policy for CU members and with coordinating economic integration among CU Parties with the goal of establishing a Eurasian Economic Union by 2015.

As a consequence of its membership in the CU, Russia's import tariff levels, trade in transit rules, nontariff import measures (*e.g.*, tariff-rate quotas, import licensing, and trade remedy procedures), and customs policies (*e.g.*, customs valuation, customs fees, and country of origin determinations) are based on the CU legal instruments. On these and other issues involving goods, CU Agreements and CU/EEC Decisions establish the basic principles that are implemented at the national level through domestic laws, regulations, and other measures. CU Agreements and CU/EEC Decisions also cover issues such as border enforcement of intellectual property rights, trade remedy determinations, establishment and administration of special economic and industrial zones, and the development of technical regulations and sanitary and phytosanitary measures.

IMPORT POLICIES

Customs Issues, Taxes, and Tariffs

Excise tax rates for alcoholic beverages have increased steadily and significantly. In 2012, excise tax rates rose 29.8 percent on spirits with more than 9 percent ethyl alcohol content; in January 2013, they rose an additional 33.3 percent. For spirits of 9 percent and less ethyl alcohol content, excise tax rates increased 42 percent in 2012 and another 18.5 percent in 2013. In 2012, the excise tax rates for table wine, sparkling wine, and beer rose 20 percent, 28.6 percent, and 20 percent, respectively; in January 2013, those rates rose further by 7 percent, 24 percent, and 15 percent, respectively. Imported spirits, wine and beer tend to be higher priced than their domestic counterparts, resulting in higher excise taxes.

A long-standing challenge faced by importers of alcoholic products is the requirement that all customs duties, excise taxes, and value-added taxes on alcohol be paid in advance using a bank guarantee and deposit. Because the actual amount of the duties and fees may not be known when the guarantees are obtained, the government of Russia has established fixed guarantee amounts. On occasion, these amounts exceed the final actual amounts due, especially for lower value products. In addition, industry has reported that refunds of these guarantees are sometimes delayed for as long as seven months. The advance payment requirement for duties and taxes, and the length of time the bank guarantee refund is held open, may limit trade volumes due to the amount of money that must be dedicated to these guarantees.

Customs authorities in Russia continue to assess tariffs on the royalty amounts for the domestic use of imported audiovisual materials, such as television master tapes. U.S. industry has complained that this practice represents a form of double taxation, because royalties are also subject to withholding, income, value-added, and remittance taxes. U.S. consumer goods companies have also reported that Russian customs authorities calculate customs duties based on the value of the product plus the amount of royalty payments that the Russian subsidiary must pay to the overseas parent company for the use of the parent company's trademarks. U.S. companies contend that this methodology leads to inflated valuations for tariff purposes.

U.S. industry has also raised concerns about copyright levies which generally are assessed on imported goods which can duplicate copyrighted materials, and provided to an accredited royalty collecting society for distribution to rights holders. Although Russia accredited a collecting society to undertake this collection and distribution, U.S. industry has raised concerns regarding the lack of transparency in the collection and distribution of the royalties. The legitimacy of that collecting society has also been challenged in court, creating uncertainty as to its credibility and reliability. In addition, U.S. industry has questioned the equivalence between the list of domestic products subject to copyright levies and the list of imported products subject to the levies.

Importers continue to report that Russian customs officials inappropriately challenge declared import values. In these instances, customs officials cite reference prices contradicting the invoice valuation, and this practice results in the application of higher import values, and hence higher duty payments. Importers also complain that Russian customs officials' documentation requirements are unpredictable and inconsistent, and vary from port to port. U.S. Government officials have raised concerns about such practices with Russian Customs.

U.S. industry also reports that Russia does not publish all regulations, judicial decisions, and administrative rulings of general application to customs matters. In addition, U.S. exporters report that customs enforcement varies by region and port of entry, and that frequent changes in regulations are unpredictable, adding to costs and delays at the border. In its WTO commitments, Russia has committed

to publish all trade-related measures and implement notification, public comment, and other transparency requirements for a broad range of trade-related measures.

U.S. companies continue to face a wide array of other, often company-specific, nontariff trade barriers when exporting to Russia, making Russia an unpredictable and nontransparent market.

Import and Activity Licenses

Although Russia simplified its licensing regimes when it became a WTO Member, the processes to obtain an import or activity license remain burdensome and opaque.

When Russia became a WTO Member, it abolished the requirement to obtain an import license for alcohol. However, activity licenses are still required to warehouse and distribute alcohol in Russia, and industry asserts that the difficulty and expense involved in obtaining them is disruptive to trade. For example, in 2010, Russia's Federal Service for Alcohol Market Regulation (FSR) issued regulations governing the warehousing of alcoholic beverages (Order #59n). These regulations imposed onerous and unnecessary restrictions on the warehousing of alcoholic beverages, such as prohibiting the storage of different types of alcohol on one pallet; requiring that alcohol products be stored at least 15 cm from the floor; precluding the storage of other goods with alcohol products; and requiring certificates from third-party government agencies that require a great deal of time and effort to obtain. Several U.S. exporters have experienced months of delays and expended thousands of dollars seeking to bring their warehousing practices into conformity with the regulation after FSR inspections raised compliance issues. In mid-2012, FSR announced proposed amendments to the warehousing regulations. These proposed amendments do not, however, eliminate many of the burdensome and unnecessary provisions found in the original Order #59n. The United States will continue to work with FSR to seek modifications to Order #59n that ensure that Russia's regulation of alcoholic beverages does not add overly burdensome and duplicative requirements on business operators.

Russia continues to limit the importation of products with cryptographic functionalities ("encryption products") through the use of import licenses or one-time "notifications". As part of its WTO accession, Russia committed to reform its import licensing regime for such encryption products. One such measure was to allow the importation under a one-time notification procedure of consumer electronic products considered to be "mass market" products under the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies. However, the necessary amendments to the CU regulations governing the import licensing of these products still have not been made, inhibiting trade in these products. In addition, in 2012, Russia amended the regulations governing activity licenses for the distribution, among other activities, of encryption products. In doing so, Russia reasserted control over many consumer electronic products that had previously not required an activity license to distribute. Since an activity license to distribute encryption products is required to obtain an import license, this new requirement imposes an additional indirect burden on importation.

Import licenses and/or activity licenses to engage in wholesale and manufacturing activities are also necessary for the importation of pharmaceuticals, explosive substances, narcotics, nuclear substances, equipment to be used at nuclear installations and corresponding services, hazardous wastes (including radioactive waste), and some food products (*e.g.*, unprocessed products of animal origin). The process for obtaining these licenses is often unpredictable, nontransparent, time-consuming and expensive.

Automotive and Vehicle Recycling Fees

On September 1, 2012, Russia introduced a "recycling fee" on automobiles and certain other wheeled vehicles. Under the new law, importers and manufacturers in Russia of automobiles and certain other

wheeled vehicles pay a fee, determined by the age and engine size of the vehicle, intended to cover the cost of recycling the automobile at the end of its useful life. Rates range from 26,800-110,000 rubles (approximately \$838-\$3,438) for new vehicles to 165,200 -700,200 rubles (approximately \$5,163-\$21,881) for used vehicles. However, domestic automobile manufacturers are not required to pay this fee if they agree to establish procedures designed to dispose of a vehicle at the end of its useful life. In addition, automobiles imported from Kazakhstan and Belarus are exempt from the recycling fee. Russian government officials have justified the new program on environmental grounds, and promised that the fee is temporary. At the same time, however, some officials have acknowledged that the purpose of the program is, at least in part, to counterbalance the reduction in tariffs on imported automobiles that resulted from Russia's WTO membership. Russia's President Vladimir Putin has suggested establishing a similar recycling fee for agricultural machinery, and instructed the government to develop a proposal.

Tariff-Rate Quotas

Russia maintains tariff-rate quotas (TRQs) on a number of agriculture products, including beef, pork, poultry, and select whey products. Since 2010, the CU Commission, and now the EEC, has established the overall TRQ volume for a product and its allocation among the three CU Parties based on the overall CU production and consumption forecasts for that product. For 2013, the EEC allocated Russia's TRQ volumes in accordance with the volumes agreed in Russia's WTO schedule. Each CU Party then decides whether to make country-specific allocations of the TRQ volume and issues the import licenses used to administer the TRQ. Consistent with Russia's WTO obligations, a new TRQ has been established for select whey products, with in-quota and out-of-quota tariff rates of 10 percent and 15 percent, respectively. As described in the 2013 Report on Sanitary and Phytosanitary Measures, access to Russia's market for U.S. exports of pork, poultry and beef, even within the TRQ volumes, is often blocked by Russia's application of sanitary and phytosanitary measures that do not appear to be consistent with the WTO SPS Agreement.

Quotas

On August 23, 2012, the EEC issued Decision No. 143 imposing import quotas on stainless pipes and tubes imported into the Customs Union. These quotas replace the special safeguards duty on stainless steel pipes imported into the Customs Union which lapsed in September 2012. The quotas will be in force until November 2014. Quotas are, in general, prohibited under the WTO rules.

Import Substitution Policies

Russian government officials have called for more local production of pharmaceuticals, including with foreign active ingredients and formulations. Pharma 2020, the government's pharmaceutical industry development plan, calls for Russian manufacturers to account for at least 50 percent of total domestic sales (based on value) by 2020. Policies that discriminate against U.S. exporters in favor of domestic production include a reimbursement system that allows only domestic companies to request annual adjustment of registered prices, and a 15 percent price preference for Russian (and Belarusian) companies in federal and municipal procurement auctions. Balancing Russia's desire to develop an indigenous pharmaceutical industry with market access for non-Russian firms will remain an ongoing challenge.

In August 2011, the Ministry of Economic Development and the Ministry of Industry and Trade set the parameters for determining what constitutes domestic telecommunications equipment, and therefore what equipment could be used in specified applications and/or projects. The localization level depends on the scope of the research activities and technological operations carried out in Russia, resulting in localization levels from 60 percent to 70 percent. Moreover, to qualify, a company manufacturing telecommunications equipment must be a Russian resident with no less than 50 percent ownership by the

Russian party. Also, the manufacturer must have the legal rights to the technologies and software, possess its own production base, manufacture printing boards, and carry out final assembly of the telecommunications equipment in Russia.

Russia has developed a global navigation positioning technology called GLONASS as an alternative to the U.S. GPS system and Europe's Galileo. The Russian Federal Air Transport Agency (FATA) issued a rule in March 2012 requiring that all Russian registered/owned aircraft that carry dangerous goods must carry GLONASS compatible satellite navigation equipment starting January 1, 2013, and that all Russian registered/owned commercial passenger aircraft must do so by January 1, 2017. Because U.S. aircraft are not currently configured for GLONASS, modifications to the aircraft would be necessary to meet this new rule. The FATA, however, has not yet provided the details necessary for aircraft manufacturers to comply with the requirement.

EXPORT POLICIES

Although Russia has eliminated export duties on a few products, it maintains export duties on 240 types of products for both revenue and policy purposes. For example, a variety of agricultural products are subject to export tariffs, such as certain fish products, oilseeds, fertilizers, and wood products. Russia has indicated that it intends to eliminate gradually most of these duties, except for products deemed as strategic, such as hydrocarbons and scrap metals. Russia has also committed, as part of its WTO accession protocol, to eliminate export duties on nickel, copper, aluminum and steel scrap within five years of joining the WTO. Although Russia also committed to decrease export duties on timber to levels between 5 percent and 15 percent, domestic industry pressure has led to delays in implementation.

On December 26, 2011, the government of Russia issued Decree No. 1148 prohibiting the export of ferrous scrap (an important raw material for steel production) and other metals from all ports in the Russian Far East, except Magadan. Because ferrous scrap is globally traded and Russia is a significant scrap producer-exporter, Russia's actions contributed to a reduction in global ferrous scrap supplies, creating upward pressure on global scrap prices outside of Russia. Although Decree No. 1148 was eventually reversed by the courts, Russia is still actively considering similar port closures for its exports of ferrous scrap. In January 2012, Russia issued a draft Decree to prohibit the export of steel scrap from most of Russia's northwestern ports, including the largest scrap export port, St. Petersburg. Although this Decree is still only in draft, the possibility of excluding St. Petersburg as a potential point of export for scrap has again caused concern among U.S. stakeholders of possible market disruptions.

Historically, Russia's government has established high export duties on crude oil to encourage domestic refining. However, certain priority fields in Eastern Siberia and the Caspian Sea enjoy a significant discount on the crude oil export duty. In October 2011, the Russian government lowered export duties of crude oil from 65 percent to 60 percent and increased the export tax rate for heavy fuel oil and other refined products. Separately, the government maintains a 90 percent export duty on gasoline. These changes were intended to spur production by making it more profitable for oil exploration and extraction, to ensure adequate gasoline supplies to the Russian market, and to encourage the development of domestic refining capacity by raising the cost of exporting heavy fuel.

Russia has burdensome procedures for obtaining export certificates for some items, including samples collected during research expeditions and raw data. Additionally, Russia has strict licenses to control the export of precious stones and metals.

GOVERNMENT PROCUREMENT

Russia is not a signatory to the WTO Agreement on Government Procurement (GPA).

When it joined the WTO, Russia committed that its government agencies would award contracts in a transparent manner according to published laws, regulations, and guidelines. Russia also committed to become an observer to the WTO Committee on Government Procurement upon joining the WTO, and to initiate negotiations for accession to the GPA by 2016. Russia has not yet requested GPA observer status.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

Russia remained on the Priority Watch List in the 2012 Special 301 Report. Key concerns cited included piracy on the Internet and intellectual property rights (IPR) enforcement generally, which are among the issues included in a United States-Russian Federation IPR Action Plan finalized on December 20, 2012. Weaknesses in Russia's IPR regime create obstacles to its efforts to create a more innovative and diversified economy.

In 2010, Russia passed amendments to the Law on the Circulation of Medicines that provide six years of regulatory data protection once Russia joined the WTO. When Russia became a Member of the WTO on August 22, 2012, it undertook TRIPS Agreement commitments, including with respect to regulatory data protection. U.S. companies, however, have raised concerns about the lack of protection in Russia of undisclosed test and other data provided as a condition of marketing pharmaceutical products. Russia's Ministry of Health has indicated that it is in the process of preparing a new bill which would propose changes in the registration procedure for new drugs. It was scheduled to be submitted to the government in December 2012, but so far this step has not occurred. The United States will engage with Russia on any legislative or regulatory developments in this area, as envisioned in the December 2012 IPR Action Plan.

Piracy over the Internet remains a serious and growing concern. Copyright violations of films, videos, music, and software, for example, remain rampant, with Internet piracy on the rise. The United States continues to engage with Russia on the issue of piracy on the Internet, for example encouraging the adoption of a fair legislative framework establishing the liability of Internet service providers in appropriate cases of infringement of intellectual property rights over the Internet. The United States also continues to press Russia to address the problems of websites hosting infringing material and of services that are intended to promote the infringement of copyright. One method to address these problems would be to enact requirements for notice and takedown that provide for the swift removal of infringing content. Russia can also take steps to disrupt the functioning of websites that facilitate criminal copyright infringement, including services affiliated with social networking sites such as vKontakte and odnoklassniki.ru.

Related concerns with respect to copyright protection in Russia involve illegal optical media and illegal camcording. Although legitimate DVD sales are on the rise, partly due to increased law enforcement action against makers of pirated DVD, a 2008 ban on camcording in movie theaters, and a growing preference for high-quality products, Russia's optical disc production capacity in 2012 continued to exceed domestic demand, highlighting concerns that optical disc piracy is oriented toward exports. According to industry, Russia remains one of the world's largest producers and distributors of illegal optical media and one of the largest sources of illegally-camcorded movies.

U.S. and multinational companies continue to report counterfeiting of trademarked goods, especially of consumer goods, distilled spirits, agricultural chemicals and biotechnology, and patent-protected pharmaceuticals. In the past, U.S. firms complained about "trademark squatting" by Russian enterprises attempting to appropriate well-known trademarks not active or registered in Russia. Although the number of counterfeiting complaints has been declining, some remain, including with respect to trademark squatting.

Enforcement of IPR in Russia is a continuing problem. In the November 2006 Bilateral IPR Agreement with the United States, Russia agreed to improve IPR enforcement while the United States agreed to intensify IPR training programs and technical assistance for Russian customs and law enforcement officials. Although the United States has held seminars and training programs on IPR enforcement, U.S. concerns regarding Russian enforcement persist, in particular regarding the need for deterrent-level criminal penalties and increased Internet-related IPR enforcement. Russian police continue to carry out end-user raids against businesses using pirated products.

SERVICES BARRIERS

Russia's services market is relatively open to U.S. services suppliers, including in areas such as financial services, education, legal services, and distribution.

However, specific problems remain in particular areas. Russia continues to prohibit foreign banks from establishing branches in Russia. In addition, the ability to provide services to public utilities and certain energy-related services remains limited. Russia had imposed a 25 percent quota on the aggregate share of foreign capital in the insurance sector. However, Russia amended its law to raise this limit to 50 percent. The increase entered into force on December 27, 2012. Russia has not yet amended its legislation to reflect its WTO commitment to remove the limitation on sales of biologically active substances in pharmacies and specialized stores only.

Industry reports that the process for an individual or a company to obtain a license to provide a service remains difficult, and limitations on the form of commercial establishment adversely affect some sectors.

INVESTMENT BARRIERS

Russia's foreign investment regulations and notification requirements can be confusing and contradictory, which has an adverse effect on foreign investment. The Russian government has made improving Russia's investment climate a priority, but U.S. and other foreign investors continue to cite corruption in commercial and bureaucratic transactions as a barrier to investment. Notwithstanding an Anti-Corruption Council created in the summer of 2008 and significant anticorruption legislation passed in May 2011, various internationally-recognized measures of corruption suggest there has been little progress to date. Further obstacles to investment in Russia include inadequate dispute resolution mechanisms, weak protection of minority stockholder rights, the absence of requirements for all companies and banks to adhere to accounting standards consistent with international norms, and problems with enforcement of the rule of law.

The 1999 Investment Law allows for a number of exceptions to the general principle of national treatment, including, where necessary, "the protection of the constitution, public morals and health, and the rights and lawful interest of other persons and the defense of the state." These broadly defined exceptions give the Russian government considerable discretion in prohibiting or inhibiting foreign investment in a discriminatory fashion. The Investment Law included a "grandfather clause" that stipulates that existing (as of 1999) "priority" foreign investment projects with foreign participation of over 25 percent will be protected from certain changes in the tax regime or new limitations on foreign investment. The law defines "priority" projects as those with a foreign charter capital of more than \$4.1 million and with a total investment of more than \$41 million. However, the lack of corresponding tax and customs regulations means that any protection afforded investors by this clause is, at most, very limited. Telecommunications and media services companies report specific investment restrictions. Article 19 of the Mass Media Law (last amended on November 10, 2011) limits investment in the broadcast sector by foreign entities, Russian entities that are more than 50 percent foreign-owned, and Russian citizens

holding dual citizenship. The Law also prevents foreigners, stateless citizens, and Russian legal entities that are more than 50 percent foreign-owned from establishing television companies and owning shares in television broadcasting companies that broadcast to more than half of Russia's regions or have a potential audience of over half the nation's population. Even tighter investment restrictions have been imposed on security firms. As of January 1, 2010, the Law on Private Detective and Security Activities prohibits the participation of any foreign capital in a private security company.

The government enacted the Strategic Sectors Law (SSL) in May 2008. The SSL establishes a list of 42 "strategic" sectors in which purchases of "controlling interests" by foreign investors must be preapproved by Russia's Commission on Control of Foreign Investment ("Commission"). In 2012, amendments to the SSL removed two activities from the list: banks' activities in cryptography and radiation sources usage. It also reduced the number of circumstances in which companies need to seek pre-merger approval.

According to Russian officials, the Commission has approved 129 of 137 applications for foreign investment since its creation in 2008. However, the majority of these transactions involved Russian investors investing back into the country through foreign offshore holding companies.

In September 2012, President Putin signed a Presidential Order requiring that open joint-stock companies on a list of strategic enterprises (currently 57 companies) and their subsidiaries obtain prior consent from a "respective federal executive body authorized by the Russian Government" before supplying information requested by authorities and agencies of foreign governments, international organizations, associations and groups of foreign countries. Permission is also required for amending contracts concluded with foreign counterparts, as well as for other similar documents pertaining to the companies' business on foreign soil. The authorized federal executive body can refuse permission if the actions could harm Russian economic interests.

Privatization

While private enterprises are technically allowed to compete with state corporations on the same terms and conditions, in practice, the market is skewed in favor of state corporations. State corporation holding structures and management arrangements (*e.g.*, representatives of state interests as board members) make it difficult for private enterprises to compete. Furthermore, specific legal constructions can result in preferential treatment of state corporations. For example, state corporations have no unified legal framework, being established and operated under different legislation than that which applies to other corporations. Such a case-by-case approach leaves much scope for discretion and lobbying by company insiders at the expense of private enterprises.

The government maintains a list of 196 companies which are either wholly- or partially-owned by the Russian state (separate from the SSL) that cannot be privatized due to their national significance. The government's privatization plans with respect to other companies is proceeding slowly. An expanded privatization plan through 2017 was approved in August 2011, but revised in June of 2012, as a result of delays in the original plan's timeline. It was revised again in October 2012 but information about the changes has not been released. Notwithstanding these plans, the Russian government intends to retain controlling stakes in major Russian companies such as Rosneft, Transneft, the Federal Grid Company, Russia Railways, and banking giants Sberbank and VTB. Moreover, in some of the companies to be fully privatized, the state will keep what is referred to as a "golden share," a nominal holding that allows the state to retain certain veto powers.

Taxes

Companies report that VAT refunds to Russia-based exporters, which should be provided within three months of a claim's submission, often do not occur on time, with customs and tax authorities applying a number of burdensome additional requirements. In addition, leasing companies have reported that VAT assessed on inputs to exported final products is often not refunded at all. In addition, in some cases, local tax inspectorates have initiated audits and attempted to seize bank accounts of the leasing companies, thus forcing exporters to seek very expensive and time-consuming court enforcement. A variety of Russian and U.S. companies indicate that in many cases, companies have to resort to court action to receive their VAT reimbursements. They report that VAT refunds on exports are the source of significant fraud, and actions to prevent fraud makes it even more difficult for legitimate exporters to obtain refunds.

U.S. companies have also raised concerns about Russian tax authorities' scrutiny of payments that cross Russia's border, but remain, for tax purposes, in the legal structure of the same Russian company. This tax issue has arisen chiefly in two contexts: (1) when a multinational company transfers an employee temporarily to the company's Russian office from another office outside Russia; and (2) in intra-company payments for the use of intellectual property. Under internationally accepted accounting standards, these normal business practices are handled as an intra-firm payment from one office to the other, or to the headquarters in the case of royalty payments. However, Russian tax inspectors have in the past disputed such expenses as "economically unjustified" and, consequently, not permissible under the Russian Tax Code. In consultation with foreign firms, Russia developed and adopted a new Law on Transfer Pricing that took effect on January 1, 2012. Transfer pricing on domestic transactions will be phased in over three years. For 2012, domestic transactions are subject to transfer pricing regulations if the aggregate annual income from the parties exceeds 3.2 billion rubles (approximately \$1 million) in 2012, decreasing to 2 billion rubles (approximately \$625,000) in 2013 and decreasing once more to 1 billion rubles for 2014 (approximately \$320,000) and thereafter. In the first year of this system there have not been major complaints regarding implementation but experts state that a more accurate picture of the impact of these changes won't be seen until the entirety of the regulations are phased in by the end of 2014.

Automotive Sector

Russia has maintained an investment incentive regime in the automotive sector since 2005 with domestic content requirements and production targets. In 2011, Russia added a second program that imposes conditions that are more stringent and requires much higher domestic production volumes (300,000/350,000 units for each manufacturer as compared with 25,000 units under the original program).

As part of its WTO accession protocol, Russia agreed to limit the domestic content requirement for automobile producers in Russia which previously stipulated a certain amount of labor and components be domestically sourced. Russia has also agreed to end the problematic elements of both programs by July 1, 2018.

ELECTRONIC COMMERCE

Electronic commerce is growing rapidly in Russia, and was estimated to exceed \$16.6 billion by the end of 2012, a 26 percent growth over electronic commerce sales in 2011. The tax aspects of electronic commerce are virtually unexplored, and this area of the law is still developing. Foreign companies have ample opportunities for entry into the Russian electronic commerce market, but the unreliability and capacity issues of delivery of goods by the Russian postal service, especially outside of Moscow, impedes growth of both foreign and domestic online merchants.

The Law on Electronic Signatures came into force on April 8, 2011. The law considerably widened the permitted use of electronic signatures, and envisages that foreign electronic signatures will also be valid. The law states that electronic documents signed by electronic signatures will have the same legal effect as paper documents signed by hand, provided that in case of simple electronic signatures and advanced signatures the parties have explicitly agreed to it or the use of electronic signatures is provided for by Russian law.