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Investor's Guidebook to Russia

 Ministry of Economic Development
and Trade of the Russian Federation

Endorsed by:





This Is Our Strategic Choice

From President Vladimir Putin's Message to the Federal Assembly of the Russian Federation on April 25, 2005

"...Russia is extremely interested in a major inflow of private, including foreign, investment. This is our strategic choice and strategic approach... It is time we clearly determined the economic sectors where the interests of bolstering Russia's independence and security call for predominant control by national, including state, capital... While maintaining such control and limitations in some economic sectors, we should create favorable conditions for the inflow of private capital to all the other attractive sectors.

"...All of these decisions must be formalized in legislation. The goal of these measures is apparent: investors do not need riddles and charades. They will invest their money only in a stable economy with clear and comprehensible rules of the game. And this approach will be fair to both society and the state, which should protect its prospective interests and take care of the country's development for years and decades to come."





Table of Contents

Prologue: Challenges of Economic Growth	4
A Changing Country	9
Power in Russia	9
Economy on the Rebound	10
What People Are Saying	14
Investment Guidelines	16
Where to Invest	16
How to Invest	21
Support of Business Activities	28
Success Stories	32
What People Are Saying	38
Government Regulations	40
Ways of Entering the Russian Market	40
Foreign Economic Activity and Export Control	42
Control and Oversight Bodies of the Russian Federation	45
Judicial System	47
Financial and Banking System	50
Taxes	52
Management of Human Resources	56
Copyright and Patent Law	63
What People Are Saying	64
Know Before You Go	66
Terms and Conditions of Coming to Russia	66
Airports in Moscow and Saint Petersburg	68
Transportation	69
Accommodation	70
Communication	70
Emergency Services	71
Security	71
Medical Insurance and Healthcare	71
What People Are Saying	72
Epilogue: Horizons for the Future	74
Appendices	76
Appendix 1: Trade Missions and Commercial Services of Foreign Embassies	76
Appendix 2 : Internet Resources	83



Prologue: Challenges of Economic Growth

**German Gref,
Minister of Economic Development and Trade of the Russian Federation**

It is my pleasure to greet the readers of this book. It is something of an encyclopedia of the investment climate and a source of reliable information on how to do business in the Russian Federation.

Our Country Is Still Inadequately Known

This is undeniable: in the last five years, foreign investments in the Russian economy have substantially increased. According to national statistics, at the end of June 2006, 128 billion US dollars of foreign capital had accumulated in our country's economy, while the inflow of investments increased by more than 41.9% in comparison with the preceding year. In the first half of 2006, foreign companies invested 23.4 billion US dollars in the Russian economy.

A very important fact is that the flow of direct foreign investments grows in this respect. Certainly, this indicates that the business climate has improved and that the national economy of Russia has good prospects. Nevertheless, we believe that foreign capital investments in the Russian economy are insufficient. "Insufficient" is certainly not an economic term. However, we are of the opinion that in the existing situa-

tion, not only Russia's requirements remain unsatisfied, but also foreign investors seeking a foothold for their capital are losing a sure chance to make profit. Therefore, I would describe the development of our relations as a whole in this sphere as "lost opportunities."

It is no secret that Russia's transition to a market economy entails certain difficulties. This becomes obvious when, inter alia, account is taken of the starting conditions: in the course of 75 years, a centralized administrative system was built in the country; it choked personal initiative and did not recognize any other forms of property except state property. The ensuing rapid market and democratic transformations in the last fifteen years and the ongoing economic and political integration of Russia into the world community still has not fully convinced the foreign business community that the Russian market has good prospects. I hope that Russia's election as chairperson of the G8 for 2006, the considerable headway in the talks concerning the terms of accession to the World Trade Organization, and the development of relations with international economic and political organizations will reduce the number of skeptics and increase the number of those willing to cooperate with Russian business.

What is holding back the inflow of foreign investments in the Russian economy? Apparently, one of the main reasons is that the likely foreign partners are not adequately informed of the business climate and the investment policy of Russia, the state of the Russian economy, and the prospects of its development. This is exactly the conclusion drawn from the meetings and talks with the representatives of the business community, publications, and public opinion.

In recent years, Russian authorities have been actively seeking an information breakthrough in this respect.

Our aim is to show the world community the new Russian reality and explain that, after 15 years of reforms, Russia has become a country entirely different from what it was in the early or mid-1990s.

And it certainly is not a country depicted fairly by many foreign politicians and mass media. It goes without saying that far from everything has been done to make the business community feel quite comfortable in Russia. However, the conditions of entrepreneurial activity in our country have obviously improved in recent years. Russia is currently a country not of extreme, but of civilized entrepreneurship.

Recently, the Russian business community has been attracting foreign investments far more actively in the



most diverse forms, and loans are being given to it more easily. To be fair, this is largely due to the world market situation. The Russian business community has grown during these years. It is investing money in various projects, but is willing to attract partners from abroad. In recent years, Russian entrepreneurs promoted many enactments facilitating the entry of foreign capital into the Russian market and the protection of investors' rights.

And the investors have an organization to help them. It is the Foreign Investment Advisory Council which was established 15 years ago under the Government of the Russian Federation. Its members include the heads of major world companies and corporations which paved the way for wide-scale investment cooperation with new Russia back in the 1990s. The Chamber of Commerce and Industry of the Russian Federation and its regional structures have done much to develop foreign economic relations. Councils for the development of international business cooperation and the promotion of investment activity, which included the representatives of state bodies and the business community, were set up in virtually all the Russian regions, and were attached to the representatives of the President of the Russian Federation in the federal districts.

Russia and the World

Our aspiration to cooperate actively worldwide is due to the objective need for Russia to find its place in the snowballing globalization process. We understand that globalization means not only enormous opportunities for improving people's living standards, but also serious challenges and threats. Obviously, it is the main trend of human development, and Russia certainly cannot be left out. The globalization process will hardly be complete without Russia.

The world community seems to be increasingly aware of this fact and this is particularly true of the European Union. Today, the EU is Russia's main trade partner, accounting for 60% of the volume of our country's foreign trade. The EU is also the main source of direct foreign investments in the Russian economy (over 70%). Therefore, the willingness of the parties to create and develop four common spaces, including a common European economic space, which in the long-term should be transformed into a joint integrated market, may be regarded as a milestone in our cooperation. An agreement in this respect was reached in 2004 and confirmed at the last Russia-EU summit in London.

Russia's economic cooperation is favorably developing also with the USA, China, and some other countries. Russia is now a recognized participant in the Asian Pacific markets and an active member of APEC. Efforts to restore and consolidate economic ties in post-Soviet space are very effective.

All these steps are producing good results. Nevertheless, investment flows from abroad and their structure so far fail to meet the requirements of the Russian economy.

Promoting Competitiveness

We are keenly interested in increasing foreign investment flow largely because this is in our national interests, which is to improve our people's living standards by making a transition to the post-industrial mode of socio-economic development. This is in the fundamental interest of the world community, especially the economically advanced countries, because a highly developed and prosperous Russia is one of the key conditions of world stability. Finally, for the potential investors themselves, investments in Russia are a project with good chances of success.



The key requirement for attaining our strategic aims is to steadily increase Russia's competitiveness. A country cannot be deemed competitive if its economy is incapable of developing steadily and dynamically in the long term. Russia is successfully keeping GDP growth rate high. In the last five years, it has reached the average annual level of 6%, and this is far more than, say, in France, Germany, and the USA.

True, besides the rates of growth, the quality of growth is important. In this respect, we still have much to work on. The average wear and tear of fixed assets exceeds 50%, outdated technologies are frequently used, innovations play a small role, and the raw-material industries have gained ground in structural terms. This naturally dictates the need for a strategy to form a modern post-industrial society.

Russia has several prerequisites for accelerated development and the strengthening of its positions as a competitor in the world. These prerequisites relate to the previous system of training scientists who met all current requirements, and the system is a good basis for the development of fundamental and applied sciences. They also relate to the availability of highly skilled technical specialists and highly qualified workers, to a ramified railway network, and dynamically developing telecommunications.

We also know our weak points that make the country less competitive and reduce its investment appeal. We know that attention should especially be focused on reforms designed to improve state institutions, the legal climate, and the work of courts to

protect proprietary rights, put an end to corruption and crime, and improve human capital. Russian government and Russian society are making every effort to tackle these tasks.

Our country's economic growth was largely due to the use of the available production capacities and favorable prices for Russian exports, which are mainly oil, gas, and metal. However, as the experience of the Central and Eastern European countries shows, for instance, stable and dynamic economic development is not due to old capacities, but to new investments, particularly investments in new enterprises. Fixed assets, production technologies, and corporate governance should be updated at most enterprises.

Investment Climate of Russia Today

Fifteen years of reforms gave rise to a whole class of people who sought to adapt themselves to the market conditions and were capable of doing so. Instruments were created to allow the Russian state to promote production upgrading. These instruments included antimonopoly procedures and customs rates. We are unflinchingly seeing to it that they be used to promote competition and not to suppress it.

The country has approached the stage in which further economic development is largely determined by the state of government institutions. The economy will not be stable if the state structure is ineffective, if the court is not independent and just, and if the law enforcement system is unreliable.

Monetary and financial stabilization is what favorably distinguishes Russia from many other transitional econo-

mies and is an extremely important factor for forming a favorable investment climate. The Government of the Russian Federation intends to continue pursuing a balanced economic policy, maintain a floating currency exchange rate and substantial gold and foreign-currency reserves, reduce inflation, and keep the Stabilization Fund.

To resolve the issues facing the country, it is extremely important to implement and especially observe the clear-cut and understandable "rules of the game" for all the participants in socio-economic activities. The state plays the determining role in this respect. It has strengthened and can now be more active and consistent in carrying out reforms. We believe that the state remains one of the main "players" in this sphere, but its participation should be limited in depth and with regard to the set of instruments it uses.

Taking account of the aforesaid, the Government of the Russian Federation has refrained from being obtrusive in its dialog with investors, whether foreign or domestic. At the same time, we believe that the state has far from fully played its economic role, at least at the present stage of development. The state still controls a rather large economic sector, which is operating under market conditions and competing with private capital, and also the sphere of social services, for which there is actually no market, as well as infrastructural issues and the activity of the natural monopolies.

To repeat myself: so far, not everything is going the way we wanted. Although, as I see it, no really great errors and blunders have been made. All talk that things have taken a turn for the worse in Russia and that a



step back has been made from the values and principles of the market, democracy, and proprietary rights is groundless.

What we actually see is that a new model of relations between the Russian authorities and the Russian business community is coming to the forefront. It is a difficult process which should result in a compromise, and not in an uncontested victory of one of the parties.

This is also true of the state's efforts, which are made to create common "rules of the game" on the Russian market. The matter in question is the formation of the best legal conditions for business in the taxation sphere, the protection of the rights of owners and investors, and the elimination of the grounds for corruption.

The federal law "On Foreign Investments in the Russian Federation" and some other laws effective in the country establish the national regime and stable conditions for investors, ensure the fair settlement of disputes, and guarantee the protection of investments. Although the Russian legislation governing investment operations needs to be improved, it is of a market and liberal nature even now and meets the international standards in this

sphere. I declare this while bearing full responsibility. All the changes and adjustments that are being or will be made in investment legislation are approaching the best of world experience in this sphere.

Russian regions have not been bypassed. Laws governing investment operations were adopted in almost 80 entities of the Russian Federation. The regional legal acts establish state guarantees for the investors' rights and preferential taxation of investment operations, reduce the rates charged for the use of land and other natural resources, and grant preferences for the lease of real estate and for investment tax loans.

Apparently, the institutions of the market economy cannot be effective without a reliable system of protection of proprietary rights and their transfer from certain parties to others. The main task in this respect is to continue reforming the Judiciary so as to make the work of the courts more transparent and the Judiciary really independent. The liability of the officials of executive bodies, including the controlling law-enforcement and tax authorities, is made more stringent for violations of the law that cause economic damage.

Looking To The Future

Regardless of the obvious success in reforming Russian society, we do not intend to rest on our laurels and are carefully looking into the future.

An administrative reform is being carried out on a wide scale in the country. It is not simply a structural change in the executive bodies. It is being gradually carried out in such directions as implementation of administrative and technical rules and regulations, service standards, and the procedures for appealing against the government officials' actions before instituting court proceedings. By reducing excessive state functions and clearly regulating the procedures for performing the remaining functions, we are minimizing the government officials' subjective influence on the adoption of decisions, meaning that serious measures are being taken to obstruct corruption in government circles.

The tax load on the economy has been considerably reduced in recent years. Consequently, the financial position of enterprises has improved and greater opportunities have been offered for domestic investments in the Russian economy. As of January 1, 2004, tax on operations involving securities was reduced from 0.8% to 0.2% of the face value of an issue, and VAT was reduced to 18%. The period of recovery of VAT on export operations is also to be reduced, and a general procedure for deducting VAT paid when making capital investments is to be used.

We associate the possibility of considerably accelerating economic development with the rapid development of the high-tech and the information spheres in the economy, and with the radical updating of the traditional sector in which the bulk





of employment and income will be concentrated. We estimated that the information and high-tech sector in Russian GDP will increase from the 8.6% as of now to 16.2% in 2015. At the same time, the oil and gas sector in GDP will decrease from 27% in 2004 to 20% in 2015.

To make this maneuver, innovations should be introduced into the economy. In the 1990s, constituents of the national innovation system (NIS) of a market type began to be formed in Russia. Certainly, the scale and rates of its development should be enhanced. The recent federal law "On Special Economic Zones" is intended to promote this end. It sets out two main types of special zones, technological innovative and industrial production zones. In the future, the creation of tourism-recreation SEZs is expected. For investors, tax and other benefits are provided in the zones. We intend to establish six to ten Special Economic Zones in Russia already in the first year when the law comes into force.

Another important decision is to form the Investment Fund from state revenue received by selling oil at high prices. The purpose of the Fund is to finance only major projects. This applies first of all to the construction of the transport infrastructural units and especially important innovation projects. Currently, the Investment Fund has roughly 70 billion rubles, or more than 2 billion US dollars. At minimum, the same amount is to be allocated for the Fund's requirements in 2007 and 2008.

The Fund's monetary resources will be used only within the framework of a partnership between private capital and the state. The legal basis was inadequately worked out, and so far this prevented the partnership from developing. However, the situation is taking a turn for the better. The law on concessions has been passed, and the law on budgetary guarantees concerning non-commercial risks is being prepared.

Absolute priority is given to the reforms of the sectors associated with the development of the human potential. We are fully aware that the sectors of science, education, health care, and housing construction hold the key to high and stable economic development. President Putin's recent proposal to give the tasks in question the status of priority national projects was actively supported by society, political forces, and the parliament, and was reflected in the budget for 2006 and the subsequent years. This fact is of strategic importance.

However, this program does not replace or abolish social reforms. They will be continued, because this is one of the most important requirements for maintaining the economic stability attained by our country, keeping Russia's investment rating and curbing inflation to make Russia more attractive to potential investors.

Briefly, such is the list of tasks that arise from the need to sharply increase the country's competitiveness and form a postindustrial society. It will cost not simply billions, but trillions of dollars to solve merely one problem of upgrading the technological base and diversifying the economy. Therefore, it is cardinal to intensify the inflow of investments into the Russian economy. We are ready to cooperate in this sphere on an all-embracing and long-term basis.

Franz Kafka told the following story to illustrate a lesson: pausing in front of a gate, a traveler thought for a long time whether he should enter it. After a while, the gate closed and the guards told the traveler: "They were open only for you, but you thought far too long." Indeed, we are often too late to pass through the open gate.





A Changing Country

Power in Russia

The Nascence of Modern Russian Statehood

Modern Russia is a very young state. The Declaration of State Sovereignty was adopted on June 12, 1990 when the republic was still a part of the Soviet Union. This event signified a starting point of the communist state's eventual disintegration. Officially, the disintegration was formalized in December 1991 when leaders of Belarus, Russia, and the Ukraine put their signatures under the Belovezh agreements whereby the Soviet Union had ceased to exist. In its stead, 15 independent states have emerged.

Russia is the largest of them all. As a result of political and economic changes initiated 15 years ago, a democratic state was built. Under the existing Constitution of 1993, the country is a presidential republic with a federative form of government. The president of the country was proclaimed Head of the State, Guarantor of the Constitution, and Supreme Chief-Commander of the Armed Forces. In Russia, the president is elected for a term of four years by all citizens of the country eligible to vote who have attained the age of 18 years. One and the same person cannot remain in office for more than two terms.

The President nominates and the Federal Assembly approves a composition of the government which is a supreme executive authority in the

country. The government is responsible for the preparation of the federal budget and its execution enforcement, a unified fiscal and monetary policy, and implementation of the country's domestic and foreign policy.

Under the Russian Federation Constitution, the legislative powers are exercised by the two-chambered parliament – the Federal Assembly of the Russian Federation. The lower chamber – the State Duma – approves the appointment of the government's chairman, adopts the Russian Federation annual budget, and drafts major legislative acts. The upper chamber – the Council of Federation – approves changes of boundaries between the federal subjects (regions), approves presidential decrees on introduction of a martial law or a state of emergence, appoints judges and the Prosecutor-General and displaces the latter, and decides on the possible use of the armed forces outside the country.

The judicial branch in Russia is represented by courts of general jurisdiction, courts of arbitration, and the Constitutional Court. Courts of general jurisdiction consider civil, criminal, and administrative cases. The highest judicial body of general jurisdiction is the Supreme Court of the Russian Federation. The highest judicial body to decide on economic disputes and other matters within the arbitration courts' scope of reference is the Supreme Court of Arbitration. The Constitutional Court considers cases on compliance of laws and regulatory acts adopted at the federal and

regional levels with the Constitution of the Russian Federation.

Russian Federalism

By the size of its territory, Russia is the largest country in the world. It is populated by over 100 nationalities and ethnic communities ranging from millions to several dozens of people.

The federal subjects of the Russian Federation wield legislative and executive powers. They may adopt their own laws if compliant with the principles of the federal legislation. Local executive authorities formulate socio-economic policy in the regions, propose regional budgets, and enforce their execution.

Ongoing Political Reforms

Changes in the structure of bodies in power are introduced with a view to further the democratization of the state, build up civil society, and enhance the role of political parties both in public life and in the legislature. For instance, a new mechanism of the deputies' election to the State Duma in 2007 has been adopted. Formerly, half of the 450-strong State Duma was elected from party lists, and the other half were deputies from one-seat electoral districts. The next elections will be totally held on the proportional basis whereby all deputies are elected from party lists.

All these steps are fully compliant with Russia's political and social environment, preservation of its integrity, and



the pressing demand to improve efficiency of the entire pyramid of power to enable it to manage the complex political, social, economic, and ethnic relations.

To this end, the government structure has been changed as well. Now it is a three-step pyramid comprising the chairman of the government and his deputies, federal ministries, and subordinate federal services and agencies.

A federal ministry is responsible for the development of state policy in its relevant field of activity, coordination, and oversight of the federal services and agencies reporting to it, and coordination of activities of the government's extra-budgetary funds.

A federal service is responsible for control and supervision in the assigned field, special functions in the area of defense, state, and public security.

A federal agency is responsible for public services, management of state property, and law enforcement.

Unlike the federal ministry, neither federal service nor federal agency can engage in the legal and regulatory activities unless they are ordered so by edicts of the president or decrees of the government.

Economy on the Rebound

Over the time that elapsed since 1991, Russia's economy has drastically changed. Obvious positive results, connected with the change-over to market principles for the economy's organization, were accompanied by some considerable drawbacks. At the early stage of the reforms, as a result of the decline in industrial production, the national economy had significantly "lost in

weight." Adding to that was also curtailment of the production of armaments that constituted the backbone of the Soviet planned economy, along with the influx to the domestic consumer market of cheaper and higher quality imported goods that posed serious competition to the local manufacturing industry.

Nonetheless, today the Russian economy demonstrates enviable growth rates. Suffice it to mention the constant growth of GDP. In 2005 the GDP growth rate was 6.4%. Hence, the welfare of the population is growing and the living standards are rising. There is yet another feature of Russia's economic development worth mentioning. The years of socio-economic changes have formed a new stratum of modern managers that have embraced European business practices, a factor not to be overlooked by the private investors interested in efficient management of their capitals.

Gross Domestic Product

Starting in 2000 the country has witnessed the highest growth rates of its economy over the last 35 years. According to government projections, in 2006 GDP will increase by 6.6%, in 2007 by 6.0%, and in 2008 by 5.8%. However, even these relatively high by-world-standards growth rates are still lower than they were in the not-so-distant past (in 2003 and 2004, the GDP grew at 7% each year). Many economists believe this process is quite natural inasmuch as the far-reaching structural changes presently underway in the Russian economy have led not only to the rapid growth in certain sectors and in manufacturing, but simultaneously to curtailment of unprofitable production assets in

a number of industries inherited from the inefficient Soviet economy.

Growth of Industrial Production

The pace of the industrial production growth over recent years has slowed down as well, which is a fact the analysts also attribute to the ongoing structural reforms. For example, in 1999 and 2000 Russian manufacturing grew by more than 11% per year, in 2001 it increased by 4.9%, and in 2002 by 3.1%. In 2003, however, the growth recovered to 7.3% and 6.1% in 2004. In 2005 industrial growth again plummeted to 4%, but in the first half of 2006, it grew to 4.4%.

Budget

The favorable situation in the world energy market has enabled Russia to not only ensure a significant growth of the country's revenue into the budget, but to make the budget with a surplus. In 2004 revenues exceeded expenditures by RUB 3.4 trillion and in 2005 the surplus was already RUB 5.0 trillion; the figures for 2006 are expected to be approximately RUB 6.2 trillion. With the budget revenues going up, so are the budget expenses, albeit not that fast: 2004 – RUB 2.7 trillion; 2005 – approximately RUB 3.5 trillion; 2006 – RUB 4.3 trillion. The surplus enabled the Ministry of Finance to create, out of primarily excess profits from high oil prices, a Stabilization Fund. It is these funds that Russia uses for the early repayment of its foreign debts. For instance, in January 2005 the debt to IMF was fully discharged, and in August 2006, repayment was completed of almost the entire sum of foreign debt to the Paris Club in the amount of US\$23.8 billion.



The 2007 budget has been drafted. Here are some of its figures: budget revenues are planned at RUB 6.97 trillion and expenditures at RUB 5.46 trillion, respectively, i.e. a budget surplus of RUB 1.5 trillion (or 4.8% of GDP) is planned provided Urals prices are US\$61.0 per barrel of oil on average. The government assumes that in 2007 inflation will be in the area of 6.5% to 8.0%, while an average annual ruble rate will be RUB 26.5 for one US dollar. The Stabilization Fund will also grow to reach presumably RUB 2.5 trillion by the end of 2006. In 2006, for the first time ever, special funds have been earmarked for the implementation (with the participation of private capital) of projects of paramount importance. In 2007, the amount of this investment fund is planned to be RUB 110.6 billion.

The 2007 budget stands out by its scale of social expenditures growth. Allocations for education are planned at RUB 277.7 billion, for culture at RUB 64.1 billion, for healthcare and sports at RUB 205.4 billion, and for social policy at RUB 212.0 billion. The so-called interbudgetary transfers (i.e. revenues allocated from the federal budget to the regional budgets for the implementation of social projects) will amount to RUB 0.8 trillion.

National Projects: Investments In Human Capital

In September 2005, the President of Russia Vladimir Putin promulgated four national priority programs combined under the common principle — investments in human capital — that deal with education, healthcare, housing, and agriculture. A considerable increase of salaries in education

and healthcare along with affordable terms of home loans (although they may hardly be called the chief priorities and the most capital-intensive objectives under the new nationwide projects) will cost the state RUB 180 billion in 2006. But these are the so-called “short-term” objectives which will be followed by qualitative changes in the above mentioned areas.

Plans are to improve the existing system of education and ensure the training of skilled specialists meeting the present day requirements for the national economy. In the next two years, additional funds will be allocated for the acquisition of laboratory equipment and software by universities and schools that actively implement innovative educational programs. These funds are also earmarked for the upgrade of classrooms and teachers’ training. It is planned that in the period from 2006 through 2008 compensation of qualified scientific personnel will be RUB 30,000 per month on average. At least 5,000 individual grants for schoolchildren, students, and young specialists will be issued to support young talents. Incomes of teachers will also increase accordingly. It is planned that all these initiatives will be conducive to the improvement of the general level of education, giving young talented people an opportunity to meet their aspirations at home in Russia — effectively stemming the drain of intelligence and talent sought after worldwide.

Equally massive investments are planned for the upgrade and modernization of medical institutions: in the next two years over 10,000 municipal outpatient clinics (of which over two-thirds are in rural areas), a significant number of regional inpatient clinics, and paramedical posts

will receive diagnostic equipment; the fleet of ambulance cars will be significantly replaced. Starting in 2006 salaries of district physicians, pediatricians, and general practice doctors and nurses will be raised.

Significant funds from the budgets of all levels will be allocated for the solution of housing problems. Fulfillment of this program is associated primarily with the growth of housing construction, the modernization of utilities infrastructure, and the development of mortgaging. The state does not limit its participation in this area by the development of a regulatory base for the issue of mortgage securities or the mechanisms to finance home loans. Budget funds and serious government guarantees have been used to significantly increase the charter capital of the Mortgage and Housing Lending Agency enabling provision of home loans to the population at lower interest rates.

Finally, priority will be given to the program of rural areas’ support. It is planned that agricultural enterprises are given real access to debt financing while additional funds will be allocated from the federal budget to subsidize bank interest rates. Special benefits will be due for those entities that will engage in the construction of and investment in the upgrade of stock breeding farms. It is proposed that import duties for stock breeding technological equipment be abolished, provided these have no internally produced equivalents. For the purposes of developing the human capital potential in agriculture, money has been earmarked to build houses for young professionals coming to work in the rural areas.

All of the above four national projects have been adopted and their financing at least for 2006 is ensured by budget revenues, while the government and Central Bank of the Russian



Federation have prepared a package of measures to hold down inflation in connection with these huge investments.

Inflation

The extremely thrifty spending of the Stabilization Fund has not only been prompted by the desire to improve Russia's image in the eyes of foreign partners (a fact that has undoubtedly been considered in granting Russia an investment-grade sovereign rating by leading rating agencies), but to deter the growth of monetary supply not supported by the corresponding production growth. Yet, the level of inflation has not thus far met the expectations. The government planned to hold down inflation in 2005 at 10%, but it was 10.9% as of the year-end. Even though this figure is lower than for similar periods in the past years (2000 — 20%; 2001 — 18.6%; 2002 — 15.1%, 2003 — 12%; 2004 — 11.7%), it is still too high. The discrepancy between the actual and the planned figures is accounted for among other things by the ongoing economic reforms in Russia, for instance, in the utilities sector whereby tariffs there increased some 25-30%. Nonetheless, the Government is confident that in the coming years inflation growth rates will decrease, and in 2006 it will be about 9%, in 2007 — 6.5 to 8% and in 2008 — 4.5 to 6%. According to Alexei Kudrin, Minister of Finance, decreasing inflation will be high on the government's agenda in the next three years.

The Ruble Rate

The Central Bank of Russia pursues a well-balanced policy in establishing the exchange rate of the national currency. If the Russian ruble is sig-

nificantly undervalued, inflation will increase; if it is overvalued, Russian goods will lose their competitiveness at the world market. Russia managed to restrain the sharp ruble fluctuations. For instance, the average annual dollar rate in 2000 was RUB 28.1; in 2001 — RUB 29.2; in 2002 — RUB 31.3; in 2003 — RUB 30.7; in 2004 — RUB 28.8 and in 2005 — RUB 28.3. Analysts note the strengthening of the ruble's real effective exchange rate (REER). It is projected that in 2007 it will increase by 4.8%, in 2008 — 1.4%, and in 2009 — 1%. So far, for H1 2006, REER rose 7%.

Russia's Participation in World Trade

According to WTO data, Russia's share in world exports does not exceed 1.5%, and in imports, it does not exceed 0.7%, whereas Russia's participation in the global services trade is purely symbolic. Nonetheless, over the years of economic reforms, exports have become the largest sector of the economy, accounting for over one-fourth of GDP (in the former Soviet Union this figure did not exceed 10%). Twenty to 80% of the national production of basic commodities and semi-finished goods are bound for the world markets. It should be noted that qualitative indicators of exports do not resolve the task of raising competitiveness of the Russian-made products at the world markets so long as the structure of the Russian exports has an obvious energy and commodities leaning. The structure of exports is evident of the lopsided development of the Russian economy with high-tech industries still lagging behind.

The share of machinery and equipment in Russian exports was a mere

5.6% in 2005. The imports are dominated by consumer goods (primarily foodstuffs and raw materials for their production and household appliances), accounting for about one half of the total Russian imports.

Given the economic globalization, development of interstate trade and economic relations, and the international division of labor, Russia rivets an increasingly greater attention of foreign partners. The negotiations on Russia's accession to the WTO that have entered their final stage, along with the continued negotiations on the OECD membership, are indicative of such interest and the recognition of Russia as a market economy. Until recently, Russia has been regarded as a transitional economy for which it has not always been treated equally by the world business community.

Economic Reforms

A task of paramount importance for which the economic changes are being primarily introduced is the improvement of the economic structure and Russia's entry into the postindustrial era. First, the country is striving to end its "oil addiction," or more precisely the overdependence of the national economy and the budget on oil and gas exports that today account for nearly 60% of the country's earnings. Economists are concerned with the Dutch disease suffered by the Russian economy whereby excessive profits in the energy sector hamper development in other areas. And it is not that anyone is going to cut exports of oil and gas. Objectively, Russia will remain an energy donor in the years to come. It ranks first in the world by proven reserves of natural gas (48 trillion



cum at the end of 2004, or 26.7% of the world's proven reserves of natural gas) and ranks seventh by its proven oil reserves (9.9 billion tons or 6.1% of the world's oil reserves). Currently, in Russia's bid to get the most mileage out of the favorable market situation, it exports even more oil than Saudi Arabia, but analysts believe that in the near future its share will fall to the current level of 9% to 4-5%. It is true, though, that no cuts in the production and exports of natural gas are planned. According to the forecast of the World Energy Council, in 2020 Russia's share in the world production of natural gas will be 20%, and in world trade, 30-35%. Russia will have to invest funds in the development of innovative technologies by drawing on its export capabilities in order to keep up with world economic trends.

The current reforms to overhaul the national economy in Russia pervade practically all sectors and industries. For instance, new antimonopoly legislation provides for the liberalization of market of shares of the Russian gas monopoly Gazprom, which its contributors think will encourage investments in its expansion and modernization while discouraging the monopoly from systematic price hikes. Transformation of another energy monopolist — RAO UES — will create competition at the electricity market which will be conducive to the industry's development and improve the consumer qualities of its products.

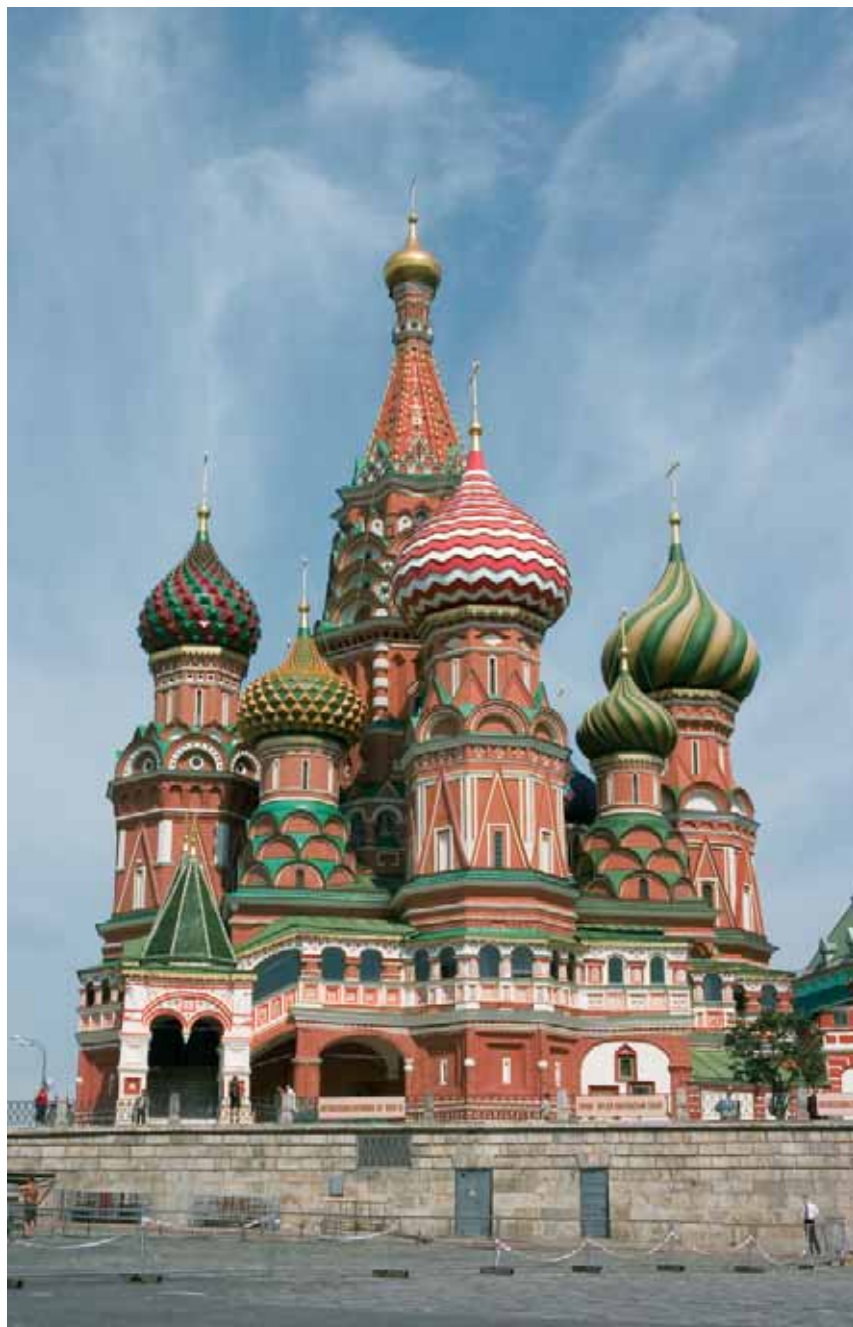
These reforms have been dragging for years, and they have made the government believe that it is impossible to reform only the largest corporations while leaving other sectors of the economy (and as it later transpired, government institutions and social relations) intact.

The tax reform resulted in the formalization of relations between the state and taxpayers and significant reduction of the tax burden.

As a result, there is not a single industry currently in Russia that does not undergo, to a greater or a lesser extent, reforms aiming at the creation of a qualitatively new economy.

As was already noted, reforms have

not only been limited to the economy, as equally important changes are simultaneously made in the regulatory and judicial systems and local administration. These reforms will ultimately enable the creation of an administrative and legal basis for an investor-friendly environment for Russian and foreign businesses alike.





What People Are Saying

“Russia’s economic growth has been very positive, with incomes increasing annually by 9% and GDP growth over 6% a year over the last five years. The profit margins for foreign business have improved; more than 80% of foreign companies operating in Russia have revenue growth over 10%. Substantial reforms have supported this growth; however, the process of reform needs to continue. There are a number of critical areas that need immediate attention such as administrative reform, improvement of the judicial and regulatory environment, and corporate governance. We need to create a more favorable investment environment for both foreign and domestic investors. A better environment for investment will define and secure Russia’s future.”

Karl Johansson,
CIS Managing partner, Ernst & Young (CIS);
coordinator of the Foreign Investment
Advisory Council

“The main achievement of democracy in Russia is that the choice once made by the country is irreversible, because its society embraced the essence of democracy, its institutions, and limitations. And it does not matter much whether the parliament is hostile towards the president, as it was under Yeltsin, or collaborates with the head of the state, which is the case under Putin. The main thing is the regularity of the people’s expression of will.”

Helen Carrere d’Ancosse,
Permanent Secretary of the French Academy

“Persistent reforms and good tax policy have made Russia one of the most appealing countries for foreign businesses. Thanks to the improvement of the investment climate in Russia, German businesspeople came from their restrained position to FDI in economy. The SME business community has formed in Russia, and the Russian government actively supports it.”

Andrea von Knop,
Head of the Union of the German Economy
in the Russian Federation

“In 2004, EBRD invested US\$2 million in SME development in Russia. We are committed to proceed in the spirit of our strategy, and we enhance our capabilities to provide loans, ruble-denominated loans inclusive. Russia is making headway, but it has to move even faster on the way that will ensure its further development, not on the basis of the mineral resources alone. This is what the Russian government is now thinking about — what has to be done to ensure the new growth through innovations. We welcome this. It relates not only to the increase in the financial inflows; we are talking about the new approach to the management of private capital, share capital.”

Jean Lemiere,
President of EBRD



“As for the political climate, I do not see any barriers to the development of retailing in Russia, both by local and foreign companies. In this respect, retailing is not an industry to rivet attention of bureaucrats. From the political perspective, there are no serious problems while the general stability contributed to the country's appeal among international retailers.”

Ruslan Korzh,
Director, A.T. Kearney, Russia

“The Russian economy, as the economies of other countries in the region, has become more open over the last ten years. It must be said that throughout this period, the Finnish companies have managed to avoid big fiascoes. Their investments in Russia are estimated to exceed US\$200 million. The amount of investments is growing chiefly due to the persistent reformist policy pursued by the Russian government and brighter economic prospects of your country.”

Paavo Lipponen,
Speaker of the Finnish Parliament,
Chairman of the Social Democratic Party
of Finland



Investment Guidelines



Where to Invest

Pursuant to the Federal State Statistics Service (Rosstat), the total foreign investment in Russia was US\$23.4 billion in January – June of 2006. It is 41.9% higher than in the similar period of the previous year. The foreign direct investment (FDI) was US\$6.4 billion, which was 43.6% higher than in 2005. The total portfolio investment was US\$499 million (growth by 2.9 times). The total accumulated foreign investment in the Russian economy was US\$128 billion as of the end of June 2006, which was 40.9% higher than a year ago. The highest share in the accumulated foreign capital belongs to other investments made on the redeemable basis, i.e. loans, etc. — 50%. The FDI account for approximately the same share (48%), and the share of portfolio investment was 1.8%.

Industries

Foreign Investments In 2005

In mil USD

	Accumulated as of the beginning of January 2005	Received	Accumulated as of the end of December 2005
Total	84,049	53,651	111,835
Agriculture, hunting and forest	544	156	645
Fishing and fish farming	153	22	147
Mining	17,119	6,003	21,660
Manufacturing	23,439	17,987	34,653
Food products, including beverages and tobacco	4,702	1,210	4,851
Textiles and garments	119	20	121
Woodworking and wood products	1,102	512	1,519
Paper; publishing and printing	579	269	681
Chemicals	743	1,440	1,486
Rubber and plastic goods	411	264	582
Other non-metallic mineral products	1,128	640	1,662
Metallurgy and finished metal goods	7,913	3,420	10,492
Electrical equipment, electronic, and optical equipment	294	162	415
Means of transportation and equipment	1,423	948	1,531
Production and distribution of electricity, gas, and water	463	328	644
Construction	745	228	822
Wholesale and retail trade; repair of motor vehicles, motorcycles, household goods and items for personal use	19,712	20,461	28,373
Hotels and restaurants	404	52	430
Transportation and communications	6,804	3,840	9,918
Finance	4,646	1,813	5,612
Real estate transactions, rental, and services	6,852	2,602	8,329
State management and military security; mandatory social security	2,695	0.0	101
Education	2	0.1	2
Public health and social services	50	15	34
Other public, social, and individual services	421	144	465

Rosstat



There has been a shift in the direction of foreign capital investment to different industries in the past few years. Foreign investors preferred to invest in manufacturing (32% of accrued investments). The trade and catering industry and the mining industry have approximately equal shares in the structure of investments (21.1% and 21.9% respectively).

It is also noteworthy that the fuel industry ranks only third in the efficiency rating of Russian industries compiled by the AK&M company. The first and second positions have been taken by the ferrous and non-ferrous metallurgy. Investments to mechanical engineering have been growing at a rather slow rate despite the major international mechanical engineering companies operating at the Russian market. However, pursuant to Ministry of Economic Development and Trade (MEDT) estimates, the international car manufacturers may invest no less than US\$2 billion in the Russian auto industry if they resolve to take advantage of the preferences established for the assembly of foreign cars in Russia.

However, the financing of transport and communication has developed at a high rate (17% of investments received in 2006). It was facilitated by rapid growth of new types of communication — mobile communication and the Internet. Telecommunication companies mobilize foreign capital through the placement of their shares at international stock markets. During the five years that MTS, the leading

operator of cellular communication, was listed at the NYSE, it managed to increase its capitalization from US\$2 billion at the end of June 2000 to US\$13 billion in June 2005. One should expect new investments made in telecommunication and other hi-tech industries.

The food industry is another popular destination for investment. In terms of the total capital investment, the industry is far behind the fuel sector and metallurgy, however, the stability of the Russian food market has become the main factor stimulating foreign investors' interest. Danone, which produces approximately 8% of the total food industry output, has the strongest position at this market. Besides Danone, such companies as Coca-Cola, Ehrmann, Nestlé, and certain others occupy stable positions at the Russian market. Noteworthy western investors not only establish their own factories in Russia but they also hunt for the shares of Russian food producers. Thus, the IPO at the NYSE by Wimm-Bill-Dann company specializing in juices and dairy products mobilized above US\$200 million for the said company and 4% of the Wimm-Bill-Dann shares were bought by Danone.

Investments in the Russian financial sector have increased by a significant margin recently. The Russian banks developing a consumer-loan business borrow large amounts from the international market. In addition, foreign investments are made in mortgage operations, which is a relatively new business for the Russian financial sector.

Development of the service sector and its attractiveness can be explained by the general growth trends of the Russian economy: household income increases and, consequently, the demand for consumer goods and services. This sector has potential for medium- and small-size companies. Direct investments are channeled to the retail and wholesale trade, repair shops, and operations with real estate, rental, and other services, as well as food production.

Yet the lion's share of the total direct investment still goes to the oil and gas sector. Naturally, Russia's huge natural resources continue to be the main attraction for foreign investors. The largest investments in the oil and gas sector were the purchase of a 50% share in TNK by BP which evolved into the establishment of a BP-TNK partnership; Sakhalin-1 and Sakhalin-2 projects to develop the sea shelf of Sakhalin Island (the investments into which were made by such well-known companies, as Exxon Mobil, Shell, Mitsui, and Mitsubishi); as well as the purchase of a 7.5% share in LUKOIL by ConocoPhillips. As mentioned above, current investors are looking forward to the completion of the liberalization of the trade of Gazprom shares in 2005-2006 which will result in the cancellation of restrictions on the purchase of shares of the largest natural gas company.

Most managers of oil and gas companies assume that political risks in



Russia are lower than in other countries with similar deposits of mineral resources. For such reasons and taking into account limited alternatives for the development of oil and gas fields, Western companies continue to view Russia as one of the countries where they can increase their resources. Promising direction in this context is the development of the Barents Sea shelf, which attracts US investors.

In general, pursuant to the latest projections of the World Bank, there will be an investment upsurge in Russia.

Regions

In November 2005, an expert PA Russian rating agency compiled a rating of Russian regions' investment attractiveness which was estimated by matching two criteria: the investment risk and the investment potential. The investment potential of a region is determined on the basis of macroeconomic indicators, i.e. the availability of factors of production in a given region, the consumer demand, etc. In calculating the



investment risk, experts of the Agency estimated the probability of losing both the investment and its potential yield. In this context seven investment risks — legislative, political, economic, financial, social, criminal, and environmental — were specified to calculate a weighted-average risk index.

Based on such analysis, each regional entity of the Russian Federation was assigned an investment rating. To start with, the absolute leaders by the average investment risk were identified. Thus, Belgorodskaya Oblast, which never ranked lower than fifth, can be recognized as the region with the lowest risks in the past decade. It is followed by Moscow, Novgorodskaya Oblast, Saint Petersburg and Tatarstan. The next group consists of Yaroslavlskaya, Nizhegorodskaya, Kaliningradskaya Oblasts, and Krasnodarskiy Krai.

Researchers' conclusions virtually coincide with investors' preferences. In 1999-2004, the first ten regional entities (Moscow, Khanty-Mansi, and Yamalo-Nenets Autonomous Areas, Moskovskaya Oblast, Saint Petersburg, Krasnodarskiy Krai, Tatarstan, Bashkortostan, Sverdlovskaya, and Samarskaya Oblasts) mobilized 51% of the total capital investment, and the remaining 79 regional entities mobilized only 49%. The share of the leading regional entities is even higher in the FDI terms: the first ten mobilized 83% of the total FDI, of which 23% was invested in Sakhalinskaya Oblast, namely, the Sea of Okhotsk which was rather an exception because foreign investors were more targeted on the developed regions with significant population.

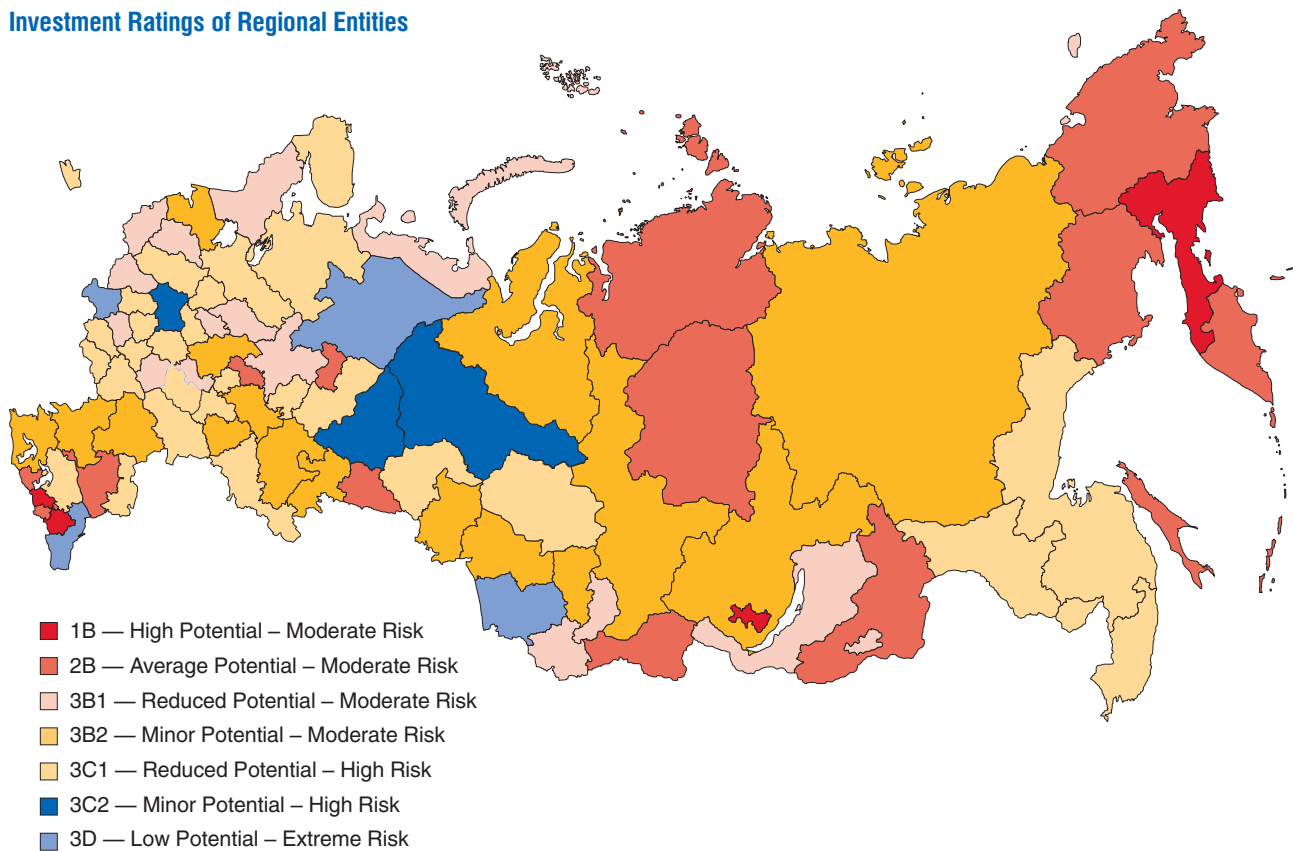
Still another characteristic has appeared. Empirical data shows that sustainable economic growth and the achievement of accelerated growth rates can be attained only when there is a certain ratio of domestic and foreign investment. The best results are achievable when the share of foreign investment is not lower than 15-17% of the total investment. In the past six years, the said ratio was achieved in Moscow, Sakhalinskaya, Lipetskaya, Moskovskaya, Kaluzhskaya, Kostromskaya Oblasts, and Krasnodarskiy Krai.

Similar to 2004 the list of the most promising regions in terms of capital investment included the following five (1B credit rating: high potential – moderate risk): Moskovskaya Oblast, Moscow, Saint Petersburg, Sverdlovskaya Oblast, and Khanty-Mansi Autonomous Area. The only difference is that the top five is headed by Saint Petersburg now. Experts note that the city has reached the top position due to the minimal social risks, as well as low economic and financial risks. The environmental risks will be brought down virtually to zero when the new purification facilities are put into operation.

Naturally, factors affecting the financial attractiveness of the above regions are different. Moscow, Saint Petersburg, and Moskovskaya Oblast continue to be the most promising regional entities for investors due to their proximity to the federal authorities, developed infrastructure, and high solvent demand of their inhabitants. The most promising sectors in the above regions include services, construction, mechanical engineering, and food industry.



Investment Ratings of Regional Entities



Data of Expert PA rating agency

The high investment rating of Sverdlovskaya Oblast has been determined by the presence of several large metallurgical enterprises and by the fact that the metallurgical industry has the highest efficiency, as noted above.

The Khanty-Mansi Autonomous Area has accessed the top five regional entities by investment attractiveness due to the fact that 56% of the total Russian oil production takes place there, that is to say, the availability of vast natural deposits has been the key factor.

Another 16 regions were granted 2B index (average potential – medium risk). They include regional entities of the Russian Federation with a diversified industry, namely, Nizhegorodskaya, Permskaya, Samarskaya

and Cheliabinskaya Oblasts as well as Yamalo-Nenets Autonomous Area where energy production plays the key role. Krasnodarskiy Krai, where the tourist and recreation sector is the main investment source, was placed in the same category. Also of note, Moscow, Leningradskaya Oblast, and Krasnodarskiy Krai are the leaders in terms of the per capita domestic investments if one does not take into account the scarcely populated regions with vast oil and gas fields and other natural resources.

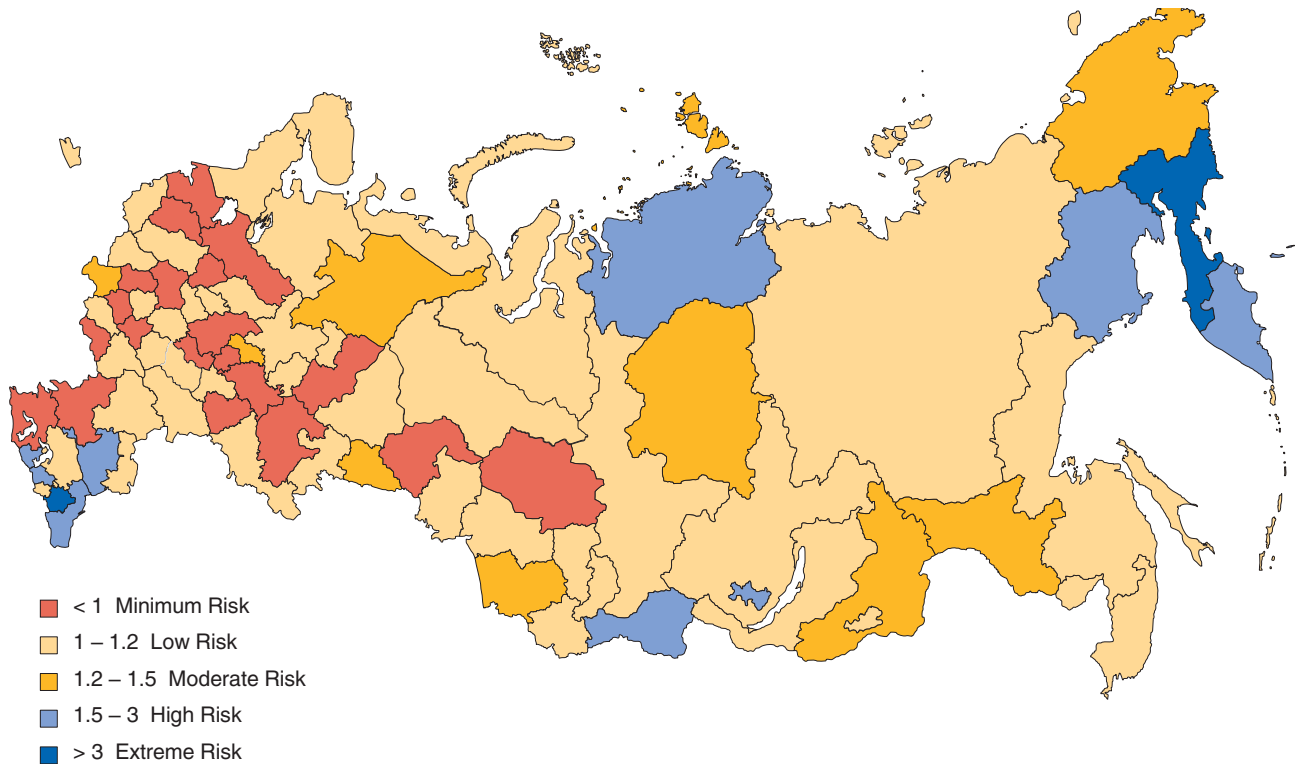
The group of regional entities with 3B1 investment rating (reduced potential – moderate risk) includes most regional entities in Central Russia without highly developed industrial enterprises attractive for large investors. However, there are vast

opportunities for small- and medium-size companies. Development of consumer goods' production not requiring a resource base may be the most promising in such regions. Production of Merloni refrigerators in Lipetskaya Oblast can be quoted as a successful example. In general, Lipetskaya Oblast, which has risen from the thirteenth to the second position in terms of risk, is a vivid example of how a favorable investment climate can be transformed into high investments which, in their turn, improve the region's investment attractiveness.

The remaining regions are divided into the following categories: 2C (average potential – high risk), 3B2 (insignificant potential – moderate risk), 3C1 (reduced potential – high risk), and 3D (low potential – extreme risk).



Investment Risk Indices



Data of Expert PA rating agency.

To do justice, in the past few years foreign investments began to reach regional entities that never had been among the top investment destinations: the part of Russia above Europe, regional entities in central Russia, and the Urals. On the one hand, it was determined by the resolution of the companies that had implemented investment projects in other regions to expand their business in Russia. In addition, the growth of domestic demand motivated foreign investors to invest in new companies manufacturing consumer goods. Thus, Nestlé became a shareholder and investor of JSC Konditerskaya Fabrika Kamskaya — one of the major confectioneries in the Ural region. Due to the Nestlé investment which exceeded US\$25 million since 2000, the capacity and infrastructure of the factory was adapted to interna-

tional standards. In November 2005, Nestlé opened its twelfth factory in Russia – Nestlé Kuban – to become the first factory having the complete cycle of instant coffee production in Russia. The total cost of the project is US\$120 million, which makes it one of the largest Swiss projects in Russia.

Growth of demand for the do-it-yourself goods which ensured IKEA a phenomenal success at the Russian market resulted in an increase of the orders for production of such goods given to Russian companies. This direction has become attractive for foreign investors also. Swedwood international industrial group, which is the main supplier to IKEA, opened its first factory in Russia in summer 2002 in Tikhvinskiy Rayon of Leningradskaya Oblast. Currently,

based on auction results, Swedwood will lease 250 cu. m of Karelian forest. The project includes the construction of a factory manufacturing furniture parts and the establishment of a logging base to form a unified facility for the advanced processing of wood. The total cost of the project, which is expected to pay its way in 7.5 years, is EUR 19 million. Five-hundred new jobs will be created at the new enterprises.

Eighty to 99% of foreign investments in Kostromskaya Oblast were targeted at forestry development in the past three years. It is natural since forests occupy three thirds of the region. Of note, most projects are related to the establishment of production lines for advanced processing of wood. Among the priorities there is construction of a pulp-and-paper



integrated works in Neia with the projected total investment of US\$1 billion, a plant for advanced processing of wood (total investment EUR 400 million) by one of the industrial leaders Sonae Industria (Portugal), furniture factories in Kostroma, Bui, and Sharia, as well as several other enterprises.

Swiss transnational corporation Krono, which unites nine factories producing particle boards in different countries, established subsidiary Kronostar on the land plot of Shariadrev factory in 2002. It is one of the largest investment projects not only in Kostromskaya Oblast, but in Russia in general: the total investment is US\$350 million. Kronostar will produce wall panels, particle boards, furniture parts, and office furniture.



How to Invest

Forms and Types of Investment Activities

Russia mobilizes capital in the form of direct and portfolio investments, capital investment loans, and through the placement of bonds at international capital markets.

There are no restrictions for foreign investors in Russia from the viewpoint of legal form: their companies may be registered under any legal form stipulated in the legislation.

Those who may be foreign investors are the following: foreign legal entities including any company, firm, enterprise, organization, and association established and entitled to invest in accordance with the laws of the country of their residence; foreign citizens or individuals without citizenship; Russian citizens residing permanently abroad if they are duly registered in the country of citizenship or permanent residence; as well as foreign governments and international organizations.

Foreign investments in the Russian Federation may be made into any assets which are not proscribed in the legislation. These may include new and modernized capital and current assets in all sectors of the economy, securities, target deposits, high-tech goods, IPRm, and other property rights.

Foreign investors are entitled to make investment in the Russian Federation in the form of:

- Shares in ventures established jointly with Russian legal entities and citizens
- Establishment of ventures owned fully by foreign investors, as well as the establishment of branches of foreign legal entities

- Purchase of ventures, estates, buildings, constructions, shares in ventures, units of investment trusts, stocks, bonds, and other securities, as well as other assets which may be owned by foreign investors in accordance with the effective legislation (usually through auction, tender, competition, or purchase at the secondary market)
- Purchase of the rights on the use of land plots and other natural resources (usually in the form of lease or the purchase of constructions on a land plot allocated thereto or the acquisition of a Russian venture holding the title to a land plot, or the establishment of joint-stock companies with entities which contribute land plots to the Charter Fund)
- Purchase of other ownership rights
- Issuance of loans, contribution of assets and ownership rights.

Ventures with foreign investment may operate under different legal forms to include joint-stock companies and other companies and partnerships stipulated in the legislation of the Russian Federation. These may include:

- a) Ventures with foreign shares (joint ventures), as well as their subsidiaries and branches
- b) Ventures owned fully by foreign investors, as well as their subsidiaries and branches
- c) Branches of foreign legal entities.

Evidently, in such cases investments are made through the establishment of entities with 100% capital owned by foreign investors or with foreign investors' shares, acquisition of operating entities or their shares, establishment of branches and repre-



sentative offices, and conclusion of investment agreements. The investment agreement is defined to include accords between investment entities on the fulfillment of certain actions to implement an investment project.

The system of investment agreements may include bargain and sale agreements (namely, the sale of real estate, ventures, and securities), financial lease, building contract, provision of chargeable services, commercial concession, trust, special partnership, and founding agreements.

The law “On Production Sharing Agreements” (PSA) was adopted in Russia ten years ago — the first investment law which paved the way for market-oriented civil contractual relations pertaining to the use of natural resources, a sphere formerly closed to foreign investors. PSAs have been used so far only for development of the oil and gas fields in Sakhalin and the shelf thereof.

New Investment Mechanisms in Russia

Concession agreements. The law “On Concession Agreements” was adopted in Russia in 2005. Pursuant to the top officials of the Ministry of Economic Development, the law will serve as a basis for the development of public-private partnership (PPP).

In accordance with a concession agreement, the state or a municipal entity (the conceder) provides to the other party (the concessionary) state or municipal property for the use on a time and chargeable basis, at such concessionary’s risk and under the condition that the concessionary has made the investments as stipulated in the concession agreement; and grants the right to set up (build) a concessionary entity and the use (business use) thereof after it has been set up (built) during an established period and at the conditions

as stipulated in the concession agreement with its subsequent return to the public or municipal ownership, as well as the right to perform work or provide services. The law states precisely that access to the infrastructure installations which are the subject matter of a concession agreement may be granted to foreign citizens.

In general the concession agreement is nothing but a public-private partnership in which the private sector and the government accept all the risks associated with a project. E.g., the share of expenses under a project incurred by the government may be stated as the terms and conditions of a tender for the right to conclude a concession agreement. Thus, the budget for 2006 includes the allocation for the Investment Fund (nearly RUB 70 billion). Pursuant to the government concept, the Investment Fund will be used, as the first priority, to develop the infrastructure, national innovations, and carry out large-scale restructuring. That is to say, some of its funds may be used for the co-financing of concession agreements. Besides the Investment Fund, the federal target programs (totaling, approximately, RUB 340 billion) will be an additional incentive for the investors seeking to conclude concession agreements with the government. A certain share of the foregoing funds should be used for the construction and modernization of major transport facilities, as well as the implementation of technological programs.

The new law regulates the relations arising from the preparation, conclusion, performance, and termination of concession agreements, and it establishes the rights and legitimate interests of the parties thereto. Its scope includes the assets which may not be





privatized. Concession presumes that the government retains the ownership rights on an asset and grants its use to a private entity for a certain period. Parties to a concession agreement, i.e. federal, regional, and municipal government entities, as well as concessionaries, are entitled to set the foregoing period.

The law stipulates the list of concessionary entities to include highways and engineering facilities of the transport infrastructure; railway and pipeline transport installations; sea and river ports; seaships and river-ships, sea- and river-going ships (combined), icebreakers, surveying ships, research ships, ferries, docks; airports; water-development works; facilities for generation, transmission and distribution of electric and heat energy; utilities systems and installations; underground railway and other public transport; facilities used for medical treatment and recreation, provision of medical services, tourism; public health facilities, educational, cultural, and sporting facilities, as well as other social entities and entities providing services to households. Subsoil assets may not be the subject matter of a concession agreement.

The concessionary and the state may conclude a concession agreement only with respect to public assets. If an asset is held in joint ownership, the government must register its exceptional ownership right on such assets before it may grant concession on its use.

As the adopted law has an evident slant towards the infrastructure, one can assume that it will have an impact on the mobilization of private investment, particularly, for the construction of real estate or the restructuring of publicly owned real estate entities.

The progressive nature of the law on concession is manifested also by the fact that it sets up conditions for the participation of small- and medium-size companies, as well as small investors in large-scale projects.

In fact, there are many minor projects in the utilities sector which are a constant headache to municipal and village authorities. If the matter at stake is a local boiler or water intake, one may seek to become a concessionary even with the capital of US\$10,000. Hence the obstacles preventing private companies and private investors to access this sphere have been removed.

It was assumed that the law "On Concession Agreements" would be directly applicable. However, it has become evident even now that the preservation of other effective legislative provisions regulating the investment process, in individual branches included, is a significant obstacle for its implementation. It has turned out that a whole range of laws and legal acts on railways, power generation, and, particularly, the laws on federal and municipal property will contradict the law on concession agreements. Problems may arise with the placement of public assets in concession, as well as the conflict resolution practice of arbitration courts with respect to concession agreements. Moreover, as mentioned above, the law formed a basis for development of the legislation on public-private partnership. For such reasons one should expect amendments of the effective legislation and the adoption of federal laws "On Seaports, On Toll Highways," etc.

One should also take into account that regional laws may be adopted in certain regions seeking to conclude concession agreements. Thus, a

regional law stipulating ten types of concession contracts was drafted in Saint Petersburg. Under one of them, the concessionary is to build a real estate entity at its expense in order to receive its tenure for up to 50 years. Another scenario presumes that a public asset can be placed in trust for the same period. One of the contracts establishes the right to a long-term lease of a real estate entity which has been set up with its subsequent buy-out. Still another scenario provides for the reimbursement of construction costs to a company from the budget after an entity has been put into use.

Special Economic Zones. Leaders of the Russian government realize that the reliance on the country's natural resources without taking into account its intellectual resources would be erroneous. Russian scientists and engineers have made so many designs and inventions in all branches of science and technology that their implementation would require more than one Silicon Valley. However, up to now the effective legislation had no provisions granting any significant preferences to the projects capable of bringing the Russian engineering and technology to a new qualitative level. Only now the consideration of such projects as technoparks and business incubators, where the foregoing objectives can be achieved with financial support of the federal government and regional authorities, has begun.

The President of the Russian Federation signed the federal law "On Special Economic Zones in the Russian Federation" on July 22, 2005. A Special Economic Zone (SEZ) is a territory established by the government within the Russian Federation with a special regime for



conducting business. Special tax, customs, licensing, and visa regimes are effective in a Special Economic Zone. Strictly speaking, the law on SEZ deals only with the establishment of the customs regime of a free economic zone. It means that foreign goods may be stored and used within a Special Economic Zone without contribution of the customs duties and the value-added tax, as well as that the interdictions and restrictions of an economic nature established in the Russian legislation on state regulation of foreign trade are not applicable to such goods. In this context Russian goods are stored and used under the conditions set for the customs export regime with contribution of the excises, but exempt from the export tariffs. As far as the taxation is concerned, pursuant to Article 36 of the law on Special Economic Zones, the residents thereof are taxed in accordance with the Russian legislation on taxes and levies. The only exemption is provided in Article 38 which stipulates guarantees versus the adoption of unfavorable amendments to the Russian legislation and sets the conditions under which legal acts regulating taxes and levies are suppressed if they deteriorate the position of taxpayers – SEZ residents.

The directive of the Government of August 19, 2005 No. 530 charges the newly established federal execu-

tive agency Federal Agency for SEZ Governance under the Ministry of Economic Development and Trade of Russian Federation.

New Special Economic Zones are set up for the term of 20 years which is non-renewable. The law presumes the establishment of technological and industrial production zones for the implementation of R&D projects and, consequently, the development of industrial production. Manufacturing zones are set up on land plots not to exceed 20 sq. km, and for technological zones, on not more than two land plots with the total area not to exceed 2 sq. km.

The main condition established for residents of industrial production zones is to invest no less than EUR 10 million in manufacturing, of which no less than EUR 1 million must be invested during the first year. The law does not stipulate any investment threshold for the residents of technological Special Economic Zones.

The law stipulates an interdiction of certain types of activities within SEZ: metallurgy, extraction, and beneficiation of mineral resources, production, and assembly of excisable goods with the exception of motorbikes and cars.

Foreign investors are particularly interested in Special Economic Zones established in Russia. Furthermore, they propose to minimize restrictions on the access of foreign capital to SEZ.

The tender commission selected successful participants after the consideration and assessment of each project on the basis of supplied documentation. Seventy-two applications were sent to the tender, of which 29 were for the establishment of technological-innovative SEZs and 43 were for industrial production SEZs. They will operate in Zelenograd (microelectronics), Dubna, Moskovskaya Oblast (nuclear technologies and technologies related to modern physics), Saint Petersburg (development of information technologies), and Tomsk (new materials). Two projects were selected out of 43 applications for the establishment of industrial production zones: the production of household electric appliances and, possibly, furniture in Lipetskaya Oblast and the production of spare parts for the automotive industry, and high-tech petrochemical products in the city of Yelabuga in Tatarstan.

SEZ specialization was expanded recently. Amendments to the law concerning Special Economic Zones that were adopted on June 3, 2006 provide for the establishment of a new SEZ type – tourist and recreational. A resident of a tourist and recreational SEZ may engage only in tourist and recreational activities subject to terms and conditions stipulated in the relevant agreement. These activities involve construction, refurbishment, and operations in the tourism industry, sanatorium and spa treatment, medical rehabilitation, recreation facilities, as well as tourist activity and activity that involves the development of mineral water deposits, therapeutic mud fields, and other natural therapeutic resources.





The tender for the establishment of tourist and recreational SEZs was announced on September 15, 2006. Preliminary results will be available soon.

Investment Fund. The 2006 budget will have one more recipient of budget funds — the Investment Fund. Pursuant to the draft budget prepared by the Government of the Russian Federation, the Investment Fund was set at RUB 69.7 billion (RUB 110.6 billion in 2007 and RUB 104.3 billion in 2008). The amount may not seem particularly high in comparison with other government investments allocated for the federal target programs (approximately, RUB 400 billion). However, Minister of Economic Development and Trade German Gref, who proposed to establish the Fund, believes that implementation of the national-scale projects financed from the Fund will provide for the annual GDP growth of 0.4–0.5%. Pursuant to the Minister's concept, the government investment should help the private capital which does not want to invest in long-term projects to overcome the fear of economic disruptions and political unpredictability. The focus is made on public-private partnerships; the Investment Fund will be used to finance projects where the share of mobilized private capital will be no less than 25% of the total project cost.

Naturally, there may be projects where private companies will seek to invest half of the project cost or even more. However, the matter at hand is the branches in which the private sector has been reluctant to invest in so far. The Investment Fund will be used for development of the following infrastructures: construction of utilities, roads, airports, sea and river ports, etc. Realization of such projects jointly with the private sector is such

a high priority for the government that it will be prepared to allocate the required funds. If private investors mobilize loans for implementation of such projects, the government will guarantee their obligations to credit organizations. The Regulations on the Investment Fund read: "Government guarantees are extended, amongst others, to borrowers in favor of credit organizations, credit organizations with foreign investment included."

The government mobilizes funds to pay for its shares in the projects from two sources: the budget windfall from high oil prices and the interest savings resulting from the ahead-of-schedule foreign debt repayment.

Regional entities of the Russian Federation and municipalities or private companies operating in Russia may initiate projects to be realized jointly with the government. Naturally, not all proposals will be good enough to receive budget financing. Firstly, there are restrictions with respect to the amount of funds that can be allocated and the deadline of project realization. These should be large-scale national projects worth no less than RUB 5 billion. The period for the provision of public support is not to exceed five years.

Additional criteria for the selection of investment projects have been set: the availability of a prospective private investor that has confirmed its preparedness to take part in the project, the compliance of a project with the priorities of Russia's socioeconomic development and the industrial development strategy, as well as project's financial, budget, and economic efficiency.

In addition, initiators of such a project will have to substantiate the impossibility of its implementation without

the government's support and provide favorable opinion of the branch ministry and the investment advisor. Advisors will have to be chosen from among the reputed firms working over large-scale projects. The Commission headed by Minister German Gref will select projects which will be financed from the Investment Fund. The Commission will include all cabinet ministers, as well as representatives of the State Duma, the Federation Council, and Government staff.

Guarantee of Foreign Investment in Russia

Despite the aforementioned difficulties of the transition period, the generally favorable development of the Russian economy and the establishment of a rule-of-law state provided for the assignment of a high investment rating to Russia. Based on the specific indicators of legal security of all business entities, Moody's and S&P rating agencies concluded the evolvement of a favorable investment climate in Russia. It has been achieved primarily due to a high level of political stability. However, the general state of economy and the government policy of economic development also play a pivotal role in this context.

Improvement of the legal system is an essential condition for raising the investment attractiveness of a country. The investment procedure in Russia is regulated both by the national as well as international legal standards ensuring the safety and operations of investment and the establishment of appropriate safeguards at all levels.

The government promotes investors' participation in privatization of public property in Russia. Mandatory licens-



ing is required only for privatization of hi-tech manufacturing facilities and defense plants undergoing conversion and enterprises of the fuel and energy complex. The set of national security measures provides for such restrictions as the interdiction to foreign investors to privatize certain entities, the establishment of a ceiling for their shares in the authorized capital of a joint-stock company for up to three years, and preservation in the public ownership of the block of shares entitling to veto or give the decisive vote.

The federal law “On Foreign Investment in the Russian Federation” adopted in 1999 regulates the terms and conditions of investment and the guarantees thereof. Article 3 of the law stipulates that foreign investments in Russia are regulated by Russian laws and legal acts, as well as by international agreements.

The effective legislation provides full-fledged and unconditional legal safeguards to foreign investors. It also provides guarantees against forced property confiscation or the illegal actions of government agencies and officials, and it assumes that compensation should be paid in the amount of inflicted damage, missed interest included.

Thus, Article 8 of the law reads “foreign investments in the Russian Federation are not subject to the confiscation, nationalization, and requisition included...” except as stipulated in the law of the Russian Federation or its international agreements. At the same time, the legislation has a provision that in the event of nationalization or requisition, which should be of nondiscriminatory nature, the foreign investor is entitled

to receive compensation in the same currency as the investment was made and in accordance with its current value.

Conclusion of the bilateral intergovernmental agreements on promoting capital investments and the mutual protection thereof is one of the effective forms of providing guarantees to foreign investors. The legal relevance of such agreements is based on the superiority of international law over national law which is amended following international standards during the economic restructuring. The Constitution of the Russian Federation stipulates that “if an international agreement of the Russian Federation establishes rules other than established in its law, the rules

of such international agreement shall apply.”

From the viewpoint of international investment law, the procedure regulating access of foreign investment has primary significance for the legal regulation of foreign capital investment. Notably, it is inseparable from the issue of safeguarding investment because the access procedure, particularly, establishes a legal basis for the successful completion of a foreign investment project in a given country. It is common knowledge that the essence of legal relations in the foreign investment sphere includes the establishment of essential conditions and guarantees to investors through the development of appropriate legal provisions regulating investment.





The bilateral agreements concluded by the Russian Federation with other countries on the promotion and mutual safeguards of capital investment establish transparent and enforceable rules ensuring and promoting access of foreign investment to a recipient country. The definition of a general legal regime has a prominent position within such rules, for a clear-cut description of the general legal regime is essential for the establishment of a favorable investment climate in any given country.

It should be mentioned that in addition to the most favored nation clause, the Russian Federation undertook to provide the national regime to foreign investors, also viewed in industrialized countries as a basic requirement for investment activities. Where such a regime is granted with respect to foreign capital investment, domestic and foreign entrepreneurs enjoy equal rights at the domestic market with some exceptions. In most cases the domestic laws, and not the laws of the country of origin, regulate an investors' right in a host country. In this context the regime granted to foreign investment may not be less favorable than the regime granted to Russian investors.

Russia has reserved the right to make exemptions from the national regime in such industries and activities as power generation, production of uranium, other fissionable materials, and the products thereof, ownership rights on land, use of subsoil assets and natural resources, ownership rights on real estate entities, and performance of the transactions therewith, etc. The international investment law allows also for the restrictions which are enforced pursuant to public health and environmental requirements. The law on foreign investment in the Russian Federation includes a similar provision.

Guarantee of the repatriation of foreign investor's receipts is an essential element of legal safeguards for foreign investments. The law on foreign investment (Article 8) stipulates that "property of a foreign investor or business entity with foreign investment shall not be subject to confiscation including nationalization and requisition, with the exception of events and reasons as established by federal law or international agreement of the Russian Federation." It also reads, "In the event of nationalization, the cost of the nationalized property and other losses shall be compensated to a foreign investor or a business entity."

The ownership right is one of the basic economic rights granted to individuals in the context of civil relations and, concurrently, it is a legal form for the fixation of property to individuals. Due to such reasons, legislative guarantees of the ownership right, foreign investors' rights included, is a prerequisite not only for stable development of market-driven relations, but for democratic transformations in general.

Legal protection of the foregoing right in Russia is guaranteed pursuant to the principles and standards of international law and the Constitution of the Russian Federation. The aforementioned constitutional and international provisions have been developed further in the Russian civil legislation and judicial practice.

The Russian judicial practice relies on standards established in resolutions of the European Court of Human Rights. The protection of ownership rights and the provision of guarantees to owners is an essential function of the judiciary in the Russian Federation. The principles of universality and absence of discrimination prevail amongst the general principles

of international law. They presume the inadmissibility of discrimination of the persons that own, use, and dispose of property based on race, nationality, ethnic origin, color of skin, gender, political, social and religious adherence.

Laws adopted in regional entities of the Russian Federation stipulate foreign investors' rights and the guarantees extended to them. With a view to mobilize higher amounts of foreign capital, regional entities establish preferences pertaining, among others, to taxation.

Risk Insurance

Insurance of political risks is a prerequisite of foreign direct investment. If one takes into account the specifics of such insurance it will become evident that only the insurance companies independent of the country where the investments have been made are capable of providing such type of insurance. Furthermore, such a company should not specialize exceptionally in the risks associated with the Russian market: its operations must include several countries.

The insurance system for such types of risks evolved long before. Both specialized public agencies, as well as private insurance companies provide the investment insurance. The OPIC (Overseas Private Investment Corporation) is a US insurer of investments to developing countries.

A similar agency, the ECGD (Export Credits Guarantee Department), operates in the UK. Among European insurers operating at the investment insurance market, there is Coface of France (together with Unistrat which is part and parcel of the same group), Euler Hermes of Germany, as well as Gerling NCM. The said companies



have begun to provide insurance of the Russian risks.

Notably, the OPIC will sign an insurance agreement and provide guarantees only with respect to projects in the countries which have signed agreements on OPIC programs with the US government. The Agreement of 1992 between the United States of America and the Russian Federation is one of such agreements. The Ministry of Foreign Economic Relations and the Overseas Private Investment Corporation signed the agreement on principles of their cooperation on September 27, 1994. In particular, the agreement reads: "The Ministry and the OPIC will cooperate to develop programs establishing incentives for the investment and the related activities in Russia; to identify enterprises and projects in Russia that would benefit from the financing programs and political risk insurance provided by the Overseas Private Investment Corporation."

In 2003 the ECGD provided a guarantee to Aeroflot for export credit in the amount of US\$24 million under the contract between the Russian aviation company and Airbus for acquisition of 21 A-320 airplanes. In 2005 the ECGD was the underwriter in the transaction between Motorola of Sweden and MTS of Russia for provision of mobile communication equipment in the amount of US\$28 million to Russia. Experts noted that it was for the first time that the ECGD insured the Russian company's risk all by itself and did not require any third party's guarantee, e.g. of a Russian bank.

As far as the Euler Hermes group is concerned, it provided insurance for export credits in 2002 under the agreement signed by MENATEP SPb bank and Bankgesellschaft Berlin AG credit organization. The agreement

dealt with cooperation in the sphere of long-term credits for development of trade between Russia and Germany. Euler Hermes was the guarantor of the credit agreement for the term of seven years in the amount of EUR 5.5 million between MDM-Bank and Bayerische Landesbank Girozentrale bank. The credit was used to finance the contract between Deutsche Voest-Alpine Industrieanlagenbau and Nizhnetagil'skiy Integrated Iron-and-steel Works (NTMK) for construction of an installation reducing the sulphur content in cast iron. The said contract is the first stage of the project for construction of a continuous casting plant and 160-ton ladle furnace at NTMK.

On July 8, 2004 the Euler Hermes group signed an agreement with ROSNO Russian insurance company on cooperation in the sphere of credit risk insurance in Russia. Pursuant to the agreement, ROSNO, among other activities, will reinsure at Euler Hermes the credit risks arising from the purchase of goods and services with delayed payment by Russian enterprises. Obligatory insurance is provided versus the default risk.

Another Russian company Ingosstrakh and Gerling group signed an agreement on cooperation for development of the credit-insurance market in Russia. An insurance policy for the export credits received by Russian companies was developed at the initial stage which was completed successfully. In this case, the medium- and long-term objectives of Russian-German cooperation is to develop an effective know-how with respect to credit underwriting, debt collection, and loss prevention in Russia. Thus, Ingosstrakh and Gerling will seek to meet the constantly growing needs in the insurance of Russian credit risks and to insure export shipments to this country.

Western companies operating in Russia often insure political risks related to the possibility of nationalization or expropriation of their property. The foregoing practice was introduced by major international corporations which accessed the Russian market in the beginning of the 1990s. They made a rule of insuring risks related to government policy changes then and have done so ever since.

Support of Business Activities

Taken only by itself, reduction of the inflation rate and interest rates is not sufficient to ensure an investment growth. Investors avoid committing capital to the non-restructured enterprises for the reasons of relatively high risks and virtual impossibility to assess the associated risks adequately (financial opaqueness, liquidity, and investment activities of a company).

The whole range of reforms is required to improve the situation, among them:

- Establishment of conditions for a market-driven appraisal of company's assets
- Further improvement of the legal base with a view to mobilize foreign investment
- Much broader use of public-private partnership arrangements for financing investment projects.

Establishment of a support system for investment projects in Russia may be viewed as one of the major actions for attraction of foreign investment in Russia. In this chapter we shall describe organizations conducting similar activities in Russia.



Foreign Investment Advisory Council

The Foreign Investment Advisory Council (FIAC) is an effective government policy vehicle for mobilization of foreign investment. Currently, the Chairman of the Government of the Russian Federation is the FIAC head. Several federal ministries and agencies, primarily economic, take part in its operations from the Russian side. The Ministry of Economic Development and Trade of the Russian Federation has been charged with coordination of the FIAC and its working groups' operations.

The FIAC has succeeded in setting up an effective dialogue between the Government of the Russian Federation, ministries, and agencies with major international companies which made capital investments to the Russian economy. Cooperating with government representatives in the working groups, the FIAC members prepared recommendations on improvement of the effective legislation during the past ten years.

The FIAC relies on the operations experience of companies conducting business in different countries, which take into account specifics of the markets. During the initial years, it was essential for Russia to use its vast international experience, which was particularly important because of the restructuring of the centrally planned governance system. In effect, the FIAC was one of the vehicles for restructuring the Russian economy and a relevant factor of economic transformations rather than a mere channel for bringing capital investments to this country.

Foreign participants of the FIAC rotate periodically. Currently it includes 27 foreign companies and banks making large-scale investment to the Russian economy.

The FIAC Standing Committee was established in 1995. Its objectives include coordination of the activities of federal executive agencies for implementation of FIAC resolutions, conducting FIAC operations in-between the annual sessions, as well as preparation of proposals for consideration by the Government of the Russian Federation.

Standing Committee members from the Russian side are the Government Staff, Ministry of Economic Development and Trade, Ministry of Foreign Affairs, Ministry of Finance, Ministry of Justice, Ministry of Education and Science, Ministry of Natural Resources, Ministry of Industry and Energy, Federal Tax Service, Federal Customs Service, Federal Financial Markets Service, Supreme Arbitration Court, and Bank of Russia. Foreign participants are represented by company members and the EBRD.

The Standing Committee reviews such issues during its meetings as implementation of the proposals made at FIAC sessions with the objective of attracting foreign investors to the Russian economy, Russian securities market, as well as the rotation of FIAC members and organization of its working groups' work.

The working groups which include representatives of federal and regional agencies and foreign investors are an essential part of the FIAC mechanism. The working groups review such issues as improvement of the tax legislation and economic conditions for foreign investors in Russia.

The following working groups operate within the FIAC currently:

- State Regulation
- Tax & Accounting
- Financial Institutions & Capital Markets
- Industry, Construction, and High Tech
- Natural Resources
- Food & Agriculture
- Image of Russia.

The main form of FIAC operations is conducting a direct dialogue between the Government of the Russian Federation and foreign companies and banks — members of the FIAC on the issues related to establishment of a favorable investment climate in Russia and mobilization of foreign investment to the Russian economy.

FIAC sessions adopt communiqués on implementation of its previous decisions and recommendations with respect to the main directions of its operations until the next session.

American Chamber of Commerce in Russia

The American Chamber of Commerce in Russia (AmCham) plays a notable role in the providing of valid information about investment opportunities. It was established in the US at the beginning of 1994 as a nongovernmental nonprofit organization of US companies conducting business in Russia. It was accredited at the Chamber of Commerce of the Russian Federation in January 1994. The AmCham has two large offices in Russia, in Moscow (central office) and Saint Petersburg, uniting more than 500 companies which account for more than 90% of the Russian-US trade and US investment in Russia.



The AmCham is open for accession by non-US companies — several large European, Japanese, as well as Russian companies have become its associated members.

The main objective of AmCham is to promote favorable conditions for commercial, industrial, and investment cooperation between US businesspeople and their Russian counterparts.

Investor Protection Association

The Investor Protection Association (IPA) is a nonprofit organization established in April 2000. The IPA includes approximately 30 major Russian and foreign investors with the total investment above US\$20 billion (as of May 2005).

Pursuant to the Charter, the IPA has the following agencies: the Council of Association (general assembly

of the IPA members) which is the IPA supreme agency; the Board of Directors (IPA plural executive), which directs its activities in between the Councils of Association; and the Executive Director (IPA sole executive), vested with executive functions by the Council of Association. As of this year, the IPA cooperates with major investment institutions, such as Morgan Stanley, Goldman Sachs, and State Street Global Advisors in organizing joint support to BOD candidates.

The IPA provides assistance to its members in the following areas.

- Expert Advice
- Representation of IPA members' interests in legal conflicts
- Representation of the joint position in government agencies
- Promotion of the joint position in public opinion
- Network opportunities and IT support.

The main directions of IPA activities to safeguard investors' right include the following:

- Monitoring of corporate governance
- Conflict resolution in the sphere of investors' rights
- Promotion of the best corporate governance practices
- Support of investors' candidates to the BOD of Russian issuers
- Promotion of the proposals for improvement and clarification of the laws regulating corporate governance and the securities market
- Taking part in international projects on the corporate governance in Russia.

The IPA provides support to shareholders and investors through its working groups – IPA agencies set up on a voluntary basis in order to implement projects in accordance with the Charter which operate pursuant to respective regulations and bylaws.





Association of European Businesses

The Association of European Businesses (AEB) is a nonprofit organization of European companies and entrepreneurs dealing with Russian companies and operating in the Russian market. It has represented European business interests in Russia and promoted European companies in Russia since 1995.

The AEB is a forum for exchange of professional information and experts' estimates, as well as for the establishment of priorities by European investors.

In representing European business interests, the AEB, acting through its committees and working groups, sets the priorities of European investors in the business sphere and legislation, resolves current issues, and takes part in consideration of the long-term implications of draft laws through cooperation with EU officials, Russian politicians, and businesspeople. The AEB facilitates business-to-business communication between its members, organizes social events, EuroParties included, held alternatively by the embassies of the EU countries, and gives its members access to the database.

National League of Management Companies Nonprofit Partnership

The National League of Management Companies (NLU) is a self-regulating organization uniting, on a voluntary basis, management companies of unit investment trusts and investment funds, management companies dealing with pension savings and securities, as well as investment funds proper.

The main NLU objectives include the following:

- Development of the legislation and improvement of the regulatory system for investment funds, management companies of investment funds, and unit investment trusts, as well as companies managing securities, assets of private pension funds (PPFs), and insurance companies
- Representation of investment funds, management companies of investment funds and unit investment trusts, companies managing securities, assets of PPFs and insurance companies in their relations with government agencies and third parties.

In accordance with its Charter, NLU conducts the following activities:

- Presentation of proposals on improvement of the legislation of the Russian Federation pertaining to securities and collective investment to the FFMS or other government agencies with the regulatory and control functions over the securities market, as well as review of law-enforcement practices with respect to the laws of the Russian Federation on securities and investment funds
- Support of government agencies at different levels in conducting expert reviews; the development of standards, methods, programs, and draft legal acts
- Studies of the best practices of Russian and foreign participants in the securities market and collective investment and promotion of their implementation
- Preparation and publication of guidebooks, advertising materials, publication of scientific work,

lectures, as well as materials on different aspects of NLU operations.

ROTOBO (Japanese Association for Trade with Russia and Eastern Europe)

The Japanese Association for Trade with Russia and Eastern Europe was established at the initiative of Japan's business community. It enjoys the status of a "legal entity serving public needs." ROTOBO has 190 members, among which there are trading companies (major retail companies called *sogoshosha* and smaller specialized trading firms), manufacturers, banks, insurance companies, industrial associations, transportation and shipping companies, as well as local authorities. ROTOBO is the only organization in Japan promoting the development of trade and business cooperation between Japanese companies and their counterparts from cooperating countries, Russia and the FSU countries included.

It is highly probable that the total number of ROTOBO members will increase in the near future. After President Putin's visit to Japan in November 2005, Japan's business community developed interest towards large-scale investment projects in Russia. Japanese companies focus on construction of the pipeline *East Siberia – the Pacific* and development of energy resources in Siberia and the Far East. Following Toyota's decision to build an auto plant near Saint Petersburg, Japanese companies have begun to explore the feasibility of manufacturing auto parts, consumer electronics, and consumer goods in Russia.



Russian-Chinese Business Center

The Russian-Chinese Business Center establishes a forum for exchange of opinion and business cooperation between experts and managers of service and manufacturing companies of the Russian Federation and the People's Republic of China. The Center holds seminars on topical issues with the participation of Chinese and Russian experts, consultations, conferences, and exhibits.

The Center safeguards interests of the business community in general and, particularly, those of its member-companies. The Center lobbies for its members' interests in the government agencies which impact their operations, sets up favorable conditions for business development, promotes continuous information exchange between the Business Center members, unites businesspeople to raise efficiency and reduce costs in such spheres as market communication, advertising, advisory, and legal services. Association with the Business Center is open for all Chinese and Russian companies, Sino-Russian joint ventures, and companies with different ownership structures.

The Business Center provides support in

- Promotion of Chinese goods and services in the Russian market
- Promotion of Russian goods and services in the Chinese market
- Placement of advertising in Russian and Chinese mass media
- Search for and selection of potential Russian business partners at the request of Chinese companies

- Establishment of contacts with government agencies of the Russian Federation
- Registration of companies, representative offices, opening of shops and maintenance of their financial and business activities
- Purchase of real estate
- Organization of workshops, presentations, anniversaries, and conferences.

Evidently, we have listed far from all the organizations providing advisory services to foreign investors. There are different business associations in Russia. The Russian Union of Industrialists and Entrepreneurs includes mostly large companies. Medium-size companies have set up the *Delovaia Rossia* business association. Small-size companies are associated with OPOra — an all-Russian nongovernmental association of small- and medium-size companies. Bankers have their own professional associations, e.g. the Association of Russian Banks (ARB) and the Association of Russian Regional Banks (Rossia), while managers have the Russian Managers' Association, similar to other professions, such as chemists, oil engineers and oilmen, metallurgists, etc. The forementioned organizations support foreign investors. Please see their e-mail addresses at end of this publication.

Success Stories

We can see examples of successful foreign investments in different sectors of the Russian economy. In the Russian automotive industry are such giants as Toyota and BMW. The most noticeable companies in the food processing industry are Danone, Nestlé, and Cadbury. Such producers of

electronics and office and home appliances as Siemens, Hewlett-Packard, and Merloni have been in the Russian market for a long time. Tikkurila and Knauf have become very popular in the construction market. Citibank, Société Generale, and Ernst & Young have been very active in the banking and advisory services market. The aircraft designer holding Sukhoi is implementing a large-scale project in cooperation with French investors.

Although all these companies represent different industries, they have certain common traits of market behavior. First of all, it is their long-term interest in the Russian economy and, therefore, their commitment to fair competition and commercially viable investment projects in Russia. It is remarkable that the personnel of these companies is mostly Russian. Almost all businesspeople that come to the Russian market take into consideration the size of the country; their activities in Russia are not concentrated in large cities only, but are arranged as a regional network. They pay attention not only to the technical and technological aspects of their work, but also to the social ones. Companies develop and implement their own sponsorship programs to support schools, theaters, museums, and other objects of cultural infrastructure.

Below you can find more detailed information on the work of some foreign companies in Russia.

Toyota

The Japanese automotive giant came to the Russian market at the beginning of the 1990s, when it opened its first official dealer firms here. In 1998 Toyota Motor Corporation opened a representative office in Moscow in order to study the situation in the



Russian market and ensure growth of sales in the major Russian regions. In 2002 Toyota Motor Ltd., a national marketing and sales company, began its work in Russia, and in 2005 it began construction of its own plant in Russia (the Shushara plant near St. Petersburg). The plant will be assembling one of the most popular models in Russia — Camry. The first batch of cars is expected in December 2007.

Russian President Vladimir Putin participated in the ceremonial event of laying the first brick in the foundation of the new Toyota Motor plant. After the Russian government approved and adopted the mid-term strategy of the development of the automotive industry, Toyota became the first foreign company to announce such a large-scale production project in the Russian market.

It must be noted, that the Russian project of Toyota Motor was among the most anticipated ones. In expert opinion, the construction of the Toyota plant in Russia is connected with government policy in the automotive sector. Active use of foreign investment is viewed as a stimulus for developing the Russian automotive industry. The Toyota investment project will help achieve two goals: ensure a high employment level and implement new technologies in the industry. As the Toyota Chairman Hiroshi Okuda points out, “The interest of Japanese car-makers in the Russian economy keeps growing. Along with building a Toyota assembly plant, other Japanese companies are going to implement their projects in Russia as well in the near future.”

BMW

In 1999, the German corporation BMW realized that it had to start assembling its cars in Russia, and it founded the company BMW Rusland Trading, a representation of BMW in Russia. In October 1999 the Autotor company, partner of BMW Rusland Trading, began assembling BMW vehicles at its plants in Kaliningrad. Autotor implemented the BMW quality control system and corporate standards at all production stages, from the receipt of component parts to the sales stage. Significant effort and funds were invested in the training of both management and per-

sonnel. In March 2001 Autotor was awarded a prestigious ISO 9002 Quality Management certificate. The certificate was issued by the German company TUV Management Service GmbH, a recognized expert in the sphere of quality assurance and world-wide corporate certification.

Today, the 3-series BMW has become the leader of sales in the Russian market among all BMW vehicles, as well as the leader in its segment. The 5-series car sales are also demonstrating growth in Russia, leading the business class sedan segment for the second consecutive year. All cars assembled in





Russia are adapted for our conditions, i.e. they are equipped with a special package for bad roads, which includes about 60 variations of the standard European design. "We generally believe in the importance of producing cars directly in the country where we are going to sell them," says Christian Kremer, Head of BMW Rusland Trading. "This helps us closely to follow the changes in the local market and provides us with a significant marketing advantage."

The BMW assembly plant in Kaliningrad constantly increases its production volumes. The production capacity of the plant gives room for further growth of up to 15 thousand vehicles per year.

Citibank

ZAO CB Citibank, a subsidiary of Citigroup, began working in Russia in 1993, among the first generation of the Russian banks with foreign capital. Today, Citibank is a leading financial institution with 420 employees in Moscow and St.Petersburg providing services to over 1,700 corporate clients. Citibank is a player at the Moscow Interbank Currency Exchange (MICEX), a settlement agent of VISA International and American Express in Russia, and one of the largest depositaries in the Russian market.

Citibank clients include giants of the Russian economy, subsidiaries of the largest world corporations, and leading banks. Citibank offers a wide range of banking services: from crediting, e-banking, trade financing, and currency exchange transactions to derivative financial instruments, hedging transactions, leasing, and depositary services. An important factor of providing high-quality ser-

vices is the system of relationship managers supervising each account. Relationship managers liaise with the Citibank corporate clients and offer a personal solution to most complicated issues.

Practically anyone can open an account with Citibank. To do this you need to provide the information on the source of funds or information from your employer, which is a generally accepted international practice. The bank is planning to enhance its presence in the Russian market, and is prepared for tough competition for the client. Mark Robinson, Citibank President, says, "Russia is like the other big markets in which we work. But there is one significant difference: the Russian market is developing much faster. This means that we also have to be moving faster here." Citibank's active work helps develop a healthy banking and finance system in Russia, demonstrates its openness, and the Russian government's intention to apply modern methods of managing the financial services market.

RRJ Project

An example of successful cooperation of Russian entrepreneurs and foreign investors is the Russian Regional Jet (RRJ) project which is being developed by Sukhoi Civil Aviation (SCA) together with Ilyushin Aviation Complex (AC), Yakovlev Aircraft Design Bureau, and Boeing Corporation. "SCA's proposal to join a very serious regional jet project was interesting to us," says Sergey Kravchenko, President of Boeing-Russia/CIS. "It is very attractive from the commercial viewpoint. If this project is a success, it will be very profitable for us."

In March 2003 the RRJ project won the government tender for designing a regional jet, which was held by Rosaviakosmos. RRJ is to become the first Russian aircraft fully designed based on computer technologies. The aircraft will be equipped with an engine capable for both regional and long-distance flights.

The work on a new generation engine, the heart of the project, began a few years ago. The engine is being developed on a joint venture basis by the French Snecma and the Russian firm Saturn, which signed the joint venture agreement in August 2001. The French partners supply a number of the engine components: the gas generator, gear box, and the electronic navigation system FADEC. The Russian partners' responsibility is the low pressure turbine and the fan. All tests and the final assembly will be done in Russia, and then the engine will be simultaneously certified in Russia and in Europe.

Danone

The Danone Group is an international corporation, a leading producer of dairy products, biscuits, and bottled water. In the early 1990s, Danone became active in the Russian market.





Fermented milk products have always been popular and in great demand in Russia. Therefore, the first Danone store that opened in Moscow on August 14, 1992 became popular very quickly. In 1994, the Danone Group bought the controlling stake of the Bolshevik company, one of the oldest Russian confectionery plants with the production capacity of about 30 thousand tons per year. The growth of demand made the company face a new challenge — construction of a fresh dairy plant in Russia under the Danone brand. In May 1995 the first Danone dairy plant in Togliatti began producing Danone yogurt.

From October 1997 the worldwide Danone strategy focused on three main product lines: fresh dairy products and baby food, biscuits, and bottled water. In November 2000 Danone opened its second dairy products plant in Russia, in the Chekhov area of the Moscow region. Currently, the plant produces Danone yogurts and curds.

The Danone Group is planning to further develop its fermented products, increase investments in environment protection, invest in the agricultural sector, and continue to implement its social programs supporting sport and physical education in Russia, as well as other charity programs. “We arrange our work in every country so that it comprises both economic and social programs. There is no commercial success without social progress, and the other way round,” says Franck Riboud, Danone Group Chairman and CEO. The company will continue to create new work places, spend more on personnel training programs, and raise the living standards of its employees.

Tikkurila

Tikkurila is Europe’s major paint producer, with production facilities based in 13 countries of the world. To establish production facilities in Russia, Kraski Tikkurila constructed a high-tech plant in the town of Ramenskoye in the Moscow region. The equipment installed at the plant is now available only at a few plants across the globe and represents a revolutionary paint technology. A new brand Tikkolor is manufactured at the plant. This product fits into a wide assortment of Tikkurila paint products that are traditionally exported from Finland. Tikkurila offers a full range of high-quality paint materials designated for various uses for a wide range of consumers. The effective production of its materials is ensured by selecting raw materials accurately against the criterias of operational suitability and safety. “Owing to the great efforts of our deals and business partners as well as our own personnel,” says Janno Paju, Vice President of the company and Director of the Deco Vostok branch, “Tikkurila has become the most famous painting brand in Russia.”

Much attention in Tikkurila is traditionally given to environmental issues. A first step on this way was an ISO-9001 quality certificate obtained in 1991, which certified the highest safety requirements of its products. Tikkurila was the first holder of such a certificate among painting materials producers. Afterwards Tikkurila developed its own long-term environmental program.

Nestlé

Nestlé has been operating in the Russian market since 1995. This Swiss company, founded in 1866, owns such trademarks as Nesquik,

Necafé, Extreme, Maxibon, Maggi, KitKat, Perrier, Sanpellegrino, Vittel, and others. Its key production assets in Russia are Konditerskoye Obyedineniye Rossiya, Nestlé Zhukovskoye Morozhennoye, Altai, Kamskaya, Khladproduct (Krasnodar region), Vologodsky Zavod, Detskogo Pitaniya, and the Svyatoi Istochnik plant. The company manufactures beverages, ice cream, confectionery, infant food, and special food. The company gradually expands its production facilities in the Russian market and strives to become a recognized leader in a number of food industry sectors. This idea has been recently formulated by Hans Gueldenberg, Nestlé General Director for CIS, in the newspaper *Le Temps*: “Currently the Russian economy is growing. It is the right moment for us to consolidate our market stance in Russia.”

Siemens

Siemens has been operating in the Russian market since more than one and a half centuries ago. Siemens AG (Berlin and Munich) is a world leader in the field of electronics and electrical engineering. Over 423 thousand people work to develop and manufacture products, design and compose systems and equipment, and provide customer-tailored services. The company operates in such fields as information and communications, automation and control systems, energy, transportation, and medical and lighting technology.

In Russia the company has established its presence in thirty regions of the country, and is one of the leading suppliers of products, services, and integrated solutions for upgrading to the key industries of the Russian economy.



This company has traditionally been in more than just one of the regional markets. It has been a ground for developing and implementing state-of-the-art technologies and advanced solutions in the field of electrical engineering and electronics. In the 2004 financial year, the amount of the corporation's orders in Russia exceeded 1.25 billion euros, its turnover amounted to 1.2 billion euros, and the number of personnel was above 3.5 thousand people. It should be emphasized that Siemens' policies in the Russian market are based on localization of engineering, production, and services. After meeting Vladimir Putin in 2005, the corpora-

tion's head Klaus Kleinfeld said, "The Russian President assured me that Siemens is an important partner of Russian industry and that he supports our further investment in the Russian economy."

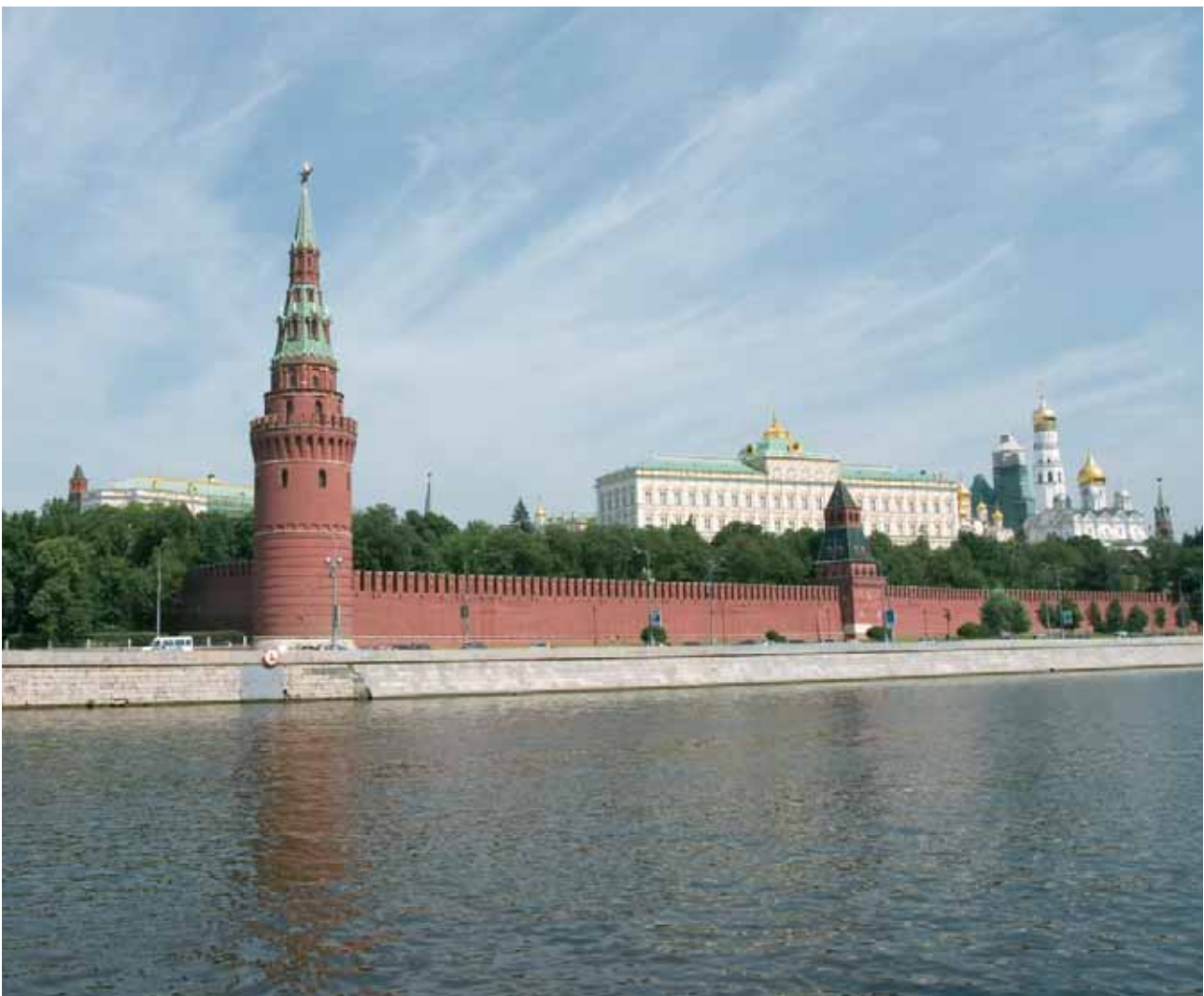
Hewlett-Packard

Hewlett-Packard regards Russia as one of its priority markets. Its operations in Russia are aimed at resolving four strategic objectives: the reinforcement of the company's stance as a supplier of corporate solutions, production diversification, the increase of regional presence and

implementation of specialized regional programs, and the reinforcement and expansion of the company's partner network.

To resolve the first task, the following initiatives are envisaged: promoting the adaptive enterprise concept and such advanced technologies as Itanium and UDC (Utility Data Center), specializing in vertical markets, establishing expertise centers for Hewlett-Packard technologies, and investing in developing market segments.

To expand its presence in the regions, Hewlett-Packard develops special regional programs for the promotion of its solutions and developing





new businesses. Such programs are primarily aimed at informing potential customers of the company's products and technologies. "We pay much attention to integration projects and the primary objective of our representatives is an increase of the share of the project business in the regions," Owen Camp, head of the Hewlett-Packard representative office in Russia, emphasizes. "Our ultimate objective is to support all our customers and all our partners locally."

Merloni

Operating results of Merloni Elettrodomestici in the Russian market is one example of effective cooperation of Italian investors with Russia. The company has been present in Russia since the late 1980s. In 2000 it purchased a plant that had been constructed during 1989-1993 on the territory of the Novolipetsky metallurgical complex.

To expand production in the Lipetsk region, an industrial area is being set up with the participation of both local and foreign suppliers of spare parts. In the coming years, it is intended to make significant investments in plant development, product improvement, and the extension of its product line.

The opening of a washing machine plant along with operating Stinol refrigerator production facilities in Lipetsk are to make Lipetsk Europe's largest area for the production of household appliances, with production totaling 2.5 million refrigerators and washing machines per year. At the same time, Lipetsk is a launching ground to implement the idea of Italian industrial areas in Russia. Two years ago Mr. Berlusconi, the former head of the Italian Government, applied to President Putin proposing to set up

industrial areas in Russia that would include plants operating in one industry on a small territory.

Merloni Elettrodomestici President Vittorio Merloni notes, "We were one of the first ones to believe in Russia and for the past 30 years, we have designed and constructed 15 plants across the country. And while Russia is actively building ties with European countries, we want to be one of the key partners for the country."

Knauf

Currently nine Knauf industrial enterprises, eight marketing firms, and an extensive network of training centers are operating in the territory of Russia. Today the company is a leader in the Russian construction industry and a major German investor in the construction industry in Russia. It produces high-quality goods from local raw materials using local professionals. Primary products of Knauf industrial enterprises are Knauf-boards (plasterboard) and Knauf-super boards (gypsum fibered plaster), Knauf-superfloor for dry finishing purposes, dry pack mortars based on gypsum and cement, Knauf-gypsum slabs (gypsum crest slabs), metal profiles, and polystyrene foam slabs.

Knauf's policies in the Russian market envisage production of modern superior construction materials for the Russian construction industry using Russian raw materials and engaging the Russian workforce. All top-level managers, including general directors of the companies, are Russian nationals. Construction materials of Russian entities of Knauf are used at all modern construction sites in Moscow and Russian regions. Interior finishing using Knauf plaster boards and spare parts produced in Russia can

be found in such prestigious Moscow properties as the shopping center in Manezhnaya ploshchad, Zolotye Klyuchi residential property, Kazansky railway station, Poklonnaya Gora Museum, and the Oktyabr multiplex with its 13 audience halls.

A sign of recognition of the firm's merits in the field of upgrading production facilities in Russia was the appointment of the firm's co-owner Mr. Nikolaus Knauf a Consul of Honor of Russia in Nurnberg (Germany) by the Russian Federation Ministry of Foreign Affairs. Dr. Heiner Gamm, the general director for Russia, told Moscow journalists, "I have always been pleased and am pleased to work in Russia. Here there are a lot of people who are mentally close to me, and we understand one another very well. Many business contacts have grown into friendship."

Cadbury

Cadbury Schweppes has been delivering its products to the Russian market since 1992. In 1995 it opened a representative office in Moscow and started construction of a Cadbury confectionery plant in the town of Chudovo of the Novgorod region.

The plant was commissioned in 1996. The amount of capital investments was US\$120 million. In 2002 Cadbury Schweppes acquired Dandy, a famous chewing gum producer (Dirol, Stimorol, and others), which, in its turn, had chewing gum production facilities in Veliky Novgorod. As a result of a merger of the two plants — Cadbury (chocolate production) and Dirol (chewing gum production) — and their distribution structures in August 2003, OOO Dirol Cadbury was established.



What People Are Saying

“Foreign direct investment in Russia increased by 40% in 2005, and FDI continues to grow. There is still significant opportunity and need for FDI. In order for Russia to develop the economy to its fullest and become a global leader, it will need to attract sufficient capital and FDI in a very competitive global economy. Russia recognizes the critical importance of FDI, which brings access to new technology, capital for growth, and opportunities to develop new markets. We have established a very constructive and open dialogue with the Russian government to support their efforts to establish Russia as a preferred investment alternative.”

James Turley,
Chairman and CEO of Ernst & Young Global;
Co-Chairman of the Foreign Investment
Advisory Council

“The Bush Administration regards successful development of Russian energy resources as one of the most important drivers in satisfying long-term energy demands and in ensuring the energy security of the USA and the rest of the world.”

Spencer Abraham,
US Energy Minister

“If you are looking for goldfields in the field of science and technology, pay attention to Russia.”

George Schultz,
Former US Secretary of State

“Currently the environment for doing foreign business has considerably improved in Russia. French businesspeople note that possibilities for working in the Russian market have been growing. We are optimistic about investments in Russia. Today France ranks fifth by the volume of investment in the Russian economy. One of the key areas of our partnership is aerospace; at the same time there are other areas for cooperation, such as banking, energy, and the automotive industry, which can be regarded as promising.”

Ernest-Antoine Seilliere,
MEDEF President

“Today’s Russian economy is fueled not only by the energy industry. Booming mobile communications is an excellent example of non-energy economy growth. Certainly, high energy prices contribute to an increase of foreign exchange reserve, however, there are also other attractive possibilities for investments.”

Wim-Hein Pals,
Director of Robeco Emerging Market Equities Fund



“What does Bavaria mean for the Russian economy today? The volume of trade of this largest German region with Russia is greater than the volume of our country’s trade with France and most European countries. More than half of German companies with active operations in the Moscow market come from Bavaria. And speaking about Russia on the whole, there are around three-thousand FRG firms, some of them have a 100% German capital, and some are joint venture of subsidiaries. One third of these firms are also of Bavarian origin. They are reputable companies producing here a wide range of various goods, products, and services. It should be said that Bavarian firms operate in a very wide geographical segment, and the amount of invested capital is also quite significant.”

Mikhail Logvinov,
Head of the representative office of the land of Bavaria in Moscow

“Companies which are successful in Russia generally do not start business from scratch. They cooperate with Russian partners and engage local staff. One should look at enterprises already operating in this market.”

Scott Knight,
Business advisor,
Partner of BDO Stoy Hayward

“If we are not able to enter the Russian market, we will not be among the leaders.”

Christophe de Margerie,
Vice President of Total

“Russia is a country of elite personnel: the ratio of highly qualified specialists in Russia is 7.1 per 100 people. In Germany this ratio is 7 per 100; in Brazil, it is 1 per 100. Russian engineers are outstanding specialists.”

Klaus Kleinfield,
Chief Managing Director, Siemens



Government Regulations

Ways of Entering the Russian Market

Foreign investors may do business in the Russian Federation by opening or participating in the capital of representative offices, branches, limited liability companies, and closed and open joint stock companies.

After obtaining a permit, a foreign investor's company is registered with the appropriate state authorities. The federal law "Concerning the State Registration of Legal Entities" went into force on July 1, 2002. Under this law, legal entities are now registered with local tax authorities.

The procedure for the state registration of legal entities has been greatly simplified, permitting a unification of two executive functions: state registration of legal entities and registration with the tax authorities. A "one window" principle also facilitates cooperation between registering bodies and state authorities whose functions include registering legal entities.

To this end, the law requires that a registering body provide information to the state authorities specified by the Government of the Russian Federation within five working days after state registration.

A **representative office** is a subdivision of a foreign company in a different location that represents and defends the foreign company's interests.

For a representative office to be recognized as such, the following condi-

tions must be met. First, the foreign company's activities must be regular, of an entrepreneurial nature, and have a place where they are carried out. Second, a person representing the interests of a foreign company in the Russian Federation must act on behalf of this foreign company and be authorized to conclude contracts.

The general procedure for accrediting representative offices in Russia is currently regulated by a decree of the State Standards Committee (now the Federal Agency for Technical Regulation and Metrology). According to this document, accreditation is a procedure resulting in the issuance of a certificate verifying that a representative office is competent to perform specific work. A legal feature of accreditation is that it may be either mandatory or voluntary.

The purpose of mandatory accreditation is official state verification that an activity meets established requirements and complies with normative-technical documentation. Certain types of activity require accreditation and are unlawful without it.

To obtain accreditation, professional audit associations must satisfy certain requirements: they must have at least 1,000 certified auditors on staff and/or at least 100 audit organizations meeting the charter requirements of this professional association.

Under Russian law, a representative office of a foreign credit institution is understood as an autonomous subdivision opened in Russia that has obtained a permit from the Bank of Russia. Such a representative office

organizes its work in accordance with Russian law and instructions of the Central Bank of the Russian Federation. Twice annually it reports on its activities to the Bank of Russia.

A **branch** is an autonomous subdivision of a legal entity that is located in a different place and performs all or part of the legal entity's functions, including those of a representative office. Representative offices and branches are not, however, legal entities. They are allotted property and act on the basis of statutes approved for them. Their directors are appointed by the legal entity and act on the basis of a power of attorney.

Even though **branches** and **representative offices** are considered autonomous subdivisions of a legal entity — its constituents — they cannot themselves be legal entities and do not have their own civil-law personality or capacity. As such, they do not participate in civil-law relations. The director of a branch or representative office acts as the legal entity's representative.

A branch is distinguished from a representative office by the volume and nature of its functions. If a foreign organization converts its branch or representative office into a legal entity, the latter ceases to be the subdivision of a legal entity. Accreditation of a branch is in practice similar to the accreditation of a representative office.

A foreign legal entity with a branch or representative office may bear direct property liability for obligations in connection with commercial activities



in Russia to the extent of the property transferred to its branches and representative offices. Branches are not independent entities in civil law relations but may participate in such relations on the same conditions as legal entities.

It follows that a branch or representative office will have the same legal capacity as the foreign legal entity that created it, as determined under the laws of the foreign state.

A Limited Liability Company (LLC) is considered established at the time of its state registration. This involves a standard notification procedure, which is simpler than a permit procedure. In the case of a standard notification procedure, the registering body may only check to verify that the foundation documents are in compliance with the law and is not authorized to determine the advisability of forming one or another legal entity. For credit institutions, however, registration involves obtaining a license to conduct the relevant activity. After registration, the company is entered in the Unified State Register.

Under Russian law, an LLC's highest body is the general meeting of its shareholders. An executive body accountable to the general meeting of shareholders is formed to manage the company's operations. A one-person management body may also be elected and not from among the shareholders.

The general meeting of an LLC's shareholders unites individuals and

legal entities that own shares in the company's charter capital. Through the general meeting of shareholders, the latter exercise their fundamental rights — above all, the right to participate in managing the company's affairs and distributing its profits.

An LLC's executive body is a permanent administrative body. Its tasks include material and organizational support for the activities of the general meeting of shareholders, implementing its decisions and organizing production, including labor management, accounting, etc.

A company's executive body may be one-person and/or collegial. In the case of a one-person body, the company's day-to-day operations are managed by a single person — the director or general director. Collegiality involves an executive body (management board or directorate) of two or more persons.

A person who is not a shareholder may be elected as the company's director. Only individuals may be members of a collegial executive body. The procedure by which an LLC's management board or directorate conducts activities and makes decisions is established by the company's charter and internal documents.

Under Russian law, if a company's founders violate the law during its establishment, and these violations are not eliminated, the court may revoke the company's registration.

A closed joint stock company (CJSC) must be registered within five working days after documents are submitted to the registering body. The number of a CJSC's shareholders may not exceed 50. If there are more, the company must be transformed into an open joint stock company within a year's time. If the number of shareholders is not reduced to the legally established maximum, the company is subject to court liquidation.

A joint stock company is a special organizational-legal form of a legal entity. A company is regarded as established at the time of its state registration. The legal form of a joint-stock company is attractive for entrepreneurs engaged in manufacturing, financial, and other types of activity. It allows joint stock companies, by issuing and placing additional shares, to involve a greater number of legal entities, individuals, and significant additional financial resources. Capital accumulated in this manner permits the creation of a real financial base for the development of joint stock companies, ensuring their competitiveness.

This feature of joint stock companies is an advantage over business entities with other organizational-legal forms, better enabling them to organize and successfully develop large-scale and especially large-scale production — and not only production. Joint stock companies are thus progressively winning those areas of production, finance, trade, etc., that require large and especially large investments.



An open joint stock company (OJSC) is the next most common organizational-legal form for business entities (after LLCs and CJSCs). The Civil Code of the Russian Federation distinguishes it from a CJSC as follows: “A joint stock company whose shareholders may alienate shares belonging to them without the consent of the other shareholders is an open joint stock company ... A joint stock company whose shares are distributed only among its founders or another group of persons determined in advance is a closed joint stock company.” Open joint stock companies are usually formed in order to raise maximum shareholder funds for entrepreneurial activities by putting shares into free circulation.

There are also significant differences in the procedure by which shareholders withdraw from a company. The shareholders of a CJSC enjoy the right of first purchase of shares sold by the company’s other shareholders at the price that would be offered to a third party, unless otherwise stipulated by the charter. A shareholder of a CJSC must follow a specific procedure in selling its shares. If the procedure is not observed, any share-

holder or the company itself is entitled to demand through the courts that the buyer’s rights and obligations be transferred to them. In an OJSC, on the other hand, it is prohibited for the company or its shareholders to have the right of first purchase of shares alienated by company shareholders.

There are additional differences. The size of an OJSC’s charter capital is 1,000 minimum wages (100 for a CJSC). The number of an OJSC’s shareholders is unlimited. If there is a change in the composition of shareholders (without any change in the total amount of charter capital or in the face value or quantity of shares), a CJSC must register such changes, while an OJSC need only record the change in its internal register of shareholders.

As for information disclosure, an OJSC must disclose its annual report, annual financial statements, issue prospectuses, notification of general meetings of shareholders and other information. In this connection, an OJSC must invite an independent auditor to perform an audit at the end of each business/financial year. A CJSC may be required to disclose information only in the case of a

public placement of bonds or other securities.

According to studies done by the World Bank, opening one’s own business in Russia involves twelve administrative procedures, takes an average of 29 days (if a license is not required), and costs approximately US\$200. Is this a little or a lot? By comparison with more developed market economies, it seems a lot, but the time and money involved in registering in Russia are not unreasonable and are affordable for any investor — small, medium, or large. Statistics show that investors already on the Russian market prefer to enter via OJSCs (49%) and representative offices (33%).

Foreign Economic Activity and Export Control

In the period from 1992 through 1995, Russia laid the foundations of a system of state regulation of foreign economic activity. Total state control of foreign economic relations was replaced by instruments and methods employed in countries with market economies. The state is pursuing well-defined goals that reflect its long-term interests: defense of economic sovereignty, promotion of economic security, stimulating the development of the national economy and the creation of conditions for Russia’s integration into the world economic system.

Foreign economic relations are often understood to mean foreign trade, i.e., international exchange, by means of exports or imports, of goods, work, services, information, and the fruits of intellectual labor. But there are types of foreign economic activity other than foreign trade, including international investment cooperation, international





production cooperation, international scientific and technical cooperation, and currency and credit operations. Foreign economic activity in Russia is regulated by the Constitution of the Russian Federation, the Customs Code which entered into force on January 1, 2004, the special federal law on the regulation of foreign economic activities, other federal laws and legal acts of the Russian Federation, regional legislation, and generally recognized principles and standards of international law and international agreements.

In the hierarchy of laws regulating foreign economic activity, international law prevails over Russian domestic legislation. The principles of international law regulating foreign economic activity include *fundamental, generally recognized principles* — the sovereign equality of states, cooperation, non-use of force and the threat of force, peaceful resolution of international disputes, general respect for human rights, conscientious fulfillment of international obligations, etc.; and *special principles of international economic law* — non-discrimination, most favored nation, national regime, mutual benefit, preferential regime, etc.

International agreements of the Russian Federation, as legal regulators of foreign economic activity, may be both multilateral (e.g., the Istanbul Convention on Temporary Admission of 1990, the Agreement on a Unified Goods Classification for Foreign Economic Activity in the Commonwealth of Independent States of 1995, etc.) and bilateral (e.g., the Trade Agreement between the Government of the Russian Federation and the Government of Ukraine of 1992, the Agreement between the Government of the Russian Federation and the

Government of the Republic of Tajikistan on a Unified Procedure for the Regulation of Foreign Economic Activity of 1997).

For purposes of integration into the world economy, Russia is a party to international agreements on customs unions and free trade zones based on the establishment of a unified customs territory without customs and tariff measures and on non-tariff trade regulation between member countries of these unions and countries engaging in activities in free trade zones.

A unified customs tariff is established for member countries of customs unions in trading with third parties, while countries engaging in activities in free trade zones retain national customs tariffs in trading with third parties.

Russia pursues a unified policy of export control dictated exclusively by national security concerns and the country's political, economic, and military interests. Goods, work, services, and the results of intellectual activity, including exclusive rights thereto, that are subject to export control, are exported in accordance with the procedure determined by the Government of the Russian Federation.

It should be noted that export control is an integral part of Russia's domestic and foreign policy. It is one of the principles on which the legal regulation of foreign economic activity is founded and a prevalent international practice. The export control procedure takes the following forms:

- Identification of goods and technologies subject to control, i.e., establishment of their correspondence to goods and technologies listed in the relevant article of the federal law "Concerning Export Control"

- Permit procedure for foreign economic operations with goods and technologies subject to control, involving licensing or another form of state regulation
- Customs control and customs clearance of exports from the Russian Federation of goods and technologies subject to control under the customs laws of the Russian Federation
- Currency control over foreign economic operations, including over the timely and full receipt of currency proceeds on accounts in authorized Russian banks
- The use of state coercion or sanctions against persons who violate the procedure for foreign economic activities established by federal laws and other regulatory legal acts of the Russian Federation in respect of goods and technologies that may be used to create weapons of mass destruction, the means of delivering them, other types of weapons and military technology, and persons who attempt to take such actions.

The Federal Customs Service of Russia (FCS) is charged with the main control and oversight functions in the customs area as well as the functions of currency control agent and the fight against contraband and other crimes in this area. It is subordinate to the Ministry for Economic Development and Trade and encompasses some 140 customs houses, over 500 customs posts and 130 international automobile checkpoints equipped with up-to-date technology. A concept of customs service operations has been developed, based on the universal principles of the World Customs Organization. The priority directions of customs administration are: advance information, electronic



declaration, a risk management system, simplified customs procedures, selectivity of customs control, customs audit methods, and a unified automated system of information gathering, storage and processing for all forms of state control.

For individuals, the realization of this concept will mean less time for customs clearance and reduced overhead costs in connection with border formalities. For business, it will mean a reduction in administrative costs and in the expenses and time involved in customs clearance. Unified customs documents will come into use, the cost of a trade operation will fall, and electronic trade will develop.

In September 2004 the Department for Cooperation with Business Circles was formed under the Customs Cooperation Administration of the Federal Customs Service. The department's main task is to establish contacts with those involved in foreign economic activities, promoting the flow of foreign investments into the Russian economy.

This department holds meetings, roundtables, and other events with top customs officials and representatives of business circles and takes part in drafting Federal Customs Service documents affecting the interests of the business community.

The Customs Service accounts for approximately 45% of budget revenues. Russia has several kinds of customs payments: import and export customs duties, value-added tax levied when goods are imported into Russia, excise duty, and customs levies. The amounts of customs payments are determined in accordance with the laws of the Russian Federation. In addition, special anti-

dumping and compensatory duties established by Russian laws concerning measures to protect economic interests are levied in accordance with the rules prescribed by the Customs Code.

Russian law also provides various customs and tariff benefits as exceptions from the general tax regime: exemptions from customs duties and levies (tariff benefits), a simplified procedure for admitting goods and personal items across the customs border or complete exemption from such procedures, and the right to import or export any items whose conveyance across the border is forbidden as a general rule.

By their legal nature, customs benefits are divided into conventional — based on an international agreement — and unilateral — established by a state unilaterally. For example, Russian customs-tariff preferences are permitted for goods originating in states that have formed a free trade zone or customs union with the Russian Federation as well as states that have signed agreements to create such a zone or union. Such preferences are also envisaged for goods from developing countries that use the Russian Federation's national system of preferences.

All customs benefits for goods are established by the law "Concerning the Customs Tariff" (law of the Russian Federation No. 5003-1 of May 21, 1993, as amended on August 22, 2004) and may not be of an individual nature, with the exception of cases stipulated in Articles 35-37 of this law. Tariff benefits established in Articles 35-37 may be used only if the appropriate decree of the Government of the Russian Federation is issued. Value-added tax benefits in connection with imports into the customs territory of

the Russian Federation are enjoyed on the basis of law No. 1992-1 of the Russian Federation "Concerning Value-Added Tax" of October 6, 1991 and the Customs Code. Russian law envisages no benefits for excise duties.

Article 35 of the law "Concerning the Customs Tariff" stipulates, among other things, that equipment and mechanisms imported into Russia using credits extended by foreign states under international agreements of the Russian Federation are exempt from customs duty. Article 37 allows tariff benefits for equipment and mechanisms imported into and/or exported from the customs territory temporarily under customs control. This applies to re-import, transit and re-export.

Moreover, in accordance with government decrees, goods exported as complete deliveries to be installed in the framework of investment cooperation abroad under intergovernmental agreements to which the Russian Federation is a party may be wholly exempted from customs duties. Benefits are also provided for goods imported into Russia as contributions to the charter funds of companies with foreign investments and foreign companies as well as for certain types of goods of own production exported by such companies in cases stipulated by production sharing agreements. Goods imported as a contribution to the charter capital of an organization with foreign investments are also exempt from customs duties.

In March 2005 the government decree "Concerning Amendments to the Customs Tariff in Respect of Automobile Parts Imported for Industrial Assembly" was adopted, permitting companies that have concluded investment agreements and are engaged in the industrial assem-



bly of automobiles to import parts into Russia duty-free or at a rate of 3% (instead of 15%). The maximum semi-knockdown period for such a project is 2.5 years. Then the investor must either manufacture parts locally or give up the import benefits. The Russian Ministry for Economic Development and Trade believes that this will make it profitable to use the semi-knockdown mode in the country and then to localize production — assembly, painting, production of parts. At the same time, import duty is retained for parts such as tires that are produced in Russia.

Investors' hopes for the near future are pinned on the planned elimination of customs duties for technological equipment that has no parallels in Russia. A commission of the Ministry for Economic Development and Trade is drawing up a list of equipment for which import duties are to be cancelled. Six-hundred seventy of the 1,200 types of equipment subject to import duties are involved. The document may enter into force on February 1, 2006 for a period of nine months.

Control and Oversight Bodies of the Russian Federation

As the Russian economy has liberalized since the beginning of the 1990s, there has been a progressive improvement in the state regulatory mechanism that controls and oversees structures and persons engaged in economic and business activity.

Moreover, as the market economy has developed in Russia, public control and oversight bodies have appeared. Federal laws have been adopted simplifying permit and

oversight procedures: “Concerning the Protection of the Rights of Legal Entities and Private Entrepreneurs in Connection with State Control (Oversight)” (August 8, 2001), “Concerning the State Registration of Legal Entities” (February 15, 2002), “Concerning the Licensing of Certain Types of Activities” (February 11, 2002), “Concerning Technical Regulation” (July 1, 2002).

The law “Concerning the Protection of the Rights of Legal Entities ...” quite clearly regulates the procedure for control and oversight measures, establishes the rights of legal entities, and prohibits their being charged for inspections.

In the absence of a special, legally established list of executive bodies vested with control and oversight functions, the fullest information is that given in the Administrative Offenses Code of the Russian Federation. A list of 51 divisions of the state apparatus includes:

1. Internal affairs (militia)
2. Tax authorities
3. Customs authorities
4. Federal labor inspectorate and state labor inspectorates
5. State sanitary and epidemiological services
6. Bodies responsible for state fire inspection
7. Bodies responsible for state veterinary oversight
8. Bodies responsible for state quarantine and phytosanitary control
9. Environmental protection services
10. Hydrometeorology and environmental monitoring bodies
11. Bodies of the Russian Transportation Inspectorate
12. Bodies authorized in the area of the securities market

13. Federal antimonopoly body and its territorial bodies

14. Bodies of the state inspectorate for trade, the quality of goods, and protection of consumer rights

15. Bodies responsible for state monitoring of price formation

16. Standardization, metrology, and certification bodies

17. Bodies responsible for state architecture and construction oversight

18. Currency control bodies

19. Bodies responsible for the state registration of legal entities

20. Veterinary control services.

Internal Affairs (Militia)

Conducts investigations and considers cases involving administrative and criminal offenses — for example, cases involving the use of narcotics without a doctor's prescription, petty theft, exceeding the speed limit, the use of force against officials empowered to take administrative and legal actions, residence of Russian citizens without citizenship identification (passport) or without registration, disorderly conduct, etc.





Tax Authorities

The tax authorities are responsible for organizing the system of monitoring compliance with tax law and the accurate calculation and full and timely payment of taxes and other compulsory payments established by the laws of the Russian Federation and republics forming part of the Russian Federation.

Customs Authorities

The main functions of the customs authorities include collecting taxes, customs duties, and customs levies that are classified as federal taxes and levies.

Federal Labor Inspectorate

The inspectorate's bodies:

- Oversee and monitor compliance with the laws of the Russian Federation concerning labor and labor safety in a given territory
- Investigate, in accordance with the established procedure, accidents in the workplace, analyze their causes and develop proposals for the prevention of such incidents
- Consider, in accordance with the laws of the Russian Federation, cases of administrative offenses
- Receive the public, consider petitions, complaints and other appeals by citizens concerning violations of their labor rights.

State oversight and monitoring of compliance with the laws of the Russian Federation concerning labor and labor safety are performed by state labor inspectors and other officials of the inspectorate, who are, among other things, entitled:

- To inspect and investigate the causes of violations of the laws of

the Russian Federation concerning labor and labor safety

- To request and obtain, without charge, documents, explanations and information necessary for the exercise of their powers from top managers and other officials of employers (or their representatives)
- To take administrative action against persons guilty of violating the laws of the Russian Federation concerning labor and labor safety
- To issue permits for the construction, reconstruction and technical reequipping of industrial facilities, production and implementation of new equipment and implementation of new technologies; in cases of preventive oversight for the purpose of avoiding project deviations that would worsen labor conditions or reduce safety, to issue conclusions on the possibility of putting new or reconstructed industrial facilities into service.

Moreover, decisions of state labor inspectors may be appealed to their respective superiors, to the chief state labor inspector of the Russian Federation and/or to the courts. Decisions of the chief state labor inspector may be appealed to the courts.

State Sanitary And Epidemiological Service

Another state body responsible for monitoring an employer's compliance with the requirements of labor safety is the State Sanitary and Epidemiological Service of the Russian Federation (Gossanepidemnadzor).

Under Russian law, state sanitary inspectors of the State Sanitary and

Epidemiological Service, in fulfillment of their official duties are entitled, for example:

- to obtain documentary information from companies on matters of sanitary and epidemiological welfare
- to conduct sanitary and epidemiological investigations
- to visit the territories and premises of sites subject to state sanitary and epidemiological oversight for purposes of checking companies' compliance with sanitation laws and taking sanitary and anti-epidemic (preventive) measures at these sites.

A detailed inspection procedure is established by regulatory acts of the State Sanitary and Epidemiological Service.

State Fire Service

Compliance with the requirements of fire safety is monitored by bodies of the State Fire Inspectorate, which forms part of the State Fire Service system of the Emergency Situations Ministry. Companies are inspected by State Fire Service inspectors to ensure that the requirements of fire safety are observed and prevent violations. If an administrative offense is discovered as a result of an inspection, the inspector draws up a protocol as prescribed by the laws of the Russian Federation concerning administrative offenses, and instructions are given on eliminating the violations. Inspections made by bodies of the State Fire Service can be divided into planned and unplanned. Planned inspections are further subdivided into detailed and routine inspections.



Public Control And Oversight Bodies

In addition to state control bodies, oversight of labor conditions and safety may be performed by public organizations that have the required authority. Public monitoring of compliance with the rights and lawful interests of employees in the area of labor safety may be performed by professional unions and other representative bodies that are entitled to form their own inspectorates for these purposes and to elect labor safety officials.

Authorized labor safety representatives are entitled to unobstructed access to enterprises, organizations, and institutions to check compliance with labor safety and make proposals for the elimination of violations, including time limits, which must be taken into consideration by officials.

Judicial System

Judicial Bodies

Judicial bodies in the Russian Federation are the Constitutional Court, the Supreme Court, the Supreme Arbitration Court, and courts of constituent entities of the Russian Federation. They vary in structure and relation to the federal structure and administrative and territorial division of the Russian Federation.

The Constitutional Court of the Russian Federation is a judicial body guided by the Constitution as well as by the federal constitutional law “Concerning the Constitutional Court of the Russian Federation.” It is made up of 19 judges and has no system of courts under its jurisdiction. At the request of the President of the Russian Federation, the

Federal Council, the State Duma, the Government, the Supreme Court, Supreme Arbitration Court, and the Constitutional Court decides issues as to whether one or another legislative act or specific decision is in agreement with the Constitution of the Russian Federation.

The Supreme Court of the Russian Federation is the highest judicial body to hear criminal, administrative, and civil cases in general jurisdiction. Its functions include supervising judicial activity and clarifying issues of general judicial practice. The Supreme Court stands at the head of a system of courts of general jurisdiction, including the supreme courts of the republics, territories, autonomous districts (okrug), oblasts, federal cities, and districts (rayon).

The Supreme Arbitration Court of the Russian Federation is the highest body to consider economic disputes and other cases heard by arbitration courts. The system of arbitration courts includes cassation and appellate courts as well as arbitration courts of constituent entities of the Russian Federation.

Judicial bodies administer justice by means of administrative, civil, criminal, and constitutional proceedings. Together they make up the judicial system. All courts are independent and subject only to the law.

Court rulings that have entered into legal force are mandatory for all state bodies, local government bodies, public associations, individuals and legal entities without exception and must be rigorously executed throughout the country. The degree to which the rulings of courts of foreign states and international courts and arbitration are binding in Russia is determined by the international agreements of the Russian Federation.

Proceedings in all Russian courts are open. Hearings may be closed only in cases stipulated by law. In Russian courts, judicial proceedings are held and records kept in Russian, but the state language of the republic in which a court is located may also be used. Persons who have not mastered the language of court proceedings are entitled to speak and give explanations in any language of communication that they choose as well as to use the services of a translator.

The courts ensure the resolution of disputes arising out of the activities of foreign investors in Russia. Here an important role is played by arbitration courts, including international. In concluding an agreement on investments, credits or trade cooperation, the parties stipulate the arbitration court that will consider disputes arising between them.

The Supreme Arbitration Court is the highest judicial instance for federal district arbitration courts and arbitration courts of constituent entities of the Russian Federation. This means that it can review any of their judicial acts. Its own judicial acts may not be reviewed by any court or other body. Only the Supreme Arbitration Court itself may review, on the basis of newly discovered facts, judicial acts that it has adopted and that have entered into legal force.

The procedure for judicial proceedings and jurisdiction of cases is determined for arbitration courts by federal laws — above all, by the Arbitration Procedure Code. According to the code, an arbitration court considers cases involving foreign companies, companies with foreign investments, international organizations, foreign citizens, and stateless persons who engage in business activity.



An arbitration court decision that has entered into legal force may be appealed after the case is heard by an appellate or cassation court. A decision may be modified or reversed on grounds that it is illegal or unjustified.

Federal District Arbitration Courts hear cases as a cassation court and on the basis of newly discovered facts. It is the highest judicial instance for arbitration courts of constituent entities of the Russian Federation that have jurisdiction in the given judicial district. This means that litigants are entitled to appeal to the federal district arbitration court against judicial acts of arbitration courts of constituent entities of the Russian Federation. The federal district arbitration court also reviews its own judicial acts on the basis of newly discovered facts.

It should be noted that federal arbitration courts of districts are not linked to the existing administrative and territorial division, thus eliminating the influence of local authorities on dispute resolution. In this sense, they guarantee equal protection of the rights of litigants located in various regions of Russia and realize the principle of a unified economic and legal territory.

Arbitration appeals courts have been created in Russia — courts which, in the appeals instance, review the legality and justification of judicial acts adopted in the first instance by arbitration courts of constituent entities of the Russian Federation.

The Arbitration Court of a Constituent Entity of the Russian Federation hears cases as a court of first instance as well as on the basis of newly discovered facts. It should be noted that one arbitration

court may have jurisdiction in several regions, and several such courts may have jurisdiction in one Russian region.

The judicial acts of arbitration courts are executed after they enter into legal force, with the exception of cases of immediate execution of justice, in accordance with the procedure established by the Arbitration Procedure Code and other federal laws regulating the execution procedure. A judicial act is enforced on the basis of a writ of execution issued by the arbitration court, unless otherwise stipulated by the Arbitration Procedure Code.

The formation in Russia of an effective civil-law society creates the conditions necessary for comprehensive legal protection of the rights of all subjects of legal relations, and the entire complex of international-law and domestic measures affecting Russia's foreign economic activity is designed to enhance the investment process in the country.

Procedure For The Consideration Of Cases Involving Foreign Entities

Part 4 of Article 15 of the Constitution of the Russian Federation proclaims that the general principles and standards of international law as well as Russia's international agreements are an integral part of its legal system. Judicial bodies are guided by this principle in resolving international disputes, including in the economic sphere.

Arbitration courts adopt decisions on economic disputes and other cases relating to the business of foreign companies, international organizations, foreign nationals and stateless persons.

In addition, the courts may hear cases by agreement between the parties. This happens when at least one party is a foreign entity, and the parties have concluded an agreement stipulating that a Russian arbitration court is competent to resolve disputes relating to their conduct of business. In this case, the arbitration court has exclusive jurisdiction over such a dispute, provided that the agreement does not alter the exclusive jurisdiction of the foreign court. An agreement determining jurisdiction must be concluded in writing.

A foreign state acting as a power holder enjoys legal immunity from suits brought against it in Russian arbitration court as well as from participation in a case as a third party, the attachment of assets belonging to the foreign state and located in the Russian Federation, and court measures in pursuance of a suit and property interests. An execution may be levied on such assets in fulfillment of a judicial act of an arbitration court only with the consent of the competent bodies of the given state, unless otherwise stipulated by an international agreement of the Russian Federation or by federal law. The issue of the legal immunity of international organizations is determined by international agreement of the Russian Federation and by federal law.

Legal immunity may be waived as envisaged by the law of a foreign state or the rules of an international organization. In this case, the arbitration court hears the case in accordance with the procedure established by the current Arbitration Procedure Code.

Cases involving foreign entities are heard by an arbitration court in accordance with the rules of the Arbitration



Procedure Code and the details stipulated thereby, unless otherwise stipulated by an international agreement of the Russian Federation. If foreign entities or their management bodies, branches, representative offices, or representatives authorized to conduct business are located or reside in Russia, cases involving them are heard within the time limits established by the code.

If they are located or reside outside Russia, the foreign entities are notified of the arbitration court's decision to hold judicial proceedings by an instruction sent to the department of justice or another competent body of the foreign state. In such cases, the arbitration court extends the period for considering a case by the time

established by a legal assistance agreement for sending instructions to the department of justice or another competent body of a foreign state or, should the agreement lack such a time period, or in the absence of such an agreement, by not more than six months.

Russia has other special bodies to resolve economic disputes. These are the International Commercial Arbitration Court and the Maritime Arbitration Commission under the Russian Chamber of Commerce and Industry. The legal status of the International Commercial Arbitration Court is determined by the law of July 7, 1993 "Concerning International Commercial Arbitration." This law is based on the standard law adopted

in 1985 by the UN Commission on International Trade Law and approved by the UN General Assembly for possible use by states in their national legislation.

The International Commercial Arbitration Court is an independent, permanent arbitration court. It considers disputes arising out of contractual and other civil-law relations in connection with foreign trade and other types of international economic relations if at least one of the parties to a dispute has a commercial enterprise abroad, disputes between companies with foreign investments and international associations and organizations established in the Russian Federation, disputes between their shareholders, and their disputes with other Russian legal entities. It also considers disputes over which it has jurisdiction under international agreements of the Russian Federation, including agreements assigning exclusive competence to the corresponding arbitration centers in the respondent's country.

The Maritime Arbitration Commission is one of the oldest maritime arbitration bodies in the world, founded in 1930. Its status is currently governed by the statute on this commission appended to the law of the Russian Federation of July 7, 1993 "Concerning International Commercial Arbitration." Russian law is recognized as meeting world standards in regulating arbitration as an out-of-court, private-law method of resolving disputes used by agreement between entrepreneurs of different countries.

Virtually any civil-law dispute in connection with merchant shipping may now be appealed to the Maritime Arbitration Commission. In addition to traditional disputes arising out of cargo shipping, vessel chartering,





maritime insurance, rescue and fishing operations and collisions between vessels, proceedings may also involve disputes in connection with broker and agency agreements, the sale and repair of vessels, relations between the founders of joint ventures, offshore operations, and many other relations that may arise in merchant shipping in market conditions. Disputes involving river shipping companies are also an important part of the Maritime Arbitration Commission's practice. Parties to disputes may be ship owners and insurance companies, export-import firms and other users of transportation services, ports, and repair companies, etc., both foreign and domestic.

Financial and Banking System

Russia's financial system includes the state budget, off-budget funds, government loans, investment funds, the stock market, and the funds of companies with various ownership structures. It has two sub-systems: government finances, serving the purpose of expanded reproduction at the macro level, and the finances of business entities, serving the purpose of reproduction at the micro level.

Government finance plays a key role in ensuring the desired growth rates in various sectors of the national economy and the redistribution of financial resources between industries and regions, the production and non-production spheres, as well as between sectors with different ownership patterns, various groups, and sections of the population. The effective use of financial resources can be achieved only on the basis of an active fiscal policy.

The state budget is the main element of the financial system. It represents the accumulation and use of centralized funds to ensure the fulfillment of government functions. The state budget is the main fiscal plan adopted by the Federation Council of the Russian Federation in the form of a law. Budget revenues include tax revenues, revenues from customs duties, leasing of government property and other sources.

The state budget retains its pivotal role during the transition to a market-driven economy. Changes involve only the methods used to influence public production through the establishment of a different regime of budget expenditures. Currently the development of public production is achieved by means of economic leverage ensuring transition to regulation of the economy by means of fiscal measures rather than budget financing and subsidies. In particular, the Budget Code envisages state or municipal guarantees as a form of support for business. Say that a businessperson wishes to build a facility and needs a bank loan for this purpose. The bank requires a guarantee or collateral. So the businessperson appeals to the local authorities, and they issue a written guarantee to the effect that they accept either full or partial responsibility for such businessperson's obligations to third parties. If the businessperson defaults, the budget will bear responsibility to the creditor.

Naturally, such guarantees are not issued to all businesspeople, as they have to prove the feasibility of their projects to the heads of fiscal agencies. It is noteworthy that such guarantees are issued on a competitive basis. The Budget Code stipulates that the total state guarantees adopted in the budget law for a current year should be included in gov-

ernment domestic and foreign debt. In this context, guarantees exceeding one million minimum wages for ruble loans or US\$10 million for loans in foreign currency should be quoted separately. Consequently, regional and municipal guarantees are included in the regional/municipal budgets. Ceilings on total state guarantees provided by constituent entities of the Russian Federation and municipal guarantees as well as a list of guarantees exceeding 0.01% of the total expenditures of the respective budget should be established by law.

Under current legislation, the republican (federal) budget of the Russian Federation and the budgets of constituent republics of the Russian Federation are independent. Currently the Russian budgetary system includes the federal budget, twenty-one republican budgets, regional (*krai* and *oblast*) budgets, the budgets of Moscow and Saint Petersburg, the budgets of autonomous areas and approximately twenty-nine thousand local budgets (when the law on local self-government becomes effective, the total number of such budgets will increase by several times).

All government agencies of the Russian Federation take part in the budgetary process, but the key role belongs to the Ministry of Finance. The Federal Treasury, established thirteen years ago, is directly responsible for the payment, accounting, and control system in the area of state finances.

In addition, the fiscal system includes **off-budget funds: the Pension Fund, the Social Insurance Fund, and the Compulsory Medical Insurance Fund.** The off-budget status granted to the forementioned funds increased their autonomy and efficiency.



The Russian banking system

continues to evolve. The monetary system has undergone cardinal changes during restructuring. New types of financial institutions and transactions have been established, the system of relations between central banks and loan institutions has been modified, and the correlation of the public and private sectors' growth rates has changed.

Currently the Russian banking system includes two tiers.

Tier I — The Central Bank of the Russian Federation

Tier II — Loan institutions, branches, and representative offices of foreign banks (over 1,200)

The Central Bank of the Russian Federation (Bank of Russia) is a legal entity whose charter is adopted by the State Duma. The Bank of Russia is an independent institution that incurs expenses against its own revenues. It is the only issuer of currency with a monopoly on the issuance of banknotes — the national unit of currency.

The Bank of Russia focuses its monetary policy on maintaining financial stability and establishing conditions for sustainable economic growth. The Bank of Russia has reacted flexibly to fluctuations in the real demand for money, promoting economic growth and holding down interest rates, inflation expectations and the rate of inflation, which has resulted in appreciation of the ruble in real terms and stability of the financial markets.

As a result of the prudent monetary and exchange rate policy pursued by the Bank of Russia, the gold and foreign exchange reserves of the Russian Federation have increased,

and there have been no major fluctuations in the exchange rate.

The Central Bank issues licenses to commercial banks, supervises their operations, and grants permission for the establishment of foreign banks' representative offices.

Neither foreign banks nor their branches are allowed to operate on the Russian market under current legislation. By law all foreign banks operating in Russia are Russian banks with foreign capital (100% or less), operating in accordance with Russian legal acts under the supervision of the Bank of Russia. Currently there are approximately 130 such banks, of which 34 have 100% foreign capital and 42 have 50% and higher. The banking services market has been liberalized considerably of late — foreign subsidiaries enjoy a regime very close to the national regime, and after accession to the WTO, they will be granted full-fledged national status. Nevertheless, certain restrictions will remain: the cap on foreign banks' shares in the total capital of the banking system and the prohibition on establishing foreign bank branches in order to ensure an even playing field for Russian banks.

The Bank of Russia and the Ministry of Finance have formulated a Development Strategy for Russia's Banking System through 2008. It envisages gradual divestiture of government shares in commercial banks as well as their consolidation and specialization. In this context, certain amendments will be introduced to legislation, e.g., the terms and conditions of banks' mergers and acquisitions will be streamlined. On the other hand, bank supervision will be enhanced, and commercial banks will be required to increase the transparency of their operations, e.g., the

identification of banks' virtual owners. The Development Strategy includes provisions affecting bank customers; it envisages the establishment of a deposit insurance system for banks operating with household funds and credit bureaus.

The deposit insurance system has been operational for approximately a year and a half. The Bank of Russia, which is responsible for admitting commercial banks into this system pursuant to the criteria established by law, has admitted only banks meeting stricter requirements with respect to operations on the retail market. Every fifth bank has failed the examination, and 230 commercial banks will have to discontinue their services to the public.

Currently 98% of the country's private deposits are held in insured banks. All such depositors are entitled to compensation of up to RUB 100,000. Naturally, these are not the wealthiest depositors. However, the system was established to prevent panic when financial markets fluctuate so avoid a chain reaction of bank closings. As the deposit insurance fund is growing continuously, the Deposit Insurance Agency has proposed to raise the amount of compensation to RUB 200,000 initially and eventually to build this up to RUB 300,000.

This has undoubtedly increased customers' confidence in the banking system, and participating banks are gaining new depositors. On the other hand, wealthy individuals, who are still relatively few in Russia, are looking for alternative investment instruments.

According to the Federal Financial Markets Service, Russia's **financial sector** has evolved into a mechanism for bringing investments into



the Russian economy. Russian companies raised US\$15.5 billion on the domestic and foreign markets in 2004 (nearly one fifth of the total capital investments of large- and medium-size companies), of which US\$5.3 billion were mobilized on the domestic market. In the first half of 2005, Russian companies raised RUB 12.3 billion, of which US\$3.5 billion were mobilized on the domestic market.

However, the current activities of companies on the securities market have been insufficient to meet the needs of economic modernization. For this reason, a strategy for the development of financial markets has been prepared. It entails the adoption of approximately 30 new legal acts as well as amendments to current legislation with a view to removing obstacles to the development of

the domestic financial market. The strategy's main objective is to transform the market into one of the main mechanisms for mobilizing investments in the Russian economy and to create conditions for the effective investment of household savings and the investment funds of mandatory savings systems, e.g., those of the Pension Fund.

The strategy aims to make Russian stock exchanges and trading systems the main centers for organized trade in Russian financial assets. And in order to ensure their international competitiveness, a system of incentives should be established on Russian stock exchanges to encourage transactions with the financial assets of countries enjoying close financial and economic relations with Russia — primarily CIS countries and several Eastern European countries.

Taxes

Taxation System

The potential investor is more concerned about taxes than anything else. It is commonly held that Russia is far from a tax haven. For business, however, taxes are quite reasonable. Investors, financiers, and entrepreneurs are largely interested in seeing that the rules of taxation are clear and remain unaltered. In fact, Russia has nearly completed its tax reform. The main taxes have been determined, and turnover and insignificant taxes have been eliminated. The Tax Code adopted in 1998 systematized tax legislation, making it more convenient for taxpayers and reducing conflicts in tax relations.

In Russia, the tax burden on business continues to decrease. It is less than the average tax burden in countries with the same gross domestic product per capita: roughly 30% of GDP. In the next two years, the Russian Government intends to reduce the tax burden by 1% of GDP annually. The reduction will primarily affect entrepreneurs, because it is largely the business community and not the public that pays taxes in Russia. Last year, for instance, taxes constituted 33% of GDP, slightly less than 30% of which was paid by the business community and only a little over 3% by the public. Such a situation is not typical of most countries. The tax burden on the business community has fallen in recent years: value-added tax fell by two points in 2004, and the unified social tax rate by 10.4 points in 2005. At the same time, the tax rates for individuals, and especially their tax base, are starting to be reconsidered and assessed at real market value.

As we have mentioned, many taxes have been abolished recently. Among





those remaining, the following are the most important for budgets at all levels:

Federal taxes:

Value-added tax (VAT)
Excise duties
Personal income tax
Unified social tax (UST)
Water tax, levies for the use of animals and marine life
Corporate profits tax
Mineral extraction tax

Regional taxes:

Corporate assets tax
Transportation tax
Gaming tax

Local taxes:

Personal property tax
Land tax

Procedure For The Payment Of Tax By Companies

Corporate profits tax. Companies engaged in entrepreneurial activity pay tax on profit received from their financial and business operations.

Corporate profits tax is paid by Russian enterprises and foreign enterprises that are engaged in operations in Russia through permanent establishments and/or receive income from sources in the Russian Federation.

The tax base is the monetary expression of profit and is calculated by means of a simple formula: income received minus the amount of expenses. Expenses are substantiated (economically justified) and costs documented. Any expenses are deductible from the tax base for corporate profits tax purposes, provided that they are incurred in order to carry out operations for the purpose

of earning income. In this respect, a taxpayer's income and expenses are recorded only in monetary form. Income in kind is recorded on the basis of the transaction price.

Since 2002, the corporate profits tax rate has been 24% for all payers. In addition, Federal Law No. 95-FZ of July 29, 2004 increased tax rates from 6% to 9% on income received as dividends from a share interest in companies' activities.

Transportation tax. This tax has existed in Russia since January 1, 2003, replacing the previous road users' tax, tax on vehicle owners, excise duty on the sale of motorcars for personal use, and tax on water vessels and aircraft payable by individuals.

Transportation tax is a regional tax. This means that the introduction of transportation tax in constituent entities of the Russian Federation is within the authority of their legislative (representative) bodies. Thus, transportation tax need only be paid in a constituent entity of the Russian Federation in which a law on the implementation of transportation tax has been adopted.

Regional authorities are guided by the provisions of the Tax Code that define the taxpayers, object of taxation, tax base, tax period, tax rates, and procedure for calculating tax. Hence, the taxpayers are entities in whose name vehicles are registered. The objects of taxation are motorcars, motorcycles, motor scooters, buses and other self-powered machines and mechanisms with a pneumatic or caterpillar drive, airplanes, helicopters, steam vessels, yachts, sailboats, power boats, snowmobiles, motor sledges, motorboats, water scooters, non-self-powered (towed) vessels, and other vessels and aircraft. Under the law, however,

the legislative (representative) bodies of a constituent entity of the Russian Federation may establish other transportation tax rates within the limits of the rates established by the Tax Code and the procedure and time limits for payment as well as introduce regional tax benefits and the conditions for their use by taxpayers.

Unified social tax goes to the Pension Fund of the Russian Federation, the Social Insurance Fund of the Russian Federation, the Compulsory Medical Insurance Fund of the Russian Federation, and territorial compulsory medical insurance funds and serves the purpose of accumulating funds so that the public can enjoy the right to a state pension, social security, and medical care.

Unified social tax and contributions for compulsory pension insurance are paid by:

- Employers making payments to hired workers. They include companies, private entrepreneurs, and individuals not regarded as private entrepreneurs.
- Private entrepreneurs and lawyers not regarded as employers.

For purposes of calculating unified social tax and contributions for compulsory pension insurance, the object of taxation for employers is payment under employment contracts and compensation paid to individuals under civil-law contracts for the performance of work and provision of services, as well as under copyright agreements.

The tax base is defined as the amount of payments and other compensation accrued by taxpayers to individuals in the tax period. In determining the tax base, account is taken of any payments and compensation, irrespective of the form in which they are paid.



The reduced basic rate of unified social tax (UST) and its new regressive scale took effect on January 1, 2005. The rate of UST is currently 26% for income up to RUB 280,000 per year, RUB 72,800 plus 10% of the amount exceeding RUB 280,000 for income ranging from RUB 280,000 to 600,000, and RUB 104,800 plus 2% of the amount exceeding RUB 600,000 for income over RUB 600,000.

Corporate assets tax. Effective January 1, 2004, corporate assets tax is among the regional taxes. It is established and implemented in compliance with the Tax Code and the laws of constituent entities of the Russian Federation.

Corporate assets tax is paid by Russian and foreign companies that are engaged in operations in Russia through permanent establishments and/or have their own real estate in the Russian Federation, on the continental shelf of the Russian Federation or in an exclusive economic zone of the Russian Federation.

Russian enterprises pay tax on intangible and tangible assets. Tax is not levied on land and other sites where natural resources are used or on property belonging by right of business administration or operative management to federal executive authorities. The assets tax base is defined as the average annual value of taxable assets. The maximum rate of tax on enterprises' assets is set at 2.2%. Definite rates within the limits of this value are established by the laws of constituent entities of the Russian Federation.

Land tax. Payment for land was introduced by the land reform law of 1991, although it never came into full force. After amendments were introduced in November 2004,

Federal Law No. 141-FZ, implementing Chapter 31 of the Tax Code on the procedure for payment of land tax, was adopted on November 29, 2004. The law was in full effect as of January 1, 2006.

The land tax chapter was implemented as it was due to the fact that land tax is a local tax, established by the laws of municipalities in addition to the norms of the Tax Code. Hence, either the Tax Code or Federal Law No. 1738-1 "Concerning Payment for Land" applies, depending on whether the local authorities have adopted a law implementing Chapter 31 of the Tax Code. In their laws, municipalities may establish special tax rates within the limits set by the Tax Code as well as the procedure and time limits for payment of taxes. Other aspects of regional taxation are established by the Tax Code.

Land tax is paid by companies and individuals possessing land by right of ownership, right of permanent (unlimited) use, or right of lifetime hereditary possession. A document certifying the right of ownership, possession, or use of land creates an obligation to pay land tax. Tax is levied on land within a municipality in which the tax has been introduced.

As of 2005, the tax base for organizations applying the provisions of the Tax Code is the cadastral value of taxable land. The cadastral value of land is determined in accordance with the land legislation of the Russian Federation. The cadastral value of land is entered in the State Land Survey Register of Real Estate Sites. However, the tax base may be calculated using the new rules only by municipalities in which the cadastral valuation of land has been completed. This valuation should be completed everywhere by 2006.

The maximum tax rate is 0.3% for agricultural land on which housing is located and which is provided for subsistence farming, fruit growing, vegetable gardening, or livestock breeding, and 1.5% for other categories of land.

Mineral extraction tax (MET) is a federal tax that has been in force in Russia since 2002. MET is paid by users of subsurface resources, i.e., Russian and foreign enterprises and private entrepreneurs. An entity acquires the status of a user of subsurface resources when the license to use a subsurface-resource site is registered with the state or when a production sharing agreement comes into force. Where there is no license to use subsurface resources, there is no obligation to pay tax, because the taxpayer in that event is undetermined. But then the entity using subsurface resources without a license must compensate the state for losses. Occasionally mineral resources are extracted within the framework of a joint venture, or contractors are engaged for extraction purposes. In this case, MET is paid by the entity licensed to use subsurface resources. It is this entity that should keep a record of mineral resources extracted, calculate and pay tax, and submit a tax return.

Taxpayers pay MET where the subsurface-resource sites they receive for use are located. If mineral resources are extracted in Russia, the MET payer is registered as such in the location of the site provided for use. If mineral resources are extracted on the continental shelf in an exclusive economic zone of the Russian Federation or outside Russia but on territory under its jurisdiction or leased to it by foreign states, the MET payer is registered as such in the company's location.



The object of taxation is the minerals extracted from subsurface resources in Russia at the site provided to the taxpayer for use or extracted from the waste (losses) of the extracting enterprise if such extraction is subject to separate licensing and also minerals extracted from subsurface resources outside Russia on a site provided to the taxpayer for use.

The tax base for MET is the value of extracted minerals. This does not pertain to the extraction of oil, associated gas, and natural fuel gas from deposits of hydrocarbon raw materials. When these are extracted, the tax base is calculated as the quantity of the minerals extracted, expressed in kind.

Value-added Tax

Value-added tax (VAT) was introduced in Russia in 1992. It involves collecting a part of the increment of value created at each stage in the production of goods and services and paying this to the budget. Since January 1, 2001, the procedure for levying this tax on companies has been regulated by a special chapter of the Tax Code.

Value-added tax is paid by companies, private entrepreneurs, and entities recognized as payers of VAT in connection with the transportation of goods across the customs border of the Russian Federation, as determined by the Tax Code.

VAT is paid on such operations as the sale of goods (work and services), the transfer of goods (work and services) free of charge, and the transfer of goods (performance of work and provision of services) for own requirements, when expenses are not deducted for corporate profits tax purposes, as well as such operations as

construction and assembly work for own requirements and the importation of goods into the customs territory of the Russian Federation.

At the same time, many operations are not subject to VAT. For instance, VAT is not levied on operations involving the circulation of Russian and foreign currencies, the transfer of fixed assets, intangible assets, and other property to a legal successor when a company is reorganized, the transfer of assets to non-commercial organizations for charter activity unrelated to entrepreneurial activity, the investment of assets in companies' charter capital, contributions under a simple partnership agreement, share contributions to cooperative funds, the transfer of property as an initial contribution to a participant in a company or partnership upon withdrawal from the company or in the event of the separation of his share from common property, the transfer of living accommodations to individuals in state-owned or municipal buildings in the event of privatization, and the gratuitous transfer of social and cultural facilities and housing and utilities as well as roads, gas, and electric networks and similar facilities by the federal government and local government bodies.

As of January 1, 2005, VAT does not apply to operations involving the sale of land (shares of land), residential buildings, living accommodations, and shares thereof or to the transfer of share interests in common property in an apartment building when apartments are sold.

Companies enjoy the right to a VAT exemption, provided that receipts from the sale of their goods (work and services) do not exceed one million rubles. The amount of receipts from the sale of goods is determined on the basis of all transactions involving

the sale of goods, whether they are subject to VAT or not. Companies selling excisable goods and excisable raw materials do not enjoy a VAT exemption. VAT exemptions are granted by decision of the tax authority.

One special consideration involved in paying VAT is the determination of the place of sale of goods when establishing what is taxable. For instance, the place of sale of goods is the Russian Federation if goods are located in the Russian Federation and not shipped or transported or if goods are located in the Russian Federation when shipping or transportation begins. This is very important, because goods for export are taxed at a zero rate.

There are currently three VAT rates: 0%, 10%, and 18%.

The 0% rate applies when exporting goods outside the customs territory of the Russian Federation and when selling work (services) directly associated with the production and sale of goods to be exported. A VAT exemption applies to work (services) directly associated with the transportation through Russian customs territory of goods under the customs regime of transit and to services involving the carriage of passengers and baggage, provided that the point of departure or the point of arrival of such passengers and baggage is outside the territory of the Russian Federation.

A preferential rate of 10% applies when selling certain foodstuffs (largely intended for people with a low income) and some children's goods. A rate of 18% applies when selling all other goods (work and services).

When the basic rate of VAT was reduced from 20% to 18%, the list of goods and services subject to 10% tax was curtailed. The Ministry of Finance next proposed to reduce VAT



in 2006 by introducing a unified tax rate of 13%. However, an experiment involving a sharp reduction in the VAT rate determined that far less tax would be collected in the initial stage. It was therefore proposed not to reconsider the VAT rate, at least for the next three years.

Payment Of Taxes By Individuals

Personal income tax. In this case, tax is levied on income received by resident taxpayers (citizens of the Russian Federation) from sources inside and outside the Russian Federation. If an individual is not a tax resident of the Russian Federation (a foreigner), tax is levied on income received from sources in the Russian Federation.

In determining the tax base, account is taken of all income received in cash and kind as well as income in the form of material gain. The tax rate is 13%, irrespective of the amount of income, and is calculated on a so-called flat scale. Tax is also levied on income received in the form of dividends from a share interest in the activities of companies. This rate changed on January 1, 2005 from 6% to 9%. At the same time, the tax rate was reduced from 35% to 13% on material gain in the form of interest savings on special-purpose loans for the construction or acquisition of a house or apartment. This measure was adopted in the framework of the mortgage construction program. Suppose an employee obtains a special-purpose loan from a company to build or acquire a house or apartment; the calculated material gain for using the loan on more preferential terms will be taxed at a rate of 13%.

The Tax Code also provides for tax deductions. For instance, if one is

building a house or buying an apartment, a certain amount is deducted from the tax base: from 2005, one million rubles are deductible, while taxes paid on this amount (RUB 130,000) are refundable. The deductions are smaller when payments are made for medical treatment and the education of children. As of January 1, 2005, assets tax deductions may be received at the taxpayer's place of work before the end of the tax period, provided that the taxpayer's right to this deduction is confirmed by the tax authority.

International Tax Conventions To Which Russia Is A Party

Russia's intensive integration into the world economy and the international relocation of entities, capital, goods and services has afforded greater opportunities for tax evasion and for double taxation of the same entity. Thus, one of the key international tasks of the Russian tax service is to establish, maintain, and develop international relations and cooperation with the tax authorities of other countries for the purpose of obtaining and exchanging tax information. This information will help prevent both tax evasion and double taxation. In organizing and maintaining an international exchange of tax information within the framework of bilateral inter-state and inter-governmental double-tax agreements of the Russian Federation, the tax service of Russia is guided by the provisions of these agreements (treaties, conventions), which have been approved by federal laws and so prevail over Russian legislation.

Current legislative and regulatory acts allow the Russian tax service to exchange information with the tax departments of more than sixty

countries, including all CIS countries. The financial and tax departments of Germany, the USA, Great Britain, Italy, Poland, Slovakia, Hungary, France, and Cyprus are the most active in exchanging information with Russia.

Management of Human Resources

Russia is rich in both human and intellectual resources. According to the Russian Federal Statistics Agency, the economically active population numbered over 72 million at the end of 2004. The high level of education and developed infrastructure for training specialists ensure qualified personnel able to work in conditions of a market economy and globalization. Today over half of all workers are employed in the private sector.

Research done by the State University Higher School of Economics places Russia third among member countries of the Organization for Economic Development (OECD) as far as the proportion of the economically active population with higher and post-graduate professional education. This figure stands at 22.3%, as compared with 16.1% in Japan, 13.8% in Germany, and 13% in France.

Microsoft Research estimates that Russia annually trains an average of 186,000 specialists for work in the area of high technology. In other countries that are leaders in this area, the figure is significantly lower. According to NASSCOM (National Association of Software and Service Companies), only 60,000 programmers are trained annually in India and 50,000 in China. And if some 150,000 programmers work in this



sphere in India today, the World Bank and UNESCO estimate that in Russia over a million could potentially be involved in developments for export and research.

An analysis of scenarios for Russia's socioeconomic development through 2015 shows that in the near future Russian enterprises will be capable of putting out goods that will be competitive on both domestic and foreign markets. And technical upgrading of production must be preceded by forward-looking training and retraining of personnel. It is significant that the demand for further education has at least doubled in Russia in recent years.

Labor Law

Labor relations in Russia are regulated by the Labor Code, which was adopted on December 30, 2001 and entered into force on February 1, 2002. The Labor Code sets the goals and tasks of labor legislation and formulates the basic principles for the regulation of labor relations. Russian labor law is binding on all employers throughout the Russian Federation, regardless of their organizational/legal forms and forms of ownership, including subsidiary structures, representative offices and branches of foreign companies.

Concluding An Employment Agreement

An employment agreement is an agreement between an employer and an employee. The employer undertakes to provide work; to provide working conditions stipulated by the Labor Code, laws and other regulatory legal acts, collective and other agreements and local regulatory acts

containing labor law provisions; and to pay the employee's salary in full and on time. The employee, in turn, undertakes to perform the employment duties stipulated by the agreement and abide by the organization's internal work regulations.

Citizens of the Russian Federation who have attained the age of sixteen (in some cases, no younger than fourteen) may be employed. Citizens of foreign states who reside permanently in the Russian Federation may be employed in accordance with the procedure established for citizens of the Russian Federation. Those who reside temporarily in Russia may be employed if they obtain permission from the Federal Immigration Service.

A special chapter governs the legal status of employees' and employers' representatives. Employees are represented by trade unions and their associations or other representatives elected by employees in cases stipulated by the Labor Code. Employees that are not members of a trade union are entitled to authorize a primary union organization to represent their interests in relations with their employer. An employer's representative in collective negotiations and in concluding or amending a collective agreement is the company's director or persons authorized thereby.

Terms Of An Employment Agreement

In whatever form an employment agreement is concluded, the parties must reach an agreement on the essential (material) terms of the employment agreement; lacking these, an employment agreement (contract) is not regarded as having been concluded. The content of an employment contract is understood

as being the totality of its terms.

Depending on the procedure for their establishment, two kinds of terms can be distinguished in an employment agreement:

- 1) Derivative, established by law. The parties do not agree on derivative terms, inasmuch as these terms are automatically binding by law and by agreement as soon as the agreement is concluded.
- 2) Direct (material) terms are terms that are determined by agreement between the parties. Terms stipulated by the parties themselves are further divided into essential and additional (optional). The following terms of an employment agreement (contract) are essential:
 - a) The place of work (whether the employee will work at the company itself or, for example, at a branch, division, or other autonomous subdivision)
 - b) The nature of the employment function (line of work, position, specific work to be performed; the employee's qualifications, specifics of labor activities, etc.)
 - c) The term of the employment agreement (contract) (whether the term of the agreement is indefinite, for a period of three years, etc.)
 - d) The amount of the employee's remuneration.

The parties may also establish additional terms, and if such terms are included in an agreement, they automatically become binding. At the same time, it should be remembered that the terms of an employment agreement may not reduce the level of rights and guarantees set for employees by labor legislation. No terms included in an employment agreement may be altered other than by agreement between the parties.



Duration Of An Employment Agreement

Employment agreements may be concluded for an indefinite period or for a definite period of no more than five years (fixed-term employment agreement). The most common is an agreement concluded for an indefinite period, or, as it is more frequently called, a “permanent” employment agreement. “Fixed-term” agreements are concluded when, for one or another reason, a contract for an indefinite period cannot be concluded. One specific type of fixed-term agreement is an employment agreement for the duration of specific work, when a precise calendar date for the work’s completion cannot be set.

Probation Period

One condition of employment may be a probation period for purposes of verifying that an employee is suited to the assigned work. A probation period must be stipulated in the employment agreement. The absence of a provision concerning probation in an employment contract means that the employee is hired without probation. The purpose of probation is to check the employee’s business qualities. In other words, an employer can only check whether an employee is suited to the position and sufficiently qualified, can perform the given employment duties, etc. The employee’s character, psychological compatibility with existing staff, etc., may not be assessed during probation. No probation period is set when hiring temporary and seasonal workers, pregnant women, women with children up to three years of age, and single mothers with children up to fourteen years.

All guarantees envisaged by current labor law apply to an employee on probation. The maximum probation period is three months, but the probation period may last up to six months for certain categories of employee (directors and chief accountants of companies, government employees, prosecutors, etc.).

Working Hours

Working hours are the hours during which an employee must perform his or her employment duties. Normal working hours may not exceed forty hours per week, regardless of the company’s form of ownership and organizational/legal form and regardless of whether or not the employer is an individual.

The working hours established by the Labor Code apply equally to permanent and temporary employees, seasonal workers and workers hired for the duration of specific work, etc.

In addition to normal working hours, the Code regulates issues with respect to reduced working hours, part-time work, irregular hours, overtime, etc.

Working hours are reduced by 16 hours per week for employees up to 16 years of age and by five hours for disabled persons in Groups I and II (highest levels of disability). Reduced working hours are envisaged for employees from sixteen to eighteen years of age (36 hours per week), and legislation now allows employers to establish a shorter working week for minors.

For employees doing work in harmful labor conditions, working hours must not exceed 36 hours per week. But an even shorter working week is established for some employee categories (e.g., a 30-hour working week

for workers engaged in underground work, in coal and shale mines). Russia also provides reduced working hours for teachers and other educational workers and for a significant category of physicians and middle- and lower-level medical personnel.

Reduced working hours should be distinguished from so-called part-time work, which may also be stipulated by agreement between an employee and an employer — a short working day or short working week. An employer is required to allow a short working day or short working week at the request of pregnant women, one parent (foster parent, guardian) of a child up to fourteen years of age, and persons caring for a sick family member in accordance with a medical opinion.

When doing part-time work, an employee is remunerated in proportion to the time worked or depending on the volume of work done. Part-time work does not place any limitations on employees’ basic annual paid vacation, length of service, or other labor rights.

Paid Vacation

Employees receive annual basic paid vacation of 28 calendar days. Certain categories of employee are provided by law with extended annual paid vacation.

Additional Working Time

Work outside normal working hours may be done at both the employee’s initiative (a secondary job) and the employer’s initiative (overtime).

Work outside normal working hours may not exceed four hours per day and 16 hours per week. An internal secondary job is not permitted in



combination with reduced working hours. It should be kept in mind that some categories of employee are prohibited from engaging in work other than their primary work. Thus, a paid secondary job, other than scientific, teaching, and creative work, may not be held by federal government employees, judges, deputies of the State Duma of the Federal Assembly, etc.

There may also be situations involving overtime — work performed by an employee at the employer's initiative outside the established working hours and daily work (shift) as well as work in excess of the normal number of working hours for an accounting period. As a rule, such work requires the employer's written consent. Exceptions are cases in which such work is done, for example, to prevent an accident or eliminate the consequences of an accident or natural disaster or to eliminate unforeseen circumstances disrupting the normal functioning of water and gas service, heating, light, sewage, transportation, communications, etc.

Overtime is not allowed for pregnant women, employees up to eighteen years of age, and other categories of employee as prescribed by federal law. Overtime may not exceed four hours over two consecutive days or 120 hours per year for each employee.

Employee Transfer

In conditions of dynamic market processes, employers are required to make changes in the organization of production and labor as well as in company structure. This sometimes involves altering the material terms of employment. In this connection, the administration (employer) is entitled to alter these material terms but

must notify the employee at least two months in advance. If, after notification of a change in the material terms of employment, the employee does not give written consent to continue work in the new conditions or does not actually start work in the new conditions, it is deemed that he or she does not agree to continue work, and the employment contract is terminated.

A special type of transfer is involved in cases in which a medical opinion states that an employee needs different work. An employee may be temporarily or permanently judged unfit for health reasons to perform the work stipulated in the employment agreement (contract). A decision that an employee is temporarily unable to perform his or her employment duties is made based on the opinion of a medical-social expert examination. This includes transfers to lighter work for pregnant women.

In the event of production necessity, an employer is entitled to transfer an employee for a period of up to one month to a job in the same company that is not stipulated by the employment agreement with remuneration

corresponding to the work performed, but not less than the average pay for the previous work. An employee may not, however, be transferred to a job contraindicated due to the state of his or her health.

Changes In The Material Terms Of An Employment Agreement

For reasons involving a change in the organizational or technological conditions of work, material terms of an employment agreement as stipulated by the parties may be changed at the employer's initiative. The employer must notify an employee in writing at least two months in advance of such changes. If the employee does not agree to continue work in the new conditions, the employer is required to make him an offer in writing of another available job in the company corresponding to his qualifications and the state of his health or, if such work is unavailable, a vacant lower-level position or lower-paying job.

If such circumstances could entail the mass dismissal of employees, the employer is entitled, in order to pre-





serve jobs, and taking into account the opinion of the company's elected trade union body, to introduce a part-time regime for a period of up to six months.

Vocational Training

The need for vocational training and retraining of personnel for a company's own needs is determined by the employer. It is the employer who conducts vocational training, retraining and advanced training of employees, training for a sideline in the company — where necessary, in educational institutions providing elementary, secondary, higher vocational and further education on terms and in accordance with the procedure determined by the collective and other agreements and the employment agreement.

Employees who take vocational training must be provided by the employer with the necessary conditions for combining work and study as well as with the guarantees established by the Labor Code, other regulatory legal acts, collective and other agreements and the employment agreement.

Personnel Management

An employer provides incentives for employees who conscientiously fulfill their job duties (public gratitude, a bonus, a valuable gift, a certificate of merit, the title of "best in the profession"). At the same time, the law does not give an exhaustive list of grounds for providing incentives. The company itself may develop its own internal regulation detailing types of incentives, the grounds and procedure for incentives, additional benefits for those provided with incentives, etc.

For a breach of discipline, i.e., failure to fulfill or improper fulfillment of an employee's employment duties through his or her own fault, the employer is entitled to take the following disciplinary actions: warning, reprimand, and dismissal on relevant grounds.

Such disciplinary actions are to be distinguished from "measures of disciplinary influence" (e.g., deprivation of bonuses, scheduling vacation at an inconvenient time, canceling previously granted benefits and advantages, deprivation of a portion of income based on annual performance, etc.).

Termination Of An Employment Agreement By Agreement Of The Parties

An employee is entitled to terminate an employment agreement, having notified the employer in writing two weeks in advance. But this period is not mandatory, and an employment agreement may be terminated before two weeks have passed. Notification of resignation must be submitted in writing.

Dismissal For Other Reasons

A company's liquidation entitles the employer to dismiss employees. It makes no difference why the company is liquidated or who the initiator is. The chief circumstance that permits employees to be dismissed is the fact of the company's liquidation.

Where market relations are in a state of transition, changes in company ownership are a frequent occurrence. A new owner, no later than three months after he or she acquires ownership, is entitled to terminate the employment contract with the

company's director (his or her deputy) and chief accountant only. A change in company ownership does not constitute grounds for terminating employment agreements with other employees.

An employer may dismiss an employee for insufficient qualifications, shoddy work, inability to master essential new work methods, etc.

Another form of unsuitability for work is unsuitability for reasons of health. Employers are not entitled to make a judgment themselves as to an employee's state of health. Medical commissions establish an employee's disability and determine whether he or she can continue the same work. Such an opinion on a disabled person's conditions of employment (and inability to work) is mandatory for the employer.

With respect to dismissal for breaches of work discipline, it should be noted, first of all, that a one-time breach of work discipline or internal regulations or other failure to fulfill employment duties may not serve as grounds for terminating an agreement. On the other hand, a repeat breach of work discipline or repeat failure to fulfill employment duties stipulated by an employment agreement may serve as grounds for dismissal. Repeated failure by an employee to fulfill employment duties without good reason thus constitutes grounds for dismissal.

Any employees may be dismissed if they disclose a state, commercial, or trade secret. Theft (including petty theft) constitutes grounds for dismissal by the employer. An employee may be dismissed if he or she violates work-safety requirements and such violation has serious consequences.



Termination Of An Employment Agreement For Reasons Beyond The Parties' Control

An employment agreement is subject to termination in such circumstances beyond the parties' control as when an employee is conscripted into the army or assigned to alternative civilian service, by decision of a court or medical commission, etc.

Social Package

A "social package" is understood to mean a package of social benefits provided by a company to employees that may include compensation for meals, training, medical services, transportation expenses and, for top managers, housing and other benefits.

The principal argument for many in selecting a good social package is the fact that a company providing its employees with a variety of benefits is commonly regarded as more stable and reliable. It may equal anywhere from a third to a half of an employee's remuneration. Managers offer their employees free lunches, medical insurance, compensation of transportation expenses, etc.

Salary And Wages

Salary is recompense for work, depending on the worker's qualifications and the complexity, quantity, quality, and conditions of work, as well as compensatory and incentive payments.

The minimum wage is established by federal law throughout the Russian Federation and may not be lower than the subsistence wage for an able-bodied person. The monthly salary of an employee who has worked the required number of hours during this

period and done the required amount of work (employment duties) may not be lower than the minimum wage.

The minimum wage established by federal law is provided in state-funded organizations out of budget funds and in other organizations out of their own funds.

Along with the minimum wage (which must be paid in any event), an employee is provided with additional pay, bonuses, premiums, and other incentive payments (rewards for successful work during a quarter, for an advantageous transaction, a percentage of the amount of a transaction, etc.). The types of additional pay, bonuses, and payments are established by the employer.

Management Of Foreign Employees

Economic reforms, the transition from a closed to an open society, and the unfavorable demographic situation in Russia have led to the expanding use of foreign labor in domestic enterprises. Experts project that the deficit in the working-age population in Russia will be over 200,000 in 2006, reaching one million by 2010. In this light, the state's immigration policy is being reconsidered. The policy is currently aimed not so much at shaping the influx from abroad as holding it back and fighting illegal immigrants, who number, according to various estimates, anywhere from four to seven million.

Russian laws contain a number of general principles in the area of employment relations affecting foreign nationals who are permanent and temporary residents of the Russian Federation.

Foreign nationals have the same rights and obligations in employment

relations as Russian citizens, i.e., the law is based on the principle of a national regime in the area of employment relations. Foreigners are covered by provisions on job safety and special provisions concerning working conditions for women and minors, and they are equally entitled to social benefits and vacation.

At the same time, the law stipulates special rules for the conclusion of employment agreements by various groups of foreigners and places restrictions on their performance of certain kinds of work. The legal position depends on two factors: the purposes and bases of a foreigner's presence in the Russian Federation and whether Russia and the foreigner's country have concluded agreements regulating employment issues. Based on these two factors, foreign physical persons may be divided into several groups.

The first group comprises foreigners who are permanent residents of the Russian Federation. Such persons may be employed on the same basis as Russian citizens. The only exceptions are cases in which certain professions may be engaged in or certain positions held only by Russian citizens.

The second group includes refugees and persons granted political asylum. On the whole, they enjoy the same labor rights as permanent residents. An employer needs no special permit to hire them. Moreover, the relevant state bodies are required to assist refugees in finding work and, if necessary, in obtaining vocational training and retraining.

The third group comprises foreigners who temporarily reside in Russia for purposes of employment and whose hiring involves a general permission procedure. A common principle for



all temporary residents in Russia is that they may work in the Russian Federation if this is compatible with the purposes of their stay. An employer must obtain a permit from the Federal Immigration Service of Russia to hire foreign workers, and a foreigner must obtain verification of the right to work in the Russian Federation. Employers bear liability under Russian law for hiring foreign workers without the appropriate permit.

Foreign nationals entering the Russian Federation for purposes of employment may be employed in Russia only if they have verification of the right to work issued in his name on the basis of a permit obtained by his employer. An employer, having obtained a permit to hire foreign workers, must conclude employment agreements with the foreigners. The law operates on the principle that the work conditions, remuneration, and job safety as well as social benefits and insurance of foreign employees are determined by the laws of the Russian Federation, taking into account the provisions of international agreements between Russia and foreign countries.

The fourth group is made up of foreign nationals temporarily residing in the Russian Federation and hired for work in Russia under international agreements between the Russian Federation and foreign countries. These may be special agreements setting forth the principles and conditions for sending foreign nationals to work in the Russian Federation (such agreements, for example, have been concluded with Vietnam and China) and agreements envisaging the participation of foreign nationals in specific projects in Russia (construction of enterprises, development of

natural resources, etc.). In this case, the general permission procedure for hiring foreigners in the Russian Federation does not apply. Such international agreements stipulate the procedure for hiring foreign workers and, as a rule, define the limits of applicability of both Russian law and the law of the partner country under a given international agreement.

Depending on the specific situation, agreements stipulate either that the laws of the country that sent workers to Russia apply (especially if the foreign employees work in a compact group under the direction of the national organizations that engaged them to work in Russia) or that the two legal systems apply in combination. In the latter case, as a rule, the law of the place where work is performed applies to work conditions closely related to the production process (working hours, time off, safety regulations, and job safety). As for other conditions (remuneration, vacation, grounds for dismissal, benefits, etc.), the relative weight of Russian law (the law of the country where work is performed) and foreign law (the law of the country that sent the worker) may vary. In this connection, the rights enjoyed by foreign workers, with respect to quantity and the guarantees provided, may be less than those stipulated by the laws of the Russian Federation.

The general permission procedure and, consequently, the requirement that the terms of an employment agreement comply with Russian law (including the remuneration, social benefits, and insurance of foreign employees) also apply to agreements between foreign workers and foreign firms that hire them to fulfill contracts in Russia.

The law also contains special provisions on the hiring of foreigners by companies with foreign investments. To hire foreigners from among highly qualified specialists as directors of companies with foreign investments located in the Russian Federation as well as directors of the subdivisions of such companies, an employer does not need to obtain a permit from the Federal Immigration Service, but the foreigner must verify his right to work. Article 33 of the law “Concerning Foreign Investments” of 1991 envisages a general principle according to which employment relations in a company with foreign investments, including issues with respect to hiring and termination, working hours and time off, terms of remuneration and guarantees and compensation, are regulated by a collective agreement and individual employment agreements (contracts). At the same time, the terms of collective and individual employment agreements may not stipulate worse conditions for a company’s employees than those stipulated by the laws in effect in Russia. The law assumes that the conditions of foreign employees’ hiring, work, time off, and pension benefits will be agreed to in his or her individual employment agreement. Salary received by foreign employees in foreign currency may be transferred abroad after income tax is paid.

Subsequently adopted legislation stipulates that a joint venture must make compulsory medical insurance and social insurance payments (with the exception of pension insurance) to the relevant Russian organizations for foreign employees temporarily residing in the Russian Federation. Pension insurance payments are made not to the Pension Fund of Russia but to the corresponding organizations in the foreigner’s country. The law also



requires all employers without exception (unless otherwise stipulated by an international agreement to which Russia is a party) to observe Russian standards of job safety.

Foreign organizations may hire foreigners for work in Russia not only by following the aforementioned permission procedure but also in accordance with international agreements of the Russian Federation.

Finally, a special category of foreign nationals employed in Russia comprises employees of foreign companies, institutions, and organizations seconded for work in the Russian Federation, including for extended periods (e.g., employees of foreign firms' representative offices in Russia). In this case, employment agreements are concluded abroad, and relations between the foreign employees and foreign employers are wholly governed by foreign law. In this case too, however, foreign employers doing business in Russia are required to observe the requirements of Russian law with respect to job safety.

Agreements concluded by the Russian Federation with other countries under which citizens of those countries participate in the construction and assembly of enterprises, the joint development of natural resources, and the construction of joint projects (oil pipelines, etc.) regulate employment relations as well. Agreements, along with the provisions of material law, stipulate that employment relations are governed either by Russian law, as the law of the place where work is performed, or by the law of the employee's country or for some labor issues by the laws of the country where work is performed, and for other issues by the law of the employee's country.

The law of the place where work is performed applies, as a rule, to work conditions most closely related to the production process, i.e., working hours, time off, job safety, and safety regulations. By applying the law of an employee's country and the provisions of international agreements on a number of other issues, it is possible to take into account the specific work conditions and way of life of foreign nationals and provide incentives for employing them in our country.

Copyright and Patent Law

Copyright Law

Russian legislation on copyright and related rights is based on two laws: the law of the Russian Federation "Concerning Copyright and Related Rights" and the law of the Russian Federation "Concerning the Legal Protection of Computer Programs and Databases."

Copyright law protects works of literature (including computer programs), dramatic and musical-dramatic works, stage works, choreographic works and pantomime, musical works, audiovisual works (cinematic, television, and video films, slide films, filmstrips, and other film and television productions), paintings, sculptures, graphics, design, graphic stories, comics, and other works of graphic art, works of decorative, applied, and stage art, works of architecture, urban design and landscaping, photographic works and works obtained by means similar to photography, geographic, geological, and other maps, charts, sketches, and models relating to geography, topography, and other sciences, and other works.

Copyright law does not protect documents (laws, judicial decisions, and

other texts of a legislative, administrative and judicial nature) and their official translations, state symbols, and signs (flags, emblems, medals, banknotes, etc.), folk works, reports of events, and facts of an informational nature.

Works may be quoted without the author's consent and without payment of royalties, provided that the name of the author and the source are cited.

Works of architecture, photography, and visual art that are permanently located in a place open for free visitation may be reproduced without the author's consent and without payment of royalties. Musical works may be publicly performed during official and religious ceremonies as well as funerals. Works may be used for judicial proceedings without the author's consent and without payment of royalties.

Patent Law

Russian patent law (industrial property in the narrow sense of the word) protects inventions, useful models, and industrial prototypes. Important conditions of the patentability of industrial property are its novelty and industrial applicability. Patent law establishes the absolute (international) novelty of industrial property.

If a violation of patent rights is proved, the patent holder is entitled to take civil-law sanctions against the violator as provided by law or, which is the same thing, to utilize one or another means of protecting his or her violated rights. The specific means of protection is selected by the person who is wronged, but as a rule is determined by the type of violation and its consequences.

The most common means of defense for a defendant is a countersuit to have the patent annulled.



What People Are Saying

“After twelve years of work in Russia, the Foreign Investment Advisory Council (FIAC), which I represent as coordinator of its foreign members, continues to promote constructive dialogue between the Russian Government and foreign investors. Many issues have been resolved as a result of recommendations made by FIAC’s working groups over the last year. In particular, our comments on the Tax Code have been taken into consideration, changes have been made to improve the banking system, active dialogue is under way to improve legislation on natural resources, and more attention is being devoted to tax administration and the improvement of the tax climate. The law ‘On Concession Agreements’ was introduced last year to support public-private partnership. The Russian Government has achieved very positive results by formulating a constructive economic policy.”

James Turley,
Chairman and CEO of Ernst & Young Global

“The active expansion of American companies on the Russian market would be promoted, first of all, by the passage of legislative acts encouraging Western entrepreneurs to invest their money in the Russian economy and providing them with serious guarantees. In recent years we have seen lawmakers moving in exactly that direction. Tax reform and the adoption of land and labor codes, for example, have promoted the development of international business and given the Russian economy market status. Legislative improvements will make it possible to improve the country’s business climate in the near future, and this will undoubtedly attract many American companies.

“Much has been done and is being done to accelerate the process of creating a favorable investment climate in Russia. And another factor that helps bring investments into Russia is a certain fall-off in the economies of the US and Europe, which have experienced problems since the events of September 11. Investors are thus beginning to look for new places to invest their capital, and Russia is a huge and very promising market.

“There are also problems in the judicial sphere. Decisions taken by the courts are frequently not enforced. Still, despite these deficiencies, we see the situation changing slowly but steadily for the better, and Russia’s attractiveness for investors keeps growing. Of course, we would like these changes to be better known in the States, and visits to Russia by top managers of American companies can play an important role. They can then see for themselves how much opportunity there is for cooperation and capital investment.”

Andrew B. Somers,
President of the American Chamber of Commerce in Russia



“The main thing for investors is to understand the rules of the game, to know what they can expect from the judicial system and tax authorities in Russia. Then they will gain the required confidence, and the quantity of direct investments in the Russian economy will begin to grow.”

Sanford Weill,
Chairman of the Board of Citigroup Corporation

“The political course of the Russian leadership is opening up tremendous prospects for foreign capital. We are enthusiastic about investment opportunities in Russia. Such opportunities are opening up because of the rich natural resources and the population’s high level of education. Russia is guided by the rule of law, and that improves the country’s investment climate.”

Ken Griffin,
Director of Citadel Investment Company

“In the next one and a half to two years, in spite of all the problems, a large influx of capital into the Russian construction sector can be anticipated. I think the main problem involved in entering the Russian market is a lack of objective information on Russia, since what gets into the Western press is mainly negative. The general impression of foreign business in Russia is that the process of obtaining approvals and permits here is much more difficult, although that impression is usually due to the market’s lack of transparency and openness. As far as I’ve seen, it’s not all that complicated and not that different from other countries.”

Andrew Kinghorn,
Director for International Investments,
Knight Frank



Know Before You Go

Terms and Conditions of Coming to Russia

The Visa Regime

The Russian visa is a document that permits a stay in Russia during a certain period of time. The visa, with two photographs of the holder attached, shows the dates on which he or she should enter and exit the country. A Russian visa is required for both entering and exiting the country. If you lose your visa or stay in the country longer than your visa permits, you may have serious problems when leaving.

For a tourist or business trip to Russia, you will need the following documents: a valid international passport (your passport must be valid for at least the next six months after the end date of your trip), tickets and documents permitting you to exit

the country or to travel further, and a Russian visa. You are not required to have any special vaccinations made to travel to Russia.

There are several types of visas:

A Russian Tourist Visa is issued to foreign citizens traveling to Russia for non-business purposes for a period of time of up to 30 days (pursuant to the requirements of the Russian embassy or consulate). A tourist visa shall suit you most if you know exactly where and how long you are going to stay. To obtain a tourist visa, you should have a confirmation of your accommodation for the whole term of stay in Russia.

When applying for a tourist visa, you must provide your complete passport data, including the dates on which you are planning to enter and exit the country. A letter of invitation or a tourist voucher are issued by the

receiving party on the day of application or on the following working day (depending on the urgency), and sent to you by fax.

A Russian Business Visa is issued to foreign citizens traveling to Russia on business. Business visas are most convenient for foreign citizens who do not have a pre-determined traveling route, and are going to spend over 30 days in the territory of the Russian Federation or are going to visit Russia more than once. Russian business visas entitle you to a maximum of two entries in Russia for a period of up to 90 days. There are also business visas which are valid for 3, 6, or 12 months, and grant you an unlimited number of entries. A business visa can be obtained only on the basis of an official letter of invitation issued via the Russian Ministry of Internal Affairs or a regional branch thereof. Letters of invitation issued by enterprises alone shall be rejected.

To obtain a business visa, one needs to submit official visa support documents to the local Russian embassy or consulate.

A Russian Individual Visa allows you to stay in Russia for up to 90 days. If you are traveling to Russia to visit your family or friends, you can apply for an individual visa. Your family and friends whom you shall be visiting must apply to the local UVIR (Department of Visas and Registrations) for such a visa, and send you the original letter of invitation. This takes more time than to obtain a Russian tourist visa.





A **Russian Transit Visa** is issued if you are traveling to another country through the territory of the Russian Federation. To apply for a transit visa, you must submit the original of the entry visa to the country of your destination and a copy of your ticket. If you cannot provide the above documents, you should apply for a regular tourist visa, instead.

To obtain a visa you need to submit the following documents:

Russian Tourist Visa

- Valid passport with at least two void pages left for a Russian visa (your passport must be valid for at least the next six months after the proposed end date of your trip)
- Two completed and signed copies of an application for a Russian visa
- One recent passport-size photograph
- For tourist and cruise groups: a letter from the travel/cruise company confirming your route, and an enclosed copy of a confirmation issued by the authorized Russian travel company
- For individual travelers: confirmation of a hotel reservation issued by the authorized travel company or directly by the hotel.

Russian Business Single-Entry, Double-Entry, and Multiple-Entry Visa

- Valid passport with at least two void pages left for a Russian visa (your passport must be valid for at least the next six months after the proposed end date of your trip)

- Two completed and signed copies of an application for a Russian visa
- One recent passport-size photograph
- If you are planning to spend in Russia more than three months, or if you are applying for a multiple-entry visa, you must submit results of an HIV test
- Official letter of invitation issued by the authorized organization.

A letter of invitation to the Russian Federation must be issued via the Ministry of Internal Affairs, its regional branch, or another authorized organization of the Russian Federation. The letter must have an official seal and address of the organization and the name and signature of the authorized person inviting the foreign citizen to Russia. The embassy may require the original invitation letter.

Russian Individual Visa

- Valid passport with at least two void pages left for a Russian visa (your passport must be valid for at least the next six months after the proposed end date of your trip)
- Two completed and signed copies of an application for a Russian visa
- One recent passport-size photograph
- Notice from the local UVIR (Department of Visas and Registrations). The receiving party must receive and forward to you the original notice.

The receiving party must have the following information: your full name,

address, nationality, passport number and date of birth, the date of arrival/ departure.

Registration of Visas in Russia

All Russian visas must be registered within 72 hours upon the holder's arrival in Russia (except for days-off and statutory holidays).

- If you are staying at a hotel, you can register your visa there. You must submit the visa and your passport. The hotel may charge a small registration fee.
- If you are traveling on a tourist visa, and are not staying at a hotel, you must register your visa at a passports-and-visas section of a regional OVD (Department of Internal Affairs).
- If you have a business visa, and are not staying at a hotel, then you or your representatives must register your visa in the central UVIR office. For your visa registration, the receiving party shall need the following documents: your passport (original), migration card bearing an entry stamp, registration application (to be filled out in the Russian language), and a letter from the visa holder. While your visa is in the process of registration, you will be provided with an official document confirming that your documents are being registered with UVIR. Your visa will not be registered without your original passport. The minimum registration time is five working days.

If your final destination is not Moscow or St. Petersburg, and if you are not



staying at a hotel, you must register your visa at the local UVIR. To speed up the registration process, you will need an official letter issued by the receiving party to be submitted to UVIR. Multiple-entry business visas are only registered for the period of or under six months. Foreign citizens with multiple-entry visas valid for 12 months must leave Russia after the first six months of stay, then return to Russia and prolong the registration of the visa. Please note that absence of registration is a violation of Russian Federation applicable laws, which may entail serious problems, such as penalty or arrest, ban to leave the country, etc. To avoid possible complications, we recommend that you register your Russian visa directly upon arrival in Russia.

Airports in Moscow and Saint Petersburg

There are five passenger airports in the suburbs of Moscow: Sheremetyevo-2, Sheremetyevo-1, Domodedovo, Vnukovo, and Bykovo. The largest one is Domodedovo. International flights take off from Sheremetyevo-2 and Domodedovo, and charter flights often take off from Vnukovo. Most internal flights take off from Sheremetyevo-1, Domodedovo, and Vnukovo. The flight from Moscow to St. Petersburg takes a little less than an hour, from Moscow to Samara — about 1.5 hours, from Moscow to Yekaterinburg — about 2.5 hours, from Moscow to Novosibirsk — 4 hours, and from Moscow to Khabarovsk — about 7 hours. There are shuttle buses and minivans traveling between Moscow and the nearby airports. You will have to pay a certain fare. International airports host representative offices of some travel companies, local and for-

eign car rental companies, currency exchange offices, taxi order points, etc.

Sheremetyevo

This airport consists of two terminals: Sheremetyevo-1, from which mostly internal Russian and CIS flights take off as well as charter flights, and Sheremetyevo-2, an international airport.

On-site: the Novotel and Sherotel hotels, restaurant, bars, cafés, fast-food restaurants, shops, currency exchange office, post office, drug-store, travel and air carrier agencies.

Transportation

Sheremetyevo-2 is connected to Moscow by the M-10 highway, by which travel shuttle buses, minivans, buses, as well as taxis. Municipal auto transport work hours are from 5:45 a.m. to 12:30 a.m.

There are also commuter trains to the Sheremetyevo airport that go from the Savelovsky Railway Station in Moscow to Lobnia. Commuter trains

depart every two hours and make no interim stops on the way to Sheremetyevo. It will only take you 25 minutes to get from Moscow to Lobnia, where passengers can take a special bus going to the airport.

Time from Sheremetyevo to the other Moscow airports:

- To the Domodedovo airport (85 km from Sheremetyevo-2):
 - By taxi — 1 hour
 - By shuttle bus departing every 30 minutes from the airport transfer station — 70 minutes
- To the Vnukovo airport (70 km from Sheremetyevo-2):
 - By taxi — 50 minutes
 - By shuttle bus departing every 30 minutes from the airport transfer station — 1 hour
- To the Bykovo airport (70 km from Sheremetyevo-2):
 - By taxi — 50 minutes
 - By shuttle bus departing every 60 minutes from the airport transfer station — 1 hour.





Domodedovo

This airport services both domestic Russian and international flights.

The airport terminal has automated systems of passenger registration and baggage processing, as well as modern baggage belt transporters. The registration counters are united into “islands” and equipped with an automated system of departure control, which helps passengers save time and check in quickly for their flights.

All information on the flights is shown in real-time on special monitors. International flight passengers may use the so-called “green corridor,” i.e. a simple customs clearance procedure.

On-site: offices of banks, a business center, a comfortable trade and entertainment center offering a wide range of goods and services, cafes, and a restaurant. There is also the Domodedovo Airhotel complex on the terminal territory.

Transportation

By car — via the Kashirskoye and then Domodedovskoye highways. By bus or shuttle minivan — from the municipal airport transfer station (85 minutes). From the Domodedovskaya metro station — by shuttle bus or minivan (from 25 minutes). At the specialized terminal of the Paveletsky Railway station you can take a fast and comfortable Aeroexpress to the Domodedovo airport (40 minutes). At the terminal you can also check in for domestic flights and check in your baggage which will be then individually taken to your airplane.

Domodedovo has a centralized taxi system which takes passengers to Moscow, Moscow suburbs, and other

airports near Moscow. You can pay for your taxi at counters 0 and 66 in the arrival areas.

Vnukovo

This airport services both Russian domestic flights and flights to the CIS countries.

On-site: the Vnukovo hotel, restaurants, cafes, “Mother and Child” room. The airport is located 11 km from Moscow.

Transportation

From the Yugo-Zapadnaya metro station — by bus № 611 (about 35 minutes), shuttle bus (30 minutes), shuttle minivan. By car — via Kievskoye highway, then via Borovitskoye highway. From the municipal airport transfer station — by shuttle bus (1 hour).

You can also get to the Vnukovo airport from the Kievsky Railway station (the Kievskaya metro station) — by a commuter train to the Airport railway station. The trains depart from Kievsky Railway station every hour, from 7 a.m. to 8 p.m., and from 6:55 a.m. to 8:55 p.m. from the airport. The fare is RUB 76.

Bykovo

This airport services mainly domestic flights.

On-site: the Bykovo hotel, restaurant, cafe, currency exchange office, post office.

Transportation

By commuter train from the Vykhino metro station (20 minutes). By shuttle bus from the municipal airport transfer station (80 minutes). By car — via Novoryazanskoye highway, then via Bykovskoye highway.

Pulkovo

This St. Petersburg airport has two terminals; Pulkovo-1 (18 km from the city center) serves mostly domestic flights and Pulkovo-2 (17 km from the city center) serves international flights.

Transportation

By minivan or buses from the Moskovskaya metro station.

Transportation

In the Russian capital and large cities there are generally several kinds of public transportation: metro, bus, trolley-bus, and streetcar. The cost of a single trip on Moscow ground transport is RUB 11 if you pay the fare collector on board or buy a ticket at the bus/streetcar stop. If you buy a ticket from the bus driver, it will cost you RUB 15. A ticket for a single metro ride costs RUB 13. In other Russian towns, public transportation is a little cheaper. It is convenient and thrifty to purchase a pass for several trips. The most popular kind of transportation in Moscow is the metro, which comprises 11 lines and almost 160 stations open from 5:30 a.m. to 1:00 a.m. Many of the Moscow metro stations are real artistic masterpieces, decorated with mosaics, stained glass, and bas-reliefs.

There are nine railway stations in Moscow: Belorussky, Kazansky, Kievsky, Kursky, Leningradsky, Paveletsky, Rizhsky, Savelovsky, and Yaroslavsky. Most trains to Europe leave from the Kievsky and Belorussky railway stations. The train is one of the most common means of transportation in Russia, considering its vast territories. Within one night a train from Moscow will reach



St. Petersburg, Pskov, Petrozavodsk, such towns along the Volga river as Cheboksary, Nizhny Novgorod, Samara, and Kyiv (the capital of the Ukraine), Minsk (the capital of Belarus), Riga (the capital of Latvia); and within 36 hours you will be able to reach the Urals — Perm, Yekaterinburg, Omsk, or the Black Sea coast of Russia — Anapa, Sochi. It will take you three nights and two days to get to Novosibirsk, and over five days to get to Khabarovsk. Communication between big cities and smaller towns located in the same region is ensured with the help of commuter trains, a very popular, convenient, and relatively cheap form of transport. Also there are normally long-distance buses circulating between towns within one region and between regions. Such buses normally leave from special parking lots next to railway stations. For example, there is a bus which goes to Baku, the capital of Azerbaijan, from the Kursky railway station, and there are buses which go from the Kievsky railway station to Kaluga and Bryansk, regional centers.

In big cities, it is easy to rent a car. However, the traffic is rather heavy, especially during rush hours, and traffic jams are quite frequent. As in most countries, taxis in Russia are yellow. State taxi companies will charge you per every kilometer and private companies, per every minute of the drive. On average, taxis in Russia are cheaper than in many European countries.

Although car rental service in Russia has existed for over ten years now, its active development began only recently. Today there are many companies in Moscow that provide car rental services, and this number keeps growing steadily.

Accommodation

In Russia, there are several kinds of accommodation for tourists: hotels, motels, sanatoria, rest homes, recreation and tourist camps, boats tied up in bays, hotels on board a ship, etc. Currently, a new classification of hotels and other kinds of housing is being developed, which will reflect WTO recommendations and help align Russian hospitality business with the international standards.

Hotel infrastructure has been developing rather actively in Russia. The housing facilities in the capital and other big cities comprise a plentiful number of rooms (e.g., Moscow can accommodate 65 thousand tourists, St. Petersburg, about 35 thousand). Hundreds of old hotels which were build in the Soviet era have already been renovated or are currently under reconstruction in order to meet the modern standards. Every town which is considered a cultural or tourist attraction has several hotels with restaurants, casinos, bars, parking lots, 24-hour room service, swimming pools, saunas, and gyms which will satisfy guests from abroad. Currently, many mini-hotels with 10 to 100 rooms each are being constructed with an active participation of private investors; in suburban areas, motels and mini-hotels (cottage type) are being built. Travel companies work in close cooperation with such motels which attract tourists by their homely and informal comfort and warmth. Ensured security, well-developed entertainment, communications infrastructure, and location in a rural area not far from the town make such mini-hotels very attractive. Also all over Russia — in Samara, St. Petersburg, Yekaterinburg, Irkutsk, Mourmansk, Vladivostok — big hotels

from 200 to 300 rooms are being constructed along with the development of businesses. Every year well-known international hotel chains, like Hyatt, Marriott, Radisson, Sheraton, ACCOR, and Holiday Inn, open their new high-class and spacious hotels in cultural and business centers of Russia.

Communication

In big Russian cities, telephone numbers consist of seven digits, in medium-size towns they normally consist of six digits, and in small towns, five digits. On weekdays, from 8 a.m. to 8 p.m., long-distance tariffs are rather high, after 8 p.m. and in the nighttime, as well as on days off, the tariffs are almost three times lower. Tariffs vary depending on the telephone operator company. The most cost-effective way to make a long-distance call is to use an IP-telephone card. The dialing instructions, a list of telephone codes, and prices for long-distance calls can be found in the telephone directory in your hotel room or in the hotel lobby.

To call a number in Russia from abroad, dial 7 (country code), then the area code (495 for Moscow or 812 for St. Petersburg), then the telephone number. In order to make a phone call from Russia, dial 8 (long-distance line), then 10 (international line), then the country code, area code, and the telephone number. Phone calls made from your hotel room will be rather expensive; it is much cheaper to use a special long-distance telephone in your hotel or an IP-telephone card which you can buy at any metro station. Your hotel or your tour guide can tell you about renting a cellular phone, the services provided by telephone operators, and tariffs.



Emergency Services

Using the numbers below, you can inform the emergency services of a fire, gas leakage, call the police, or ambulance. These numbers are free, and you can use any telephone in your hotel or on the street.

Fire emergency — 01

Police — 02

Ambulance — 03

Gas leakage — 04

Rescue service — 937-99-11

Other useful telephone numbers in Moscow:

Lost children — 401-90-11

Lost documents — 200-99-57

Lost-and-found in the metro — 222-20-85

Lost-and-found in ground transport — 298-32-41

Lost credit cards:

American Express — 755-90-01

Visa, Master Card, etc. — 956-35-56

Information on domestic and international flights — 941-99-99

Security

Lately security issues are becoming more and more important in Russia. Below you can find some useful tips on your personal security.

It should be noted that while in Russia, foreign citizens are in no serious danger if they comply with a number of mandatory requirements.

- When abroad, be reasonably attentive and careful and adapt your behavior to the situation.
- When going to work abroad, make sure that the type of visa you have in your passport permits you to

work in this country. Do not believe promises to change the type of your visa after you have entered the country of your destination.

- Do not sign any protocols and other documents in the language you do not understand.
- Do not communicate with the law enforcement bodies until your consulate officer(s) have arrived, as everything you say can have an adverse effect on you and become the basis of charges against you.
- If you are traveling by train or by car, make sure you have some food and water with you. Drink only bottled water or water that has been boiled for over 20 minutes.
- Try not to travel during the nighttime and never travel by car alone; do not sleep in a car parked at the roadside, do not give a lift to strangers.
- Beware of people who call themselves representatives of government bodies or the police. Oftentimes, visitors from abroad become victims of false “government officers” and other fraudsters of this kind.
- You do not need any special vaccination to visit Russia. However, we recommend that you have immune shots against such viruses as tetanus, poliomyelitis, hepatitis, rabies, and encephalitis. Bring along all necessary drugs and medications.
- Beware of suspicious or unattended objects you come across in public areas; try to leave the area immediately after you have noticed such an object.
- Keep away from political and other demonstrations and rallies.
- Avoid dark (poorly lit) streets in the evening and at night.

- Make sure you have on you just a minimum amount of cash you need for the day. It is safer to leave the rest of your money in the hotel room.
- Try not to lose the electronic key to your hotel room, as it may contain all of your personal information: your name, home address, hotel room number, arrival and departure dates, and your credit card number.

Medical Insurance and Healthcare

To come to Russia, you will need a medical insurance plan with a minimum coverage of US\$15,000. The insurance must cover the most common risks: accidents and sudden illnesses. Foreign tourists coming to Russia normally arrange a medical insurance with their life-insurance company. In any case, make sure that your insurance company has its service centers in the cities you are going to visit. If the company does not have its service centers in these cities, it normally reinsures its client with the Russian partner company.

In Moscow, in case of emergency, you can receive free medical advice and assistance of highly qualified doctors, notwithstanding your nationality or absence of a medical insurance, in the Sklifosofsky ER Research Medical Institute. You can also arrange a visit to any medical specialist from Polyclinic №2 (the Semashko polyclinic) to your home or to the hotel at which you are staying. In this case you will have to pay for the medical services. In other towns, if you need medical assistance, turn to your tour guide, hotel medical room, or hotel reception.



What People Are Saying

“I personally don’t see anything hindering my work in Russia. You could almost say I’ve become a native, though I was born in Munich and am pure Bavarian. But lately Bavaria has been playing a special role in contacts with Russia. We are pioneers in many new undertakings.

Of course, there are still many problems, but I can see that the Russian government is working to develop a civilized business environment in your country for both domestic and foreign business, and positive results have already been achieved. New laws have been adopted. Customs rules are being improved. As for the tax system, it has become exemplary, and many other countries would do well to implement it. My opinion of the Russian banking system is that it still needs a lot of improvement. But the important thing is that the country is developing. We should remember that in the now prosperous Germany not everything was done in a year. It takes time and patience. If you want to come to Russia, now is the time.”

Quirin Wydra,
President MAWY Handels GmbH

“Russia has quickly become a country in which business can be done just as in almost any other country. I would advise those who are contemplating investments in Russia to be transparent, goal-oriented, and think through their decisions from the very start. Sign a contract with a good law firm and financial consultants to advise you on legal issues, so that you always have the required permits, don’t have problems with the tax authorities, and enjoy all the benefits available to you. Travel around Russia: you need to know as much as possible about the country you’re working in, especially as all the necessary amenities are now in place: hotels offering a full range of services and communications (cell phones, Internet, etc.).”

Joseph W. Strella,
President OAO SUN Interbrew



“The Russian government pursues a very good macroeconomic policy. Much in Russia has gotten better: people have begun to pay taxes, the ruble has strengthened, companies are expanding, and the Russian stock market has for quite a long time remained stable. Certainly, there is a risk, but it is not greater than at the stock market in any other country.”

**John Connor,
Jr. CEO of Third Millennium Russia fund**

“We very much believe that Russia is no longer at the crossroads between a command economy and a market economy. Russia, we believe, is a country that has firmly chosen its own political and economic path — a path which will of course be lined with certain unique problems, but which also offers unique opportunities. There is much talk, particularly in the equity market, of the risks of investing in Russia, but we believe that the risks are more than counterbalanced by the opportunities, especially if you know where to find them.”

**Steven Jennings,
Chairman of the Board,
Investment group Renaissance Capital**



Epilogue: Horizons for the Future

Russia has always attracted foreign entrepreneurs, which is quite understandable: It is a huge country with an incredible economic potential, a favorable geographic position at the crossroads of trading routes, rich mineral deposits, talented craftspeople, and affluent intellectual resources. All of these keep attracting western and eastern business to Russia today. High risk levels are compensated by excellent investment opportunities and a great demand for innovative technologies, which stimulates the interest in Russia.

This book was meant to comprise useful and practical information on realistic business opportunities in the Russian Federation. We thought that such information would help the investor to realistically assess the balance of risks and opportunities inherent to doing business in

Russia. Such risks are a fact of life. In modern Russia, we do not conceal information, no matter how unpleasant it might be, on our political and economic life, we do not lacquer the reality, or pretend we do not have problems. And our book is an ample example of this. However, we also want our reader to have an objective impression of the Russian economy and its potential, we want you to learn about the positive changes that have taken place in the country in the past decade.

When, in the early 1990s, Russia was at the very start of democratic reforms, development of political pluralism, and market economy, when it declared its intention to integrate into the European and international community, many people thought that foreign investments would soon come to Russia like a heady current. But

these expectations were defeated. The amount of foreign investments coming to Russia every year does not in the least satisfy the ambitious plans of our government, and therefore, both the country leaders and the business circles are clearly dissatisfied with the situation.

Currently, the main obstacle for foreign investment growth is widely spread among much foreign businessperson opinion that Russian companies are too abstruse and risky to invest in them. This opinion is to a large degree supported by certain western mass media which paints the overall situation in Russia and economic situation, in particular, in exclusively dark shades, presenting occasional single flaws, failures, and just premature decisions (which are inevitable in the period of radical reforms in any society) as typical and widely spread. As a result, many of our potential foreign partners still have a contorted picture of life in Russia.

However, foreign businesspeople that come to Russia then tell their colleagues abroad what real modern Russia is about and what horizons open here for cooperation. This change of attitude makes many businesspeople come here again and again establishing new business relations and taking responsible decisions regarding investing in the Russian economy. You can find their views on Russia





and its economy in the *Success Stories* and *What People Are Saying* sections.

Companies that have been working in Russia long enough have already realized all advantages of our country. This is also proven by the results of the survey held in February 2005 by the international agency PBN Company upon request of the Foreign Investment Advisory Council which works in close cooperation with the Russian government and the Ministry of Economic Development and Trade of the Russian Federation. The survey demonstrated that 80% of investor companies working in various regions of the Russian Federation have successfully achieved their business goals in the past two years, and consider their activities here quite successful. Almost the same amount of company managers said that they were going to further develop their businesses in Russia in the near future. It is remarkable that nearly all survey participants agreed that "... in fact, Russia promises greater success than one might perceive."

So, increasing Russia's attractiveness for investors largely depends on providing objective information to foreign businesspeople, widely spreading transparent and understandable data related to the conditions of investing in Russia, and to the most profitable and promising sectors of the Russian economy. This is the kind of information we were trying to include in our book.

There is only one thing we have neglected so far — the open-heartedness and traditional hospitality of the Russian people, the respect they have for guests from abroad, and their other personal and professional qualities which have won the respect and trust of millions of people from all over the world who visit our country every year. Come to Russia, and we assure you that you will want to come back here again and again.

Welcome to Russia! We have enough work for everyone who is looking for it. We are offering you our hand...





Appendices

Appendix 1: Trade Missions and Commercial Services of Foreign Embassies

Country	City	Name of the Institution/ Name of the Individual in charge of the Institution	Address	Telephone, fax, e-mail
Algeria	Algiers	Trade Representation Sergei Petrovich PANFEROV	Representation commerciale de la Federation de Russie 9A, rue Emile Payen, Hydra, Algiers	country/city code: 21321 tel: 92-37-88, 92-22-64 fax: 92-51-20
Argentina	Buenos Aires	Trade Representation Viktor Mikhailovich KOKOREV	Representacion Comercial de la Federacion de Rusia en la Republica Argentina 1428, Buenos Aires, Dragones 2350	country/city code: 5411 tel: 4787-02-25, 4787-04-25 fax: 4787-03-44 e-mail: mail@rcrusia.com.ar
Australia	Canberra	Office of the Trade Counsellor Acting Trade Counsellor Sergey Vladimirovich BALAN	Office of the Trade Counsellor of the Embassy of the Russian Federation in Australia 5 Arkana Street, Yarralumla Canberra A.C.T. 2600	country/city code: 612 tel: 6281-2716 fax: 6285-2396 e-mail: rustrate@bigpond.com
Austria	Wien	Trade Representation Yuri Petrovich STETSENKO	Handelsvertretung der Russischen Federation in Osterreich Argentinierstrasse 25-27 Wien 1040	country/city code: 431 tel: 505-44-58, 505-26-68 fax: 505-81-98 e-mail: au.russhv@aon.at
Azerbaijan	Baku	Trade Representation Deputy Trade Counsellor Valery Alexandrovich KUZAVKOV	Trade Representation of the Russian Federation in Azerbaijan Ichery Shekher Sabara Street, Blg. 3 Baku	country/city code: 99412 tel: 492-80-45, ext. 282 fax: 497-87-36
Belarus	Minsk	Trade Representation Evgeniy Andreyevich NOVOZHILOV	Trade Representation of the Russian Federation in Belarus 220035, Minsk, ul. Gvardeyskaya, 5 A	country/city code: 37517 tel: 222-71-22 fax: 222-71-23 e-mail: tp@open.by
Belgium	Brussels	Trade Representation Elena Vassilyevna BANDURA Permanent Representation of the Russian Federation under the EU Deputy Permanent Representative Evgeniy Mikhailovich MANAKIN	La Representation Commerciale de la Federation de Russie en Belgique Dreve de Lorraine 451170 Bruxelles 38, Avenue Louis Lepontre 1030 Brussels	country/city code: 322 tel: 375-40-20, 375-74-00 fax: 375-74-10 e-mail: traderep.ru@skynet.be country/city code: 322 tel: 374 -63-47, 374-45-88 fax: 513-76-49 e-mail: misrusce@coditel.net



Country	City	Name of the Institution/ Name of the Individual in charge of the Institution	Address	Telephone, fax, e-mail
Brazil	Brasilia	Trade Representation Sergey Valentinovich LOGINOV	Representacao Comercial da RF no Brasil Shi-Sul-5 – Chacara 12 Brasilia DF	country/city code: 5561 tel: 32-48-07-66 fax: 32-48-09-62 e-mail: torgrussia@br.inter.net
	Sao Paolo	Trade Representation Branch Deputy Trade Representative Vladimir Ivanovich NERETIN	Escritorio Comercial da RF em Sao Paulo Rua Traipu, 831, Perdizes, CEPO 1235 Sao Paulo, SP	country/city code: 5511 tel: 38-65-11-40 fax: 38-65-57-81
	Rio de Janeiro	Trade Representation Branch Deputy Trade Representative Yury Anatoliyevich KUDRYAVTSEV	Escritorio Comercial da RF no Rio de Janeiro AV. Visconde de Albuquerque 466, (Leblon), CEP 22450 Rio de Janeiro, RJ	country/city code: 5521 tel: 22-74-00-99 fax: 22-74-08-45, 22-94-49-43
Bulgaria	Sofia	Trade Representation Alexander Pavlovich TOMILOV	Trade Representation of the Russian Federation in the Republic of Bulgaria ul. Frederic Jolio Curie 23, 1113 Sofia	country/city code: 3592 tel: 963-08-88, 963-16-15 fax: 963-04-28 e-mail: rutorg@spnet.net
Canada	Ottawa	Trade Representation Sergey Vladimirovich CHERNYSHIOV	Trade Representation of the Russian Federation in Canada 95 Wurtemberg St. Ottawa, Ontario K1N 8Z7	country/city code: 1613 tel: 789-12-22, 789-10-66 fax: 789-29-51 e-mail: rustrade@rogers.com www.rustradecanada.com
	Montreal	Trade Representation Branch Deputy Trade Representative Sergey Vladimirovich SIKACHEV	The Montreal Branch of the Russian Federation Trade Representation in Canada 4370 Pie IX Blvd. Montreal, Quebec H1X 2B3	country/city code: 1514 tel: 259-45-33 fax: 259-55-05
China	Beijing	Trade Representation Sergey Sergeyevbich TSYPLAKOV	Trade Representation of the Russian Federation in People's Republic of China Dongzhimen nei, Mashao, Hutong 27 A Beijing	country/city code: 8610 tel: 65-32-22-01, 65-32-21-81 fax: 65-32-53-98 e-mail: russtorg@public.bta.net.cn



Country	City	Name of the Institution/ Name of the Individual in charge of the Institution	Address	Telephone, fax, e-mail
Czech Republic	Prague	Trade Representation Ivan Viktorovich GALAKTIONOV	Obohodni zastupiteistvi RF v Ceske republice Sibirske nam., 1027 16000 Praha 6	country/city code: 4202 tel: 33-32-14-87, 33-32-37-05 fax: 24-31-15-43 e-mail: rustorg@volny.cz
Denmark	Copenhagen	Trade Representation Vyacheslav Georgievich GRUSHEVSKY	Handelsrepraesentationen for RF i Danmark Vigerslev Alle 161 2500 Valby Kobenhavn	country/city code: 45 tel: 36-46-28-11, 36-46-27-05 fax: 36-46-29-82 e-mail: rustrade@teliamail.dk
Egypt	Cairo	Trade Representation Alexander Dmitriyevich YESYUTIN	Trade Representation of the Russian Federation in the ARE 19 Aziz Abaza Street Zamalek, Cairo	country/city code: 202 tel: 736-13-85, 735-86-82 fax: 736-29-96 e-mail: rummeg@tedata.net.eg
Finland	Helsinki	Trade Representation Valery Alexandrovich SHLYAMIN	Trade Representation of the Russian Federation in Finland Tehtaankatu 1 C 00140 Helsinki 14	country/city code: 3589 tel: 66-45-28 fax: 65-24-35 e-mail: vneshorg.vesfin@ rustrade.inet.fi
France	Paris	Trade Representation Ivan Valeriyevich PROSTAKOV	Representation Commerciale de la Federation de Russie en France 49, rue de la Faisanderie 75116 Paris	country/city code: 331 tel: 47-27-51-71, 47-27-41-39 fax: 45-53-68-56 e-mail: rustrade.paris@wanadoo.fr
Germany	Berlin	Trade Representation Vladimir Petrovich MATVEYEV	Handelsvertretung der Russischen Federation in BRD Unter den Linden 55-61 10117 Berlin BRD	country/city code: 4930 tel: 234-30-12, 234-30-34 fax: 229-03-90 e-mail: rfhw@rfhw.de
Hungary	Budapest	Trade Representation Alexander Sergeyevech PROKHORENKO	AZ Orosz Federacio Kereskedelmi Kepviselete a Magyar Koztarsasagban Bajza utca 42 1062 Budapest	country/city code: 361 tel: 353-46-85, 31188-84 fax: 353-32-46 e-mail: mail@rustrade.axelero.net
India	New Delhi	Trade Representation Acting Trade Representative Nikolai Nikolaevich STEPANOV	Trade Representation of the Russian Federation in India Piot Nos 6 and 7 Block 50E Nyaya Marg, Chanakyapuri New Delhi 110021	country/city code: 9111 tel: 26-88-91-53, 26-87-31-95 fax: 26-87-31-89 e-mail: rusinrd@ndb.vsnl.net.in
	Mumbai	Trade Representation Branch Deputy Trade Representative Kamil Ramazanovich GALIYEV		country/city code: 9122 tel: 23-87-96-50 fax: 23-80-36-93



Country	City	Name of the Institution/ Name of the Individual in charge of the Institution	Address	Telephone, fax, e-mail
Indonesia	Jakarta	Trade Representation Acting Trade Representative Igor Valeryievich KUZMIN	Trade Representation of the Russian Federation in Rep. of Indonesia Jalan Imam Bonjoi, 60 Jakarta 10310	country/city code: 6221 tel: 390-40-51, 384-26-23 fax: 390-40-50 e-mail: rustrade@cbn.net.id
Iran	Tehran	Trade Representation Igor Alexeyevich ALEXANDROV	Trade Representation of the Russian Federation Paminar Ave. 21 Tehran-2	country/city code: 9821 tel: 311-23-81, 311-34-51 fax: 311-28-65
Italy	Rome	Trade Representation Sergey Igorevich IVANOV	Rappresentanza Commerciale del a Federazione Russa nella Italiana 46, Via Clitunno 00198 Roma	country/city code: 3906 tel: 855-54-56, 841-34-69, 884-21-87 fax: 884-82-96 e-mail: torgru@tiscalinex.it
Japan	Tokyo	Trade Representation Alexander Borisovich LAVRENTIEV	Trade Representation of the Russian Federation in Japan 6-9, 4 – chome, Takanawa Minato-ku Tokyo 108-0074	country/city code: 813 tel: 34-47-32-81, 34-47-32-01 fax: 34-47-32-21 e-mail: rustrade@nifty.ne.jp
Kazakhstan	Astana	Trade Representation Andrei Yurievich RUDENKO	Trade Representation of the Russian Federation in Kazakhstan 473000, Astana, ul. Kenesary, 107	country/city code: 3172 tel: 32-77-89 fax: 32-81-51 e-mail: torgrf@newmail.ru
	Almaty	Trade Representation Branch Deputy Trade Representative Alexey Vladimirovich MOLODTSOV	480070 Alma-Ata, ul. Dzhandosova, 4	country/city code: 3272 tel: 75-49-55 fax: 75-46-06
Korea	Seoul	Trade Representation Vladimir Iliyich BAKHTIN	Trade Representation of the Russian Federation in Republic of Korea 1-41, Sinmunno-2ga, Chonguo-Gu, 110-062, Seoul	country/city code: 822 tel: 737-87-04, 737-87-05 fax: 737-64-04 e-mail: rustrade@kornet.net
Kyrgyzstan	Bishkek	Trade Representation Tophik Agarza ogly MELIKOV		country/city code: 996312 tel: 21-79-06 fax: 21-46-25
Lithuania	Vilnius	Trade Representation Igor Andreyevich ZOTOV	Trade Representation of the Russian Federation in Lithuania 2021, Vilnius, Kvechu 15a	country/city code: 3705 tel: 279-69-12, 269-75-57 fax: 269-75-10
Malaysia	Kuala Lumpur	Trade Representation Sergey Yuriyevich ROSSOMAKHOV	Trade Representation of the Russian Federation in Malaysia No. 5 Jalan Nipah, off Jalan Ampang Kuala Lumpur 16-03	country/city code: 603 tel: 42-56-66-46, 42-56-51-40 fax: 42-56-65-46 e-mail: rustrade@streamyx.com



Country	City	Name of the Institution/ Name of the Individual in charge of the Institution	Address	Telephone, fax, e-mail
Morocco	Rabat	Trade Representation Vyacheslav Semenovich KHRULEV	La Representation Commerciale de la Federation de Russie au Royaume de Maroc Rue Nadi – Charia Imam Malik, Route des Zaers, Km4 – Souissi – Rabat	country/city code: 21237 tel: 75-44-81 fax: 75-21-06 e-mail: tradustrade@kornet.net
	Casablanca	Trade Representation Branch Deputy Trade Representative Nikolay Sergeevich KHODYREV	Bul. Mulay Usef., 43 Casablanca	country/city code: 21222 tel: 27-80-72, 26-76-55 fax: 27-93-62 e-mail: petr@casanet.net.ma, tpcasa@rambler.ru
The Netherlands	Amsterdam	Trade Representation Deputy Trade Representative Vladimir Viktorovich VOROBIOV	Trade Representation of the Russian Federation in the Netherlands Veluwelaan 22 1079 RA Amsterdam	country/city code: 3120 tel: 644-66-66 fax: 644-66-43 e-mail: info@rustrade.nl
Norway	Oslo	Trade Representation Viktor Nikolaevich BALASHOV	RF Handelsrepresentasjon i Norge Drammensveien 106B Oslo 2 Norge	country/city code: 4722 tel: 22-44-40-25 fax: 22-55-35-78 e-mail: rustradmis.nor@c2i.net
Pakistan	Islamabad	Trade Representation Rishat Nurakhmanovich KHALIKOV	Trade Representation of the Russian Federation in Pakistan Plot 8, Street 62 Shalimar F6/3 Islamabad	country/city code: 9251 tel: 227-82-30 fax: 227-82-31 e-mail: rustrade-isb@yahoo.com
	Karachi	Trade Representation Branch Deputy Trade Representative Vitaly Alexandrovich GLINIKIN	The Russian Federation Trade Representation in Pakistan Karachi Branch 68 Chahrahiton Chiton Karachi	country/city code: 9221 tel: 587-44-18, 587-43-93 e-mail: rustrade@khi.wol.net.pk
Poland	Warsaw	Trade Representation Nikolay Ivanovich ZAKHMATOV	Przedstawicielstwo Handlowe RF w Polskiej Rzeczypospolitej Ul. Belwederska, 25 00761 Warszawa	country/city code: 4822 tel: 849-58-17 fax: 849-04-63 e-mail: rostorg@neostrada.pl
Serbia and Montenegro	Belgrade	Trade Representation Andrey Nikolayevich KHRIPUNOV	Trgovinsko predstavnitvo RF U SFRJ Katiceva, 8-10 Belgrade 11000 SRJ	country/city code: 38111 tel: 264-16-56, 264-22-55 fax: 264-10-88 e-mail: mintorg@infosky.net
Slovakia	Bratislava	Trade Representation Grigory Naskidovich SARISHVILI	Trade Representation of the Russian Federation in Slovakia 81103, Bratislava, ul. Zrinskogo, 17	country/city code: 4212 tel: 54-41-40-24 fax: 54-41-40-49



Country	City	Name of the Institution/ Name of the Individual in charge of the Institution	Address	Telephone, fax, e-mail
Spain	Madrid	Trade Representation Acting Trade Representative Anatoly Vasilyevich YEVOKIMOV	Delegacion Comercial de la Federacion de Rusia Alfonso Rodríguez Santamaria, 18 bajo 28002, Madrid	country/city code: 3491 tel: 411-1900 fax: 411-19-50 e-mail: delcom@teleline.es
Sweden	Stockholm	Trade Representation Mikhail Mikhailovich PETRIK	Trade Representation of Russian Federation in Sweden Ringvagen 1, 181 34 Lidingo Stockholm Sverige	country/city code: 468 tel: 765-14-65 fax: 765-99-59 e-mail: rusian.trade.mission@ lidingo.mail.telia.com, torgpredstvo@telia.com
Switzerland	Bern	Trade Representation Acting Trade Representative Yuri Semenovich KHROMOV	Handelsvertretung der Russischen Federation in der Schweiz Schanzeneck-strasse 19 Bern 3012 Schweiz	country/city code: 4131 tel: 301-18-71, 301-18-72 fax: 301-44-09 e-mail: handelsvertretung@ swissonline.ch
	Geneva	Permanent Representation of the Russian Federation under the United Nations Office Assistance Office for Trade and Politics Senior Counselor Yury Borissovich AFANASSIYEV	Mission Permanente de la Federation de Russie aupres de l'office des Nations Unies a Geneve 15, Avenue de la Paix 1202 Geneve	country/city code: 4122 tel/fax: 740-32-71 e-mail: ruswto@bluewin.ch Permanent Representation (Ministry of Foreign Affairs) country/city code: 4122 tel: 733-18-70 fax: 734-40-44
Tadjikistan	Dushanbe	Trade Representation Alexander Viktorovich YAKOVLEV		country/city code: 992372 tel: 21-10-05, 35-74-38, 35-98-27
Thailand	Bangkok	Trade Representation Sergey Alexeyevich BRIGINEVICH	Trade Representation of the Russian Federation in Thailand 11th Floor, Charn Issara Tower II 2922203, New Petchbury Rd., Bangkok 10320	country/city code: 662 tel: 308-27-51, 308-27-53 fax: 308-27-55 e-mail: torgpred@adsl.loxinfo.com
Turkey	Ankara	Trade Representation Vladimir Pavlovich FITIN	SSOB Turkiye Ticaret Murnessilligi Ataturk Bul. 106, Ankara	country/city code: 90312 tel: 425-20-90, 418-75-12 fax: 418-39-91 e-mail: rustradeturk@yandex.ru
	Istanbul	Trade Representation Branch Deputy Trade Representative Victor Vladimirovich ILSKY	Istikal Cad., N43, Beyoglu, Istanbul	country/city code: 90212 tel: 244-35-87 tel/fax: 244-35-53



Country	City	Name of the Institution/ Name of the Individual in charge of the Institution	Address	Telephone, fax, e-mail
UK	London	Trade Representation Acting Trade Representative Fedor Fedorovich TAKHTAMANOV	Trade Delegation of the Russian Federation in the United Kingdom 32-33, Highgate West Hill London N 66 NL N6	country/city code: 4420 tel: 83-40-19-07, 83-40-44-91 fax: 83-48-01-12 e-mail: trdel@rtdi.freereserve.co.uk
Ukraine	Kyiv	Trade Representation Gennady Anatolievich SCHERBAKOV	Trade Representation of the Russian Federation in Ukraine 04070, Kyiv, ul. Spasskaya, 24/15	country/city code: 38044 tel: 425-24-41, 425-24-07 fax: 230-25-30 e-mail: tprf@optima.com.ua
Uzbekistan	Tashkent	Trade Representation Deputy Trade Representative Boris Evgenievich ATAMANOV	Temporarily placed in the Embassy of Russian Federation in Republic of Uzbekistan 700015, Tashkent, ul. Nukusskaya, 83	country/city code: 99871 tel: 120-35-23
USA	Washington, D.C.	Trade Representation Andrey Pavlovich DOLGORUKOV	Trade Representation of the Russian Federation in the United States of America 2001 Connecticut Ave. N.W. Washington, D.C. 20008	country code: 1202 tel: 232-59-88 fax: 232-29-17 e-mail: rustrade@erols.com
	San Francisco	Trade Representation Branch Expert Denis Viktorovich KHROMOV	Commercial Consul 2790 Green Street San Francisco, CA 94123	country code: 1415 tel: 474-56-05, 682-85-92 fax: 682-86-05 e-mail: info@russiantradeny.com
	New York	Trade Representation Branch Deputy Trade Representative Dmitry Alexeyevich BORISSOV Permanent Representation of Russian Federation under the United Nations Office Senior Counselor Alexander Vasilievich ANANIEV	The Trade and Economic Council 400 Madison Ave, Office 901 New York, NY 10017 136 E67th Street New York, NY 10021	country/city code: 1212 tel: 682-85-20 fax: 688-19-51 e-mail: trrf2us@msn.com country/city code: 1212 tel: 861-49-00 fax: 628-02-52, 517-74-27
Vietnam	Hanoi	Trade Representation Alexander Tikhonovich SITNIKOV	Representation Commerciale de la Federation de Russie au Viet-Nam 191, La Thanh road Hanoi	country/city code: 844 tel: 833-07-55 fax: 834-00-60 e-mail: vneshtorg-vn@hn.vnn.vn



Appendix 2 : Internet Resources

Government Bodies Of The Russian Federation

Website of the President of the Russian Federation

<http://www.kremlin.ru>

Website of the Government of the Russian Federation

<http://www.government.ru>

Federal Financial Markets Service

<http://www.fcsm.ru>

The service's structure and management, press releases, official documents, e-version of the FFMS newsletter, detailed information on issuers.

Federal State Statistics Service (Rosstat)

<http://www.gks.ru>

Official website, the service's structure, regulations, statistical data, news, information.

Federal Tax Service

<http://www.nalog.ru>

Archive, structure, activities. Statistical data on budget revenues from taxes, tax legislation.

Federation Council

<http://www.council.gov.ru>

The Council's members and structure, recent information on the lawmaking process, information on committees and commissions.

Moscow City Duma

<http://www.duma.mos.ru>

Deputies, the Duma's structure, Moscow legislation, press releases, latest events and archive.

Moscow Mayor's Office

<http://www.mos.ru>

Information on the mayor and mayor's office, the office's structure, the Working Program of the Moscow Government, budget, reference materials.

Russian Federal Property Fund

<http://www.fpf.ru>

Information on the fund and its structure, regulations, digest of the newsletter Reform.

Russian Federation Administrative Bodies

<http://www.gov.ru>

Various information on the Russian President (biography, political career, civil status, income, property, etc.), press releases of the presidential administration, related web links.

Russian Federation Ministry of Defense

<http://www.mil.ru>

Russian Ministry of Finance

<http://www.minfin.ru>

News, ministry structure, federal budgets, quarterly reports on the implementation of the 1997 and 1998 budgets. Draft of the Tax Code. Information on state securities.

Saint Petersburg City Administration

<http://www.gov.spb.ru>

Structure, work plans, regulatory documents, press releases, historical and geographical information on the city, useful telephone numbers.

State Duma

<http://www.duma.gov.ru>

Official website: rules and regulations, complete list of deputies and groups of deputies, lists of committees and commissions. New feature: a list of bills.

<http://www.duma.ru>

Second official website: information for the press, the Duma newsletter, digest of publications on the State Duma and its deputies, news and reference information.



Business In Russia

American Chamber of Commerce in Russia

<http://www.amcham.ru>

Association of European Businesses in the Russian Federation

<http://www.aebrus.ru>

Business Russia

<http://www.deloros.ru/>

The Chamber of Commerce and Industry of the Russian Federation

<http://www.tpprf.ru>

News of the chamber and regional chambers, the chamber's management, organizational structure, committees, agenda, list of services, contacts.

Expert Institute of the Russian Union of Industrialists and Entrepreneurs (Employers)

<http://www.exin.ru>

Information Retrieval System "Export Capacities of Russia"

<http://www.exportsupport.ru>

Government register of some 2,000 Russian companies interested in expanding their sales abroad.

Institute of Direct Investments

<http://www.ivr.ru>

Investor Protection Association

<http://www.corp-gov.ru>

League of Management Companies of Russia

<http://www.nlu.ru>

Opora Rossii

[http:// www.opora.ru/live/](http://www.opora.ru/live/)

All-Russia public organization of small and medium entrepreneurs

Russian-Chinese Center for Trade and Economic Cooperation

<http://rus-china.centro.ru>

Russian Managers Association

<http://www.amr.ru>

Russian Union of Industrialists and Entrepreneurs (Employers)

<http://www.rsspr.ru>

Legal Agencies

ConsultantPlus

<http://www.consultant.ru>

Wide range of legal information.

GARANT (Computer legal information reference system)

<http://www.garant.ru>

Wide range of legal information.

Kodeks (The Code)

<http://www.kodeks.net/win/rus.htm>

Information system.

Ministry of Justice of the Russian Federation

<http://www.scli.ru>

News, databases, conferences.

Supreme Arbitration Court

<http://www.arbitr.ru>

News, arbitration practice, press releases.

Supreme Court of the Russian Federation

<http://www.supcourt.ru>

The court's structure, resolutions, newsletter, judicial bodies, news, reference materials.



Russian Lending Institutions

Association of Regional Russian Banks

<http://www.asros.ru>

News, banking legislation, inter-regional and international cooperation.

Association of Russian Banks

<http://www.arb.ru>

News, the association's activities and working groups, international cooperation.

Central Bank of Russia (CBR)

<http://www.cbr.ru>

Financial and economic data. Information and analytical materials, information on banknotes and coins and on the central banks of CIS countries, the Baltic states, and other foreign countries. Statistics. CBR newsletter, archive.

Savings Bank of the Russian Federation (Sberbank)

<http://www.sbr.ru>

Bank history, Sberbank today, annual report, services, news, branches, subsidiaries, customer information (including issued securities).

Vneshtorgbank

<http://www.vtb.ru>

News, financial statements, services, information on securities (including Vneshtorgbank bonds), depository services.

Mass Media

AK&M Information Agency

<http://www.akm.ru>

Information on the Russian stock market. Articles, analytical reviews, ratings, indexes. Information on privatized and investment companies.

Aurora Access Securites

<http://www.aas.ee/en/>

Internet resource providing financial and other information: benchmarking assets analysis, currency exchange rates, useful links, etc.

Finansy.ru

<http://www.finansy.ru>

News, publications (the Russian economy, international trade, banking, investments, accounting, taxes, etc.), online media, links to personal websites of economists, information for Ph.D.s and Ph.D. candidates, etc.

Finmarket Information Agency

<http://www.finmarket.ru>

Financial and economic information, analytical reviews, news, discussions.

IFIN.ru

<http://www.internetfinance.ru>

Financial technologies and services provided on the Internet (Internet trading, banking, and insurance). News, publications, calendar of significant events, forum, glossary.

Interfax Information Agency

<http://www.interfax-agency.com>

Political, economic, and industrial news.

ITAR-TASS, Information Agency

<http://www.tass.ru>

Wide range of information.

<http://www.itar-tass.com/eng/>

English mirror site.

Novosty (News) Russian Information Agency

<http://www.rian.ru>

A wide variety of information on various subjects, references (Russian political parties and organizations, political leaders), calendars of significant and memorable dates, newsletters (economics, privatization, customs).



Political Experts Network

<http://www.kreml.org>

Polpred Analytical Center

<http://www.polpred.com>

Information on Russian foreign economic relations, investments, macroeconomics.

RosBusinessConsulting Information Agency

<http://www.rbc.ru>

Information from the leading trading floors, analytical reviews, financial profiles of major Russian companies, statistical data, etc.

RUStocks.com

<http://www.rustocks.com>

Financial information, weekly reviews of economic news, regularly updated reviews of over 150 Russian companies.

Strana.Ru

<http://www.strana.ru>

Information by subject, including economics, politics and the state, information from the presidential administration and the government of the Russian Federation, analytical reviews, news from the regions.

Vergen Group

<http://www.dinform.ru>

Information on Russian and international financial markets.

Airports And Hotels

Domodedovo

<http://www.domodedovo.ru>

Hotels of Russia

<http://www.russia-tour.ru/hotels>

Pulkovo

<http://www.pulkovo.ru/>

Sheremetyevo-1 and Sheremetyevo-2

<http://www.sheremetyevo-airport.ru/>

Vnukovo

<http://www.vnukovo.ru>

Car Rental Services

Aventa

www.avena-rentacar.ru

Eleks Polus

<http://www.prokatauto.ru/>

Europcar Rus

<http://www.europcar.ru/>

Global Rent

<http://www.globalrent.ru/>

Income-Auto

<http://www.incom-auto.ru/>

Healthcare

Clinic No. 2 (Semashko Clinic)

Tel. 238-3840

Sklifosofsky ER Medical Institute (24 hours)

Address: Bolshaya Sukharevskaya Square, 3.

Moscow

Tel. 280-4154

<http://www.sklif.by.ru/>



10-12 June 2007
XI ST. PETERSBURG
INTERNATIONAL
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FORUM



MINISTRY OF ECONOMIC DEVELOPMENT AND TRADE OF THE RUSSIAN FEDERATION
THE COUNCIL OF FEDERATION OF THE FEDERAL ASSEMBLY OF THE RUSSIAN FEDERATION
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*V. Matvienko
Governor
of St. Petersburg*

Ministry of Economic Development and Trade
of the Russian Federation

www.economy.gov.ru

Foreign Investment Advisory Council

www.fiac.ru