



Executive Summary

Russia's annexation of Crimea in March 2014 is not recognized by the U.S. government and led to the placement of USG sanctions on various Russian government officials and a limited number of entities, as well as the imposition of stricter licensing controls on certain products exported to Russia. Policy discussions with the Russian government regarding measures to increase bilateral trade and investment ties and in multilateral forum such as the G8 were also halted in the aftermath of Russia's illegal actions in Ukraine.

The government of Russia continues to express interest in attracting higher levels of domestic and foreign investment. Looking to domestic investment, the Russian Government has established a number of regulations which penalize Russian individuals and firms for investing abroad, in part possibly to offset lower levels of foreign direct investment in Russia during 2014. As detailed below, the Russian Government has worked actively on the technical level to improve the business and investment climate. Despite numerous new programs and initiatives, progress has been uneven and the government has yet to take action to make much needed overall structural reforms. Russian government officials have publicly and privately expressed their desire for foreign investment and technology transfer. At the same time, the government continues to limit foreign investment in "strategic" sectors and by maintaining control over half of Russia's GDP through state-owned enterprises.

American firms seeking to invest in the Russian Federation should be aware that the Russian investment climate continues to be marked by high levels of corruption and political risk, making thorough due diligence and good legal counsel essential for any potential investment. A variety of regulations also require Russian government approval for foreign firms to invest in "strategic sectors" and, in some cases, ban majority foreign ownership. The Russian legal system and jurisprudence is improving but recent changes in the structure of the Russian high court have cast doubts on its ultimate autonomy. Given Russia's continued actions in Ukraine, additional sanctions from the international community cannot be ruled out, which could have effects on potential investments. Additionally, senior Russian government officials have threatened that they could retaliate against sanctions, although they have not specified in what manner.

1. Openness to, and Restrictions Upon, Foreign Investment

Russia's annexation of Crimea in March 2014 is not recognized by the U.S. government and led to the placement of USG sanctions on various Russian government officials and a limited number of entities, and the postponement of key bilateral and multilateral engagement on economic reforms. The United States announced the first round of sanctions against influential Russian government officials and entities in early March and has added additional names to the sanctions list on subsequent occasions. Policy discussions with the Russian government regarding measures to increase bilateral trade and investment ties were also halted in the aftermath of Russia's illegal actions in Ukraine.

In late March, Senator Andrei Klishas of the Federation Council, the upper chamber of Russia's national legislature, said the Council plans to draft legislation which would allow the confiscation of property, assets, and accounts of American and EU companies, including private companies, as a retaliatory measure on possible sanctions from the U.S. and EU. While no specific legislation has been proposed or passed, such an announcement clearly adds an additional element of uncertainty to any investment prospect in Russia because it would signal the willingness of the Russian government to violate national and international norms when it finds it to be politically expedient.

However, the government of Russia continues to express interest in attracting higher levels of domestic and foreign investment by private companies. Looking to domestic investment, the Russian Government has established a number of regulations which penalize Russian individuals and firms for investing abroad, possibly to offset lower foreign direct investment in Russia during 2014. It is unclear what success this policy initiative, called "de-offshorization" by President Putin, has had to date. In the first quarter of 2014, capital outflow from Russia reached approximately \$63.7 billion, the highest quarterly outflow since the last quarter of 2008 during the height of the global financial crisis.

As detailed below, the Russian Government has also worked actively on the technical level to improve the business and investment climate. Despite numerous new programs and initiatives, progress has been uneven and the government has yet to take action to make much needed structural reforms.

Russia's illegal annexation of Crimea has dampened growth prospects for the Russian economy. The International Monetary Fund predicts the Russian economy will grow by a sluggish 0.2 percent in 2014. Given the uncertainty surrounding Russia's actions in Ukraine, the World Bank provided two estimates for GDP in 2014. The low risk scenario anticipates 1.1 percent GDP growth and the high risk scenario anticipates a contraction of 1.8 percent for 2014. Russia finished 2013 with 1.3 percent growth, the lowest rate since the 2009 financial crisis and well under half of the 3.6 percent the Russian government forecasted at the beginning of the year. Russia's economy continues to be particularly vulnerable to fluctuations in global energy prices and continued weakness in the European economy, as the EU represents more than 50 percent of Russia's total trade volume. According to the United Nations Conference on Trade and Development (UNCTAD) Global Investment Trends Monitor from January 2014, FDI inflow into Russia jumped 83 percent to \$94 billion in 2013 from \$51 billion in 2012.

Russian government officials have repeatedly stressed that foreign investment and technology transfer are critical to Russia's economic modernization. At the same time, the government continues to limit foreign investment in sectors deemed to have strategic significance for national defense and state security via the Strategic Sectors Law of 2008. The law originally specified 42 activities and has since been amended on five separate occasions. As of April 2014, 45 activities require government approval for foreign investment. Foreign investors wishing to increase or gain ownership above certain thresholds need to seek prior approval from a government commission headed by Russia's Prime Minister. While the Commission has approved 129 of 137 applications for foreign investment since 2008, the number of transactions approved with conditions has been increasing significantly.

Russia continues to promote the use of high-tech parks, special economic zones and industrial clusters which offer additional tax and infrastructure incentives to attract investment. One of President Putin's stated goals, to move Russia from 120th (in 2010) to 20th on the World Bank's Doing Business Index by 2020, saw progress with Russia climbing to 92nd in the 2014 publication. It will likely climb in the ranks again due largely to improvements in obtaining a connection to electricity for new businesses and in the ease of registering a business.

Russia's policy to foster innovation continues but the enthusiasm and funding for this policy appears to be waning. The flagship project, the Skolkovo Innovation Center, was designed to be the Russian equivalent of Silicon Valley and has been assured funding through 2015 with future funding uncertain. Roughly a dozen American firms have made sizable commitments to investment in the tech park portion of the project and the Massachusetts Institute of Technology continues to run a multi-million dollar program with Skolkovo Institute of Science and Technology (SkolTech) to design educational curricula and research programs, innovation activities, administrative policies and structures, recruiting processes, and campus operations and infrastructure. So far, tangible results from the project have been modest. On top of this, in 2013, the Skolkovo Foundation, which runs the endowment portion of the project, faced accusations of corruption though no case was ever brought to court. In early 2014 the Russian government announced a new initiative to create an innovation center on Russky Island in Vladivostok. It remains to be seen if this latest project will yield results.

While a legal structure exists to support foreign investors, the laws are not always enforced in practice. The 1991 Investment Code and 1999 Law on Foreign Investment guarantee that foreign investors enjoy rights equal to those of Russian investors, although some industries have limits on foreign ownership (see Establishment section). Russia has sought to enhance consultation mechanisms with international businesses (for example through the Foreign Investment Advisory Council whose members are CEOs of large companies) regarding the impact of the country's legislation and regulations on the business and investment climate. In June 2012, President Putin created the position of Ombudsman for Entrepreneur's Rights, which was designed to be an additional measure of protection and advocacy for entrepreneurs, and the relevant implementation legislation was signed into law by President Putin on May 7, 2013. Still, the country's investment dispute resolution mechanisms remain a work in progress, and at present can seem non-transparent and unpredictable (see Dispute Settlement section).

The government continues to hold significant blocks of shares in many privatized enterprises with state-owned enterprises (SOEs) accounting for approximately 50 percent of Russia's GDP in 2013. In June 2013, the Russian government unveiled its 2014-2016 Privatization Plan, the most recent update of Russia's original privatization plan that was drafted in 2010 and amended in 2012. However, the government has taken little action to implement additional privatizations, arguing current valuations for SOEs are too low to justify proceeding with a privatization. The new plan significantly rolled back the scope of privatizations and involves, to a large extent, the Russian government maintaining "golden shares" in some of the most prestigious SOEs. To date, treatment of foreign investment in new privatizations has been inconsistent: foreign participation has often been confined to limited positions in the companies. Subsequently, many have faced problems with inadequate protection for minority shareholders and corporate

governance. Potential foreign investors are advised to work directly and closely with appropriate local, regional, and federal agencies that exercise ownership or authority over companies whose shares they may want to acquire. (See State-Owned Enterprises)

In September 2012, the United States and Russia signed a new bilateral visa agreement which extended the validity of a tourist visa to 36 months for both American and Russian travelers. This agreement also reduced the documentary requirements for Americans applying for a visa and eliminated the need for an invitation letter in some cases. The process for the approval and renewal of visas and residence permits for foreign businessmen and investors remains cumbersome with numerous documentary requirements. Additionally, there are regulations in specific industries that require a certain percentage of staff be Russian citizens, which may have a negative impact on foreign investors. The situation is improving, however. As part of Russia's efforts to encourage investment in innovative sectors, the GOR has eased the regulations on visas and residence permits for “highly-skilled” workers, and eliminated yearly quotas for foreign workers who fall into this category (defined by salary, position and education level). Potential investors are advised to consult the [State Department's Country-Specific Information on travel to Russia](#), which includes the latest information on Russian visas.

Corruption remains a major challenge for Russia. Targeted efforts in 2012 to root out corruption by public officials and within business transactions led to widely-reported investigations in the Ministry of Defense and the Ministry of Agriculture. Russia's ranking improved six spots to 127th in Transparency International's 2013 Corruption Perceptions Index (CPI). The National Anti-Corruption Plan for 2012–2013 contains guidance and recommendations for the government on counteracting corruption, including the establishment of a legal framework for lobbying and increasing the transparency of state officials' personal finances and acceptance of gifts. Specifically, the bill requires all civil servants to declare large expenditures or face termination. These officials must also present information on the expenditures of their spouses and children if the expenditures involve acquisitions of land, vehicles or securities. Expenditures that do not match the declared income will be investigated by law enforcement agencies. If an individual fails to prove that the property in question was acquired legally, the property will be confiscated and turned over to the state. Bribing a public official has been illegal in Russia since May 2011 (see Corruption section).

Global Benchmarks

The following table includes the most recent data from indices measuring the investment and business climate in Russia:

Measure	Year	Index/Ranking
Transparency International Corruption Index	2013	127 of 175 countries
Heritage Economic Freedom	2013	140 of 184 countries, “Mostly Unfree”
World Bank Doing Business	2014	92 of 185 economies
Trade Policy (Heritage Economic Freedom)	2013	74.6 out of highest score of 100

Starting a Business (World Bank Doing Business)	2014	88 of 189 economies
Land Rights Access (World Bank Doing Business)	2014 2014	Construction Permits: 178 of 189 economies Registering Property: 17 of 189 economies 5.5 out of 7 (scale of 1-7, 1 being the best)
Freedom Rating (Freedom House)		Status: Not Free Political Rights: 6 Civil Liberties: 5

2. Conversion and Transfer Policies

While the ruble is the only legal tender in Russia, companies and individuals generally face no significant difficulty in obtaining foreign exchange. Only authorized banks may carry out foreign currency transactions but finding a licensed bank is not difficult. According to currency control laws, the Central Bank retains the right to impose restrictions on the purchase of foreign currency, including the requirement that the transaction be completed through a special account. The Central Bank does not require security deposits on foreign exchange purchases. Russia has no capital controls and there are no barriers to remitting investment returns abroad, including dividends, interest, and returns of capital. Nonetheless, investors should seek expert advice at the time of an investment.

Currency controls exist on all transactions that require customs clearance, which in Russia applies to both import and export transactions and certain loans. A business must open a “deal passport” with the authorized Russian bank through which it will receive and service the transaction or loan. A “deal passport” is a set of documents that importers and exporters provide to authorized banks which enable the bank to monitor payments with respect to the transaction or loan and to report the corporation's compliance with currency control regulations to the Central Bank. Russia's regulations regarding deal passports are prescribed under Instructions of the Central Bank of Russia number 117-I of June 15, 2004. In early 2011, the Central Bank of Russia expanded the list of grounds under which a deal passport does not have to be submitted. On June 4, 2012, the Central Bank issued Instruction number 138-I, which introduced some changes to the regulation. In particular, an authorized bank is no longer required to submit additional documentation if the authorized bank is debiting money for a currency operation from an existing bank account of a resident or non-resident. In case of multilateral agreements with multiple parties and participation of non-residents, only one resident deal participant is obligated to execute a deal passport for this agreement rather than all resident parties being required to submit documentation. The Central Bank further amended the regulation by issuing Directive number 3016-U of June 14, 2013, which came into effect in the fall of 2013. A deal passport is now needed only if the value of the underlying contract is equal to or exceeds the equivalent of \$50,000.

3. Expropriation and Compensation

The 1991 Investment Code prohibits the nationalization of foreign investments, except following legislative action and where deemed to be in the national interest. Such nationalizations may be appealed to Russian courts, and the investor must be adequately and promptly compensated. At the sub-federal level, expropriation has occasionally been a problem, as has local government interference and a lack of enforcement of court rulings protecting investors. Some Russian parliamentary deputies suggested in March 2014 that Russia might expropriate Western firms in reaction to U.S. and EU sanctions but there has been no government action to that end.

4. Dispute Settlement

Russia has a body of conflicting, overlapping, and frequently changing laws, decrees and regulations, which complicates the environment for dispute resolution. Independent dispute resolution in Russia can be difficult to obtain since the judicial system is still developing. Courts are sometimes subject to political pressure. According to numerous reports, corruption in the judicial system is widespread and takes many forms, ranging from bribes of judges and prosecutors to fabrication of evidence. However, corruption likely does not play a role in the vast majority of cases, most of which involve relatively low stakes.

Until mid- 2014, Russia will continue to have two parallel court structures: one, which is specialized in commercial cases and known as the Arbitrage Courts, answers to the Higher Arbitrage Court and a second criminal and civil court system that answers to the Russian Supreme Court. At the end of June 2014, the Higher Arbitrage Court will be eliminated and the lower arbitration courts will thereafter answer to the Russian Supreme Court. Many in the business community have expressed concern about this change, as the Arbitrage Courts have been known for their professionalism and reputation for judicial independence (although they were not completely free from corruption). The process of appointment to the Higher Arbitrage Court – done via regional structures and not federal structures – also was more independent from the centralization of power in the Russian government. When this change is implemented, the legal chain for the lower arbitration courts will run through to the Supreme Court, which consists of federally-appointed judges who are widely believed to pay particularly keen attention to the wishes of the Kremlin. It is too early to tell if these changes will make it more difficult for foreign investors to receive independent dispute resolution under this new system. It is also unclear how the elimination of the Higher Arbitrage Court will affect the existence of the lower arbitration courts. No indication was given if these specialized courts will also eventually be eliminated at the lower levels. However, it is clear that the level of judicial independence of the courts will have been reduced.

In an attempt to address some of these challenges facing the business community, the GOR created the Office of the Ombudsman for Entrepreneur Rights in 2012 which is headed by Boris Titov, a businessman and former Chairman of the business group Delovaya Rossiya. Titov's remit includes advocating for foreign and domestic business rights in court and requesting suspension of official actions if a business feels its rights were violated. Each Russian Federal District also has an Investment Ombudsman who reports to the national Ombudsman and oversees efforts to improve the business climate, including the protection of foreign and domestic investors. The government has also encouraged international business leaders, as part of their work in the Foreign Investment Advisory Council, to participate in the discussion of

dispute resolution mechanisms and individual commercial disputes. While these steps offer some promise, overall, the country's investment dispute mechanisms remain underdeveloped and largely non-transparent.

In 2008, then-President Medvedev carried out a series of legal reforms that aimed to reduce corruption in the courts. These measures included a law that requires judges to disclose their income and real estate assets, including those owned by their spouses and minor children. Another component included a series of amendments to the Code of Criminal Procedure – in 2008, 2009, and 2010 – to limit pre-trial detention of individuals accused of economic crimes. Implementation of these reforms has yielded mixed results. Prosecutors have sometimes avoided them by charging defendants under articles technically not covered by the amendments and judges have sometimes refused to apply them. Nevertheless, available statistics reveal a substantial decrease in the number of pre-trial detentions in cases involving economic crimes since the legislation was passed. In June 2013, President Putin announced plans for a widespread amnesty for those convicted of economic crimes. However, by year's end, only a relatively small number of persons had been released under this program.

Commercial arbitration courts are required by law to decide business disputes relatively quickly, and many cases are decided on the basis of written evidence and little or no live testimony of witnesses. The arbitration court workload is dominated by relatively simple non-contentious cases involving the collection of debts between firms and disputes with the taxation and customs authorities, pension fund, and other state organs. Tax-paying firms often prevail in their disputes with the government in court. The number of routine cases limits the time available to decide more complex cases. The court system has special procedures for the seizure of property before trial, such that it cannot be disposed of before the court has heard the claim, as well as for the enforcement of financial awards through the banks. Many observers believe that over the twenty year period that the arbitration court system has existed, its judges have grown more competent and better at writing decisions. Many lawyers nonetheless report that due to insufficient training, especially in complex business disputes, many judges often make poorly reasoned or simply incorrect decisions. As with international arbitral procedures, the weakness in the Russian arbitration system lies in the enforcement of decisions. Few firms pay judgments against them voluntarily and rumors of corruption concerning bailiffs, who are charged with enforcing decisions, are frequent, although hard evidence is scarce.

Federal Law 262, in effect since 2010, requires courts to publish their decisions online and otherwise make information about their activities publicly available. All Russian courts now have websites, which generally include a schedule of cases to be heard, the name of the judge, the location of the court, form documents that can be used by prospective litigants, and copies of decisions. Personal information is expunged before case decisions are posted online. The better of these court websites allow citizens to calculate filing fees and search for analogous decisions. The arbitration courts have played a leadership role in providing information online and using information technology. Electronic filing allows citizens to sign up to receive e-mail notifications of developments in cases of interest to them. NGOs have rated the compliance of courts with their obligations under the law and found that the information provided varies greatly in quality from one region to another, but have noted a willingness by some courts to respond to

queries and criticisms by improving their sites. Although there are gaps and failures to provide information, overall judicial transparency has increased since the law took effect in 2010.

Many attorneys refer Western clients who have investment or trade disputes in Russia to international arbitration in Stockholm or to courts abroad. A 1997 Russian law allows foreign arbitration awards to be enforced in Russia, even if there is no reciprocal treaty between Russia and the country where the order was issued. Russia is a member of the International Center for the Settlement of Investment Disputes (ICSID) and accepts binding international arbitration. Russia is also a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (UNCITRAL). However, international arbitral awards still require Russian courts to enforce awards and bailiffs to attach assets; these courts have yet to become consistently effective enforcers of court judgments, whether domestic or international.

In January 2011, a new law took effect that authorizes the use of mediation in various kinds of disputes, including commercial ones, and provides for the confidentiality of mediation proceedings and for their enforceability in court. Although there are still issues concerning implementation, this represents an important step towards further development of alternative dispute resolution in Russia.

According to a Federal Law of December 2011, a specialized court for intellectual property (IP) disputes began to function in 2013. This court, embedded in the system of arbitration (commercial) courts, will hear cases on intellectual property rights (IPR), including those challenging statutory instruments on IP, in the first instance and cassation. In September 2012 the Higher Qualification Board of Judges (a body within the Russian judicial corps responsible for nominating judges to be further appointed by the President) nominated 20 judges to form the new IPR Court, and the Chief Judge of the IPR Court was appointed by the President in December 2012. The elimination of the Higher Arbitrage Court has now raised doubts about how the decisions of the IP Court will be reviewed.

The IP Court has reportedly adjudicated around 360 cases as a trial court, and over 200 cases as the court of the 3rd instance (second level of appeal) out of over 900 suits admitted to the court since it started operation in July 2013. Several legal experts and litigation practitioners have cited the good quality of its dispute resolution, the high qualification of its judges and the good attention to detail in the court.

5. Performance Requirements and Incentives

Performance requirements are not generally imposed by Russian law and are not widely included as part of private contracts in Russia. However, they have appeared in the agreements of large multinational companies investing in natural resources and in production-sharing legislation. There are no formal requirements for offsets in foreign investments. Since approval for investments in Russia frequently depends on relationships with government officials and on a firm's demonstration of its commitment to the Russian market, this may result in offsets in practice.

The Central Bank of Russia has imposed caps on foreign employees in foreign banks. The ratio of Russian employees in a subsidiary of a foreign bank is set at no less than 75 percent; if the executive of the subsidiary is a non-resident, at least 50 percent of the bank's managing body should be Russian citizens.

In early 2014, the Russian government drafted a directive requiring all state-controlled assets including SOEs to come up with a series of key performance indicators (KPIs) to guide their development strategy going forward. In rolling out the initiative, the government made it clear that if KPIs were not met, personnel changes would be made. This measure is meant to push state corporations toward a more efficient operating strategy. The Russian government also declined to increase the size of the government budgetary subsidies to each state corporation, with a view to forcing these companies to run more efficiently.

6. Right to Private Ownership and Establishment

Both foreign and domestic legal entities may establish, purchase, and dispose of businesses in Russia, except in certain sectors that are regarded as affecting national security. There is a blanket ban on purchases of property in border areas for national security reasons. Some Russian Duma deputies called for a ban on foreigners purchasing land without the permission of the Federal Management Service, but no legislative action has been taken in this regard yet.

The Russian government limits foreign investment in sectors deemed to have strategic significance for national defense and state security via the Strategic Sectors Law of 2008 (Law No. 57-FZ). The law has been amended on four occasions, most recently in February 2014. The law currently specifies 45 strategic activities that require government approval for foreign investment. Foreign investors wishing to increase or gain ownership above certain thresholds in any of the sectors listed need to seek prior approval from a government commission headed by Russia's Prime Minister. In 2012 (most recent information published), the Russian government considered 44 petitions from foreign investors of which 22 were pre-approved, 18 were returned to the petitioner for additional information, and four were withdrawn. The government denied in April 2013 a petition from the U.S. company Abbott Laboratories to purchase Russia's Petrovax in a deal that was strongly supported by Petrovax. Russia also established via Executive Order No. 1009 of August 4, 2004 a separate list of strategic companies which includes the largest and most profitable Russian companies. Companies identified on this list have some level of government ownership; the Executive Order sets forth the requirements to privatize these firms. The 2012 addition of Russian privately-held internet company Yandex to the strategic companies list highlights the broad interpretation of what is required to protect state security and national defense.

Real Estate

The Constitution and a 1993 presidential decree give Russian citizens rights to own, inherit, lease, mortgage, and sell real property. Foreigners enjoy similar rights with certain restrictions, notably with respect to the ownership of farmland and areas located near federal borders. Mortgage legislation enacted in 2004 facilitates the process for lenders to evict homeowners who do not stay current in their mortgage payments. Thus far, this law has been successfully implemented and is generally effective. Mortgage lending is in its initial stages, and after a sharp

contraction in 2008-09, the total value of mortgages in Russia is around three percent of GDP. In 2013, mortgage lending grew by 31 percent compared to 2012, with new issuances amounting to \$42.5 billion in 2013.

7. Protection of Property Rights

In Russia, the protection of intellectual property rights (IPR) is enforced on the basis of civil, administrative, criminal or customs legislation. The Civil Code sets up the statutory damages for IPR infringement and/or incurred damages for copyright, trademarks and geographical indications. The Code of Administrative Offenses concerns IPR infractions that violate public or private interest or rights, but do not meet the criteria of the Criminal Code. An administrative investigation may be initiated at the request of an IPR owner or by law enforcement authorities (police or customs) suspecting possible IPR infringement. Administrative cases are dealt with by general jurisdiction courts or state arbitration (commercial) courts that have jurisdiction over economic disputes. The IPR provisions of the Criminal Code apply to large-scale infringements of copyright, patent and trademark rights that cause gross damages, as defined by the Criminal Code.

Enforcement

The United States Government has expressed concerns that IPR enforcement continued to decrease overall in 2013, following a dramatic decline in 2012, and remained plagued by a lack of transparency and effectiveness. Stakeholders express concern about the manufacture, transshipment, and retail availability of counterfeit goods, including counterfeits of agricultural chemicals, electronics, information technology, auto parts, consumer goods, machinery and other products. Enforcement actions combatting end user piracy have sharply declined, including a decrease in raids, initiations of criminal cases and issuances of court verdicts.

Copyright violations (audiovisual and sound recordings, computer software) remain a serious problem, particularly in the online environment. Although dwarfed in volume by pirated products online, legitimate DVD sales are on the rise, thanks in part to cheaper legitimate products, a growing consumer preference for high quality goods, and law enforcement action against physical piracy. Russian police on occasion carry out end-user raids against businesses using pirated products, namely software. However, at times, police have used IPR enforcement as a tactic to elicit bribes or harass NGOs.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: William Muntean moscow.office.box@mail.doc.gov

Local lawyers list: <http://moscow.usembassy.gov/root/pdfs/list---attorneys.pdf>

Bankruptcy

Russia has had a law providing for bankruptcy of enterprises since the early 1990s. Law enforcement officials, however, tend to view bankruptcy with suspicion and reported 500 cases of financial crimes involving bankruptcy in 2011. In November 2012, the State Duma passed in

its first reading (three readings are required for passage) a personal bankruptcy bill, but the bill has not been adopted. The bill states that a citizen who finds himself in financial difficulty can submit a bankruptcy statement to the court. The court may then grant the individual the right to pay the debt in installments for a term of up to five years. An individual with debts exceeding 50,000 rubles (\$1,389) and whose arrears amount to three months can be declared bankrupt. In this case, the individual cannot apply for a bank loan without citing his bankruptcy for the five years after his bankruptcy status was declared. The individual is then given six months to come up with a debt restructuring plan subject to the approval of both the creditors and the court. Once the plan is approved, all late payment fees and penalties will be waived and assets unfrozen. Only in the case of a person who has no assets and no income may the debt be completely written off. The bill also stipulates a ban on declaring oneself bankrupt more than once in five years. The Duma is expected to consider the bill in the first half of 2014.

8. Transparency of the Regulatory System

Russia's legal system remains in a state of flux, with various parts of the government continuing to implement new regulations and decrees on a broad array of topics, including the tax code and requirements related to regulatory and inspection bodies. Negotiations and contracts for commercial transactions, as well as due diligence processes, are complex and protracted. Investors must do careful research to ensure that each contract fully conforms to Russian law. In some cases, Russian law has contradictory provisions. Contracts must likewise seek to protect the foreign partner against contingencies that often arise. Keeping up with legislative changes, presidential decrees, and government resolutions is a challenging task. Uneven implementation of laws creates further complications; various officials, branches of government, and jurisdictions interpret and apply regulations inconsistently and the decisions of one may be overruled or contested by another. As a result, reaching final agreement with local political and economic authorities can be a long and burdensome process. Companies should be prepared to allocate sufficient funds to engage local legal counsel to set up their commercial operations in Russia.

Taxes

Russia's tax system has recently undergone major changes. The Russian government has brought its tax legislation into line with OECD requirements, which has simplified the system and prevents double taxation on transfer prices. However, businesses continue to raise concerns regarding audits. Multiple audits, repeated requests for documentation, and technical weaknesses of some claims have been identified as serious impediments to the conduct of business. Russia's Law on Transfer Pricing entered into force on January 1, 2012, and fully phased in all provisions by the start of 2014. Some experts caution the new provisions could result in additional disputes with the tax authorities.

Public Comment

All draft laws that go through the Russian Duma are published on the Duma's website. Sometimes, but not consistently, ministries and other Russian government bodies also publish proposed legislation (including draft laws, government decrees and regulations) on their websites. The scope of Russia's Open Government initiative was severely reduced after the Russian government announced in May 2013 that it would no longer be a part of the

international Open Government Partnership due to unspecified differences regarding the terms of the partnership. In a statement announcing the decision, Kremlin spokesperson Dmitry Peskov said that Russia remained committed to providing more transparency in government and might reconsider joining the partnership at a later date. Russian Ministries have become more active in seeking input from industry experts and business groups, including the Foreign Investment Advisory Council, when developing business-related laws and regulations.

Strategic Sectors

Statements made by key Russian officials in November 2012 suggest the government will take additional action to roll back administrative barriers to foreign investment in Russian strategic companies. The Federal Antimonopoly Service (FAS) has prepared various amendments, still awaiting approval by the State Duma, intended to simplify the procedures for state supervision of foreign investment in Russian strategic companies and to eliminate ambiguities in the interpretation and application of existing legislative provisions. The proposed amendments include the following: (1) removal of food and beverage production from the list of strategic activities involving the use of infectious agents (e.g., cultured bacteria in yogurt production). FAS is considering similar revisions to exempt certain entities involving selected activities (e.g., foreign banks vis-a-vis distribution and servicing of encryption devices required for their operations); (2) eliminating the need for prior approval by the Government Commission for certain share increases or transactions in cases where the foreign investors hold 75 percent or more of a Russian strategic company's shares; (3) eliminating the need for prior approval for intra-group transactions by foreign investors controlled by the same entity; (4) allowance of automatic permit extensions for foreign investors already holding a permit (typically with a 2-year term) to invest in a strategic enterprise; (5) elimination of the need for government approval for acquisitions by Russian-controlled purchasers from foreign-controlled sellers (currently, only Russian-to-Russian transactions are exempt, but not acquisitions by Russian-controlled purchasers from foreign-controlled sellers); (6) clearer rules on state supervision and approval of transactions involving the placement of securities of Russian strategic companies (including depositary receipts) on stock exchanges, including foreign stock exchanges. However, it is unclear if and when such proposals would be advanced in the current economic and political climate.

9. Efficient Capital Markets and Portfolio Investment

Banks continue to make up a disproportionate share of Russia's financial system. Although Russia has roughly 900 banks, the sector is dominated by state-owned banks, particularly Sberbank and VTB. The six largest banks (in terms of assets) in Russia are state-controlled, and the top five held 53.7 percent of all bank assets in Russia as of March 1, 2014. The growing role of the state in the banking sector continues to distort the competitive environment, impeding Russia's financial sector development. The successful implementation of the Deposit Insurance System in 2004 has proved a critical psychological boon to the banking sector, reflected in the overall growth of deposits. This has significantly enhanced the stability of the banking sector's deposit base. At the beginning of 2014, aggregate assets of the banking sector amounted to 86.0 percent of GDP and aggregate capital was 10.6 percent of GDP. Russia's banking sector has recovered from the global economic crisis, with corporate loan growth reaching 17.0 percent and retail loan growth 27.4 percent in the 12 months running up to March 1, 2014. The share within

Russia's banking sector of non-performing and troubled loans (categories III-V), which during the 2008-2009 financial crisis increased substantially, stabilized in 2010 at around 20% and began to slowly decline in the second half of 2011, so that as of March 1, 2014, it was equal to 14.0 percent. These positive trends notwithstanding, Russian banks reportedly still operate on short time horizons, limiting capital available for long-term investments.

On September 1, 2013, the Central Bank of Russia became the consolidated financial markets regulator (replacing the Federal Financial Markets Service) for Russia's capital markets and financial institutions. Whereas the Central Bank previously had primary responsibility for banks, the new Financial Markets Service of the Bank of Russia, the so-called mega-regulator, has responsibility for other non-bank financial institutions including pension funds, insurance companies, and asset management companies, as well as the securities markets. Consolidated supervision is expected to improve overall regulation and oversight of the capital markets.

Along these lines, the Central Bank has closed down a growing number of banks in recent months as part of a crackdown on the banking sector, as the Central Bank attempts to tighten oversight of banks and rein in shadow banking activity. The Central Bank revoked licenses for 54 banks from June 2013 through March 2014, with many banks cited for violating anti-money laundering or countering the financing of terrorism (AML/CFT) laws. This effort is succeeding in not only much needed banking sector consolidation, but also in weeding out bad banks that have been complicit in money laundering and facilitating the so-called "grey transactions" that have been part of capital outflows from Russia.

To fill the gap in capital available for long-term investments, authorities have also sought to improve the regulatory environment for non-bank institutional investors. This has had some success, though non-bank financials remain small relative to the size of the financial sector. Pension funds are viewed as the most promising source of long-term capital. Pension funds have had strong inflows, in recent years, though they have shown little risk appetite, primarily investing in sovereign debt, corporate debt, and bank deposits, thus limiting their utility as a source of long-term capital. A recent decision by the government to freeze inflows to funded pensions has increased uncertainty, undermining confidence in the industry. The government plans to allow inflows to resume to private pension funds once they have been audited and restructured. This could bolster confidence in the industry over the long term.

Russia's two main stock exchanges – the Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX) – merged in December 2011. The MICEX-RTS bourse conducted an initial public offering on February 15, 2013, auctioning an 11.82% share. Russian authorities and shareholders of MICEX and RTS believe the merged entity, now branded the Moscow Exchange, has the potential to become a global player. While most large Russian companies currently choose to list their stocks in London and elsewhere abroad, the Russian government has begun a campaign to encourage state-owned companies to use the Moscow Exchange as a vehicle for privatization.

The Law on the Securities Market includes definitions of corporate bonds, mutual funds, options, futures, and forwards. Companies offering public shares are required to disclose specific information during the placement process, as well as on a quarterly basis. In addition, the law

defines the responsibilities of financial consultants who assist companies with stock offerings and holds them liable for the accuracy of the data presented to shareholders.

Russian financial authorities are attempting to deepen the ruble-denominated domestic debt market to make it more attractive to foreign investors. In December 2011, the Central Bank issued a resolution allowing, effective January 1, 2012, government bonds (OFZ) to be traded outside Russian exchanges (over the counter). In February 2013, Euroclear and Clearstream, two international securities depositories, began settling transactions of OFZ bonds, Russia's primary sovereign debt security. Euroclear and Clearstream have since also begun settling transactions of Russian corporate and municipal debt, and may soon be able to settle equity transactions as well, possibly by early 2015. This has increased access to Russian securities markets for foreign investors by negating the need to have onshore brokerage and custody accounts.

10. Competition from State-Owned Enterprises

State-owned enterprises (SOEs) accounted for roughly half of Russia's GDP in 2013 and the Russian government's policy is for the most part focused on maintaining the status quo, rather than supporting competition. In June 2013, the Russian government unveiled their 2014-2016 Privatization Plan, the most recent update of Russia's original privatization plan that was published in 2010 and amended in 2012. The new plan rolled back previous commitments to fully privatize oil giant Rosneft, VTB bank, energy company Zarubezhneft and hydroelectric company Rushydro. Instead of selling all stakes in those companies by 2016 the Russian government will continue to own a 50.1 percent of each company, a "golden share." Plans for Russian Railways, the Russian Agricultural Bank and Rosagroleasing were also scaled back. However, a decision was made to fully privatize Rostelecom and a total of 431 enterprises were added to the block for privatization by 2016. Most of the sales involve selling off minority share positions, privatization through dilution of shares rather than divestment and retaining golden shares to maintain government veto power. To date, treatment of foreign investment in new privatizations has been inconsistent; at times, foreign participation has often been confined to limited positions. Subsequently, many have faced problems with inadequate protection for minority shareholders and corporate governance. Potential foreign investors are advised to work directly and closely with appropriate local, regional, and federal agencies that exercise ownership or authority over SOEs whose shares they may want to acquire.

Corporate Governance

Due to the significance of SOEs within Russia's economy, corporate governance within those companies is a significant factor in Russia's economic growth. A specific variant of SOE, state corporations, are 100% owned by the Russian government and operate under special legislation. The Russian economy also features thousands of other companies owned in part or whole by the Russian government that operate under different legal arrangements, such as unitary enterprises and joint stock companies. In early 2014, the Russian government drafted a directive requiring all state corporations to come up with a series of key performance indicators (KPIs) to guide their development strategy going forward. In rolling out the initiative, the government made it clear that if KPIs were not met personnel changes would be made. This measure is aimed at pushing state corporations toward more efficient operating strategies. The Russian government also declined to increase the size of the government subsidy supporting each state corporation,

also with the aim of forcing these companies to run more efficiently. Private enterprises are theoretically allowed to compete with SOEs on the same terms and conditions, and in some sectors, including where state ownership is minimal, competition is robust. But in other areas the playing field can be tilted. Issues that hamper efficient operations and fair competition with SOEs include a lack of transparency, lack of independence and unclear responsibilities of boards of directors, misalignment of managers' incentives and company performance, inadequate control mechanisms on managers' total remuneration or their use of assets transferred by the government to the SOE, and minimal disclosure requirements.

SWFs

There are two sovereign wealth funds in Russia: the Reserve Fund (\$87.46 billion, or 4.3% of GDP as of April 1, 2014, up from 3.9% of GDP as of April 1, 2013) and the National Wealth Fund (\$87.5 billion, or 4.3% of GDP as of April 1, 2014, up from 4.1% of GDP as of April 1, 2013). The Ministry of Finance manages both funds' assets in accordance with established procedures; the Central Bank of Russia acts as operational manager. Both funds are audited by Russia's Chamber of Accounts and the results are reported to the Federal Assembly. The Reserve Fund, at 4.3% of GDP, remains below the target of 7% of GDP and is, under currently loosening fiscal policy policies, expected to fall. In February 2014, the Finance Ministry announced plans to spend RUB 212.2 billion on FX purchases for the Reserve Fund. Since the beginning of the year, 38 billion rubles (\$1.1 billion) have been spent on currency purchases. The Ministry said that currency purchases for the country's Reserve Fund were tied to the position of the ruble within the currency's euro-dollar trading corridor. Due to the high volatility of the markets, triggered by the tensions around the situation in Ukraine and Crimea, the Ministry suspended such purchases March 4.

11. Corporate Social Responsibility

While not standard practice, Russian companies are beginning to show an increased level of interest in their reputation as good corporate citizens. When seeking to acquire companies in Western countries or raise capital on international financial markets, Russian companies face international competition and scrutiny, including on corporate social responsibility (CSR) standards. Consequently, most large Russian companies currently have a CSR policy in place, or are developing one, despite the lack of pressure from Russian consumers and shareholders. CSR policies of Russian firms are usually published on corporate websites and detailed in annual reports. However, these CSR policies and strategies --are still in an early stage relative to those of Western counterparts. Most companies choose to create their own NGO or advocacy group rather than contribute to an already existing organization. The Russian government is a powerful stakeholder in the development of certain companies' CSR agendas, predictably, some companies choose to support local health, educational and social welfare organizations favored by the government.

The Federal Service for Financial Markets established a corporate governance code in 2002 and has endorsed an OECD White Paper on ways to improve practices in Russia. International business associations such as the American Chamber of Commerce in Russia, the U.S.-Russia Business Council, the Association of European Businesses in Russia, the International Business Leaders Forum, and Russian business associations, all stress corporate governance as an

important priority for their members and for Russian businesses overall. One association, the Russian Union of Industrialists and Entrepreneurs, developed a Social Charter of Russian Business in 2004 in which over 200 Russian companies and organizations have since joined.

12. Political Violence

Political freedom has been significantly curtailed during the past year, including rising hostility toward almost all opposition media outlets and increasing harassment of non-governmental organizations. In the aftermath of Ukraine's EuroMaidan protest which led to the ouster of Kremlin-friendly Ukrainian President Viktor Yanukovich, the Russian government and Russian society as a whole has been gripped by nationalist rhetoric. Soviet-era phrases such as "national traitors" and the "fifth column," which for the Government refers to persons and groups within Russia which they regard as fomenting revolution on behalf of outside forces but in reality may include those opposed to government policy, have reappeared. It remains difficult to predict the next actions of the Russian government, ruled with increasing authoritarianism by President Putin. Political risk is arguably the biggest drag on the Russian economy through the end of 2014.

On the media front, in December 2013, RIA Novosti, the only remaining semi-independent Russian wire service, was abruptly dissolved and reorganized into a new organization to be called "Rossiya Segodnya." The new organization will take marching orders directly from the Kremlin and is charged with producing a specifically Russian view on world events. In early 2014, popular opposition-minded cable channel Dozhd was cut from every major cable and satellite network due to an internet poll that was deemed to be "unpatriotic." The channel continues to produce online content but retains only 20 percent of its original audience, and little advertising revenue without access to cable networks. In a call-in show in April, President Putin indicated a reprieve for the embattled channel but it is still unclear how much longer Dozhd will be able to continue to operate in its limited state.

Public protests continue to occur sporadically in Moscow though they are often disrupted by spur of the moment construction work at the protest site and heavy police presence. The most recent large-scale protest was in February 2014 when 30,000 persons took to the street to protest the illegal Russian annexation of Crimea. There have been smaller protests regarding media freedom and eCommerce issues in 2014 that drew a few thousand participants as well as protests in support of opposition politician Alexey Navalny, who has faced a variety of legal charges due to his activism. The Russian government has also been more inclined to use government-sponsored counter-protests to gain support for their actions. Counter protests in support of Russia's illegal annexation of Crimea drew less than 5,000, although the Russian media erroneously reported the participation figure as much higher.

Some individuals who took part in Moscow's Bolotnaya Ploshchad protest in May 2012 are currently serving jail sentences of up to 4 years for offenses including violence against police officers and participating in an unsanctioned rally. Opposition leaders insist that the individuals were arrested at random and their prosecution was meant to intimidate Russians and prevent future protest actions. Aleksey Navalny, anticorruption whistleblower and member of the opposition Coordination Council, was convicted in October 2013 of stealing \$500,000 worth of

state-owned timber in a trial that was maligned by opposition leaders and international organizations as little more than a show trial. However, he was released and his five-year sentence was suspended so he could run in the Moscow mayoral elections. His conviction and release resulted in large rallies in Moscow. He has since spent ten days in jail for participation in an unsanctioned rally and is currently under house arrest on a new set of trumped up fraud charges. Although the use of strong-arm tactics is not unknown in Russian commercial disputes, the U.S. Embassy is not aware of cases where foreign investments have been attacked or damaged for purely political reasons. Russia continues to struggle with an ongoing insurgency in Chechnya, Ingushetiya and Dagestan. These republics and neighboring regions in the northern Caucasus have a high risk of violence and kidnapping.

In yet another sign of the worsening civil rights situation in Russia, prominent economist and Rector of the New Economic School Sergei Guriev fled Russia in April 2013. He currently lives in exile in Paris. He has written extensively in the Western press regarding his decision, which was motivated primarily by increasing harassment by the Russian government for support of opposition politicians. He is only one of many examples of high-profile people who have fled Russia because they fear repercussions for holding opinions different from the government's.

The remaining two imprisoned members of the Russian punk rock group "Pussy Riot" were released on December 12, 2013 as a part of a Presidential amnesty to celebrate the 20th anniversary of the Russian constitution. Since their release they have been arrested and subsequently released for their participation in additional protest actions in Moscow and in Sochi, on the margins of the 2014 Winter Olympic Games. They have also been physically abused in public multiple times, with authorities refusing to press charges against their assailants despite video evidence of the crimes. Also released as a part of the amnesty was Russian oligarch Mikhail Khordorkovsky, who was convicted in 2005 of fraud in the controversial Yukos case and sentenced to nine years in prison. He was convicted on secondary charges in 2010 which extended his term to 2014 and a third case was in the process of being brought before the courts. Upon release, Khordorkovsky departed Russia for Germany and currently resides in Switzerland.

13. Corruption

The Russian government stepped up its campaign against corruption in 2012. In March 2012, then-Russian President Medvedev adopted the National Anti-Corruption Plan for 2012–2013. The plan contained guidance and recommendations for the government, federal executive bodies and other government agencies on counteracting corruption, including the establishment of a legal framework for lobbying and increasing the transparency of state officials' personal finances and acceptance of gifts. Additionally, in 2012, Russia adopted a law requiring individuals holding public office, state officials, municipal officials and employees of state organizations to submit information on the funds spent by them and members of their families (spouses and underage children) to acquire certain types of property, including real estate, securities, stock and vehicles. The law also required public servants to disclose the source of the funds for these purchases and to confirm the legality of the acquisitions. In addition, the State Duma adopted a law in 2013 that required state officials, deputies, senators and governors to disclose information on their foreign property holdings and to close foreign bank accounts.

Speaking at the Russian General Prosecutor's Office on the occasion of the 291st anniversary of its establishment, Sergei Ivanov, Chief of the Presidential Administration, mentioned that in 2012, over 7,000 persons charged with corruption had received prison sentences and a greater number of corruption cases were initiated. One high level case led to the firing of Defense Minister Anatoly Serdyukov, who was reportedly at the center of multiple corrupt schemes on a very large scale. However, after a year of investigation, no charges have been filed. Various reports in the media speculated that Serdyukov had been given amnesty, or alternatively, that the investigation had been limited to suspicious of negligence rather than more serious crimes. Failure to hold high government officials accountable for corruption sends a strong signal throughout the system that certain persons are untouchable and protected by the highest authorities. This phenomenon undermines the rule of law in Russia.

Indeed, a long-running dispute between the Russian Prosecutor General, Yuri Chaika, and the Chairman of the Investigative Committee, Alexander Bastrykin, flared up in the Spring 2014. Chaika publicly accused the Investigative Committee of being unwilling to handle serious corruption matters. However, even the General Procuracy has experienced public embarrassment on this issue, when Hewlett Packard Russia pleaded guilty in the United States in April 2014 to bribing Russian prosecutors ten years earlier in exchange for a computer systems procurement contract. Media reports suggested that Russia has not been very helpful in investigating cases under the U.S. Foreign Corrupt Practices Act (FCPA).

Russia is a signatory to the UN Convention against Corruption, the Council of Europe's Criminal Law Convention on Corruption, and, as of 2012, the OECD Anti-Bribery Convention. The OECD Convention calls for the implementation of national legislation to criminalize commercial bribery and to prohibit both offering bribes to foreign government officials and accepting such bribes. It provides no exceptions for "grease payments," and includes foreign entities doing business in Russia, meaning these entities could be subject to liability under their own country's law, as well as Russia's. The convention also calls for increasing the penalties that may be imposed upon an individual or entity found in violation. Fines and terms of incarceration contemplated by the Convention vary, depending upon the type of bribe and the official involved. During 2011-2012, Russia passed national legislation to bring itself into better compliance with its commitments under the OECD Convention and UNCAC. For instance, Article 13.1 of the Federal Law on Corruption allows removal of government officials for failure to take measures to combat corruption. Article 13.3, very broadly requires all legal entities in the Russian Federation implement an ethics and compliance program to combat corruption and conflict of interest. This law also applies to Russian government budgetary entities like schools.

Some analysts have expressed concern that lack of depth in the compliance culture in Russia will render the law a formality that does not function in reality. The implementation and enforcement of the many measures required by these conventions have not yet been fully tested. In recent years, there appears to be a greater number of prosecutions and convictions of mid-level bureaucrats for corruption, but real numbers were difficult to obtain and high-ranking officials were rarely prosecuted. After the close of the 2014 Winter Olympic Games in Sochi, anti-corruption blogger and opposition political candidate Alexey Navalny released a detailed report alleging wide-spread corruption and graft from those government and private individuals

involved in construction of the Olympic venues. According to reports, the Prosecutor General's Office opened over 50 criminal cases related to the Olympic Games and has imposed administrative penalties on over 100 persons and companies. It is likely that many of these cases touch only lower level bureaucrats and not high-ranking government officials or prominent businessmen close to the Kremlin who won the lucrative construction contracts for the Olympics.

It is important for U.S. companies, irrespective of size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance programs or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in Russia should take the time to become familiar with the relevant anticorruption laws of both Russia and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

Additional country information related to corruption can be found in the U.S. State Department's annual Human Rights Report available at <http://www.state.gov/g/drl/rls/hrrpt/>.

Assistance for U.S. Businesses

The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of a company's overarching compliance program when choosing business partners or agents overseas. The U.S. Commercial Service can be reached directly through its offices in major U.S. and foreign cities, or through its Website at: www.trade.gov/cs.

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department's Advocacy Center and State's Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center "Report A Trade Barrier" Website at: tcc.export.gov/Report_a_Barrier/index.asp.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U.S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act (FCPA)

In 1977, the United States enacted the FCPA, which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt

payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: www.justice.gov/criminal/fraud/fcpa/docs/lay-persons-guide.pdf.

The Department of Justice (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of DOJ's present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section Website at: www.justice.gov/criminal/fraud/fcpa.

Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel's website, at: http://www.ogc.doc.gov/trans_anti_bribery.html.

Other Instruments

It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental to the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Anti-Bribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements.

OECD Anti-Bribery Convention

The OECD Anti-Bribery Convention entered into force in February 1999. There are 38 parties to the Convention including the United States (see <http://www.oecd.org/dataoecd/59/13/40272933.pdf>). The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Anti-Bribery Convention through the FCPA. In 2011, Russia passed anti-corruption legislation that clearly criminalized foreign bribery and acceded to the Anti-Bribery Convention in 2012.

Local Laws

U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department's U.S. Commercial Service can provide assistance with navigating the host country's legal system and obtaining a list of local legal counsel.

Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 183 countries and territories around the world. The CPI is available at: <http://cpi.transparency.org/cpi2011/>. TI also publishes an annual Global Corruption Report which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all

continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See <http://www.transparency.org/publications/gcr>. Transparency International-Russia also posts corruption-related research materials and findings on the following sites, all specific to Russia: www.transparency.org.ru/INTER/index.asp and www.askjournal.ru.

The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 213 economies, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See http://info.worldbank.org/governance/wgi/sc_country.asp. World Bank Business Environment and Enterprise Performance Surveys may also be of interest.

The World Economic Forum publishes the Global Enabling Trade Report, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See <http://www.weforum.org/reports/global-enabling-trade-report-2012>.

Global Integrity, a nonprofit organization, publishes its annual Global Integrity Report, which provides indicators with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: <http://www.globalintegrity.org/report>.

14. Bilateral Investment Agreements

While the United States and Russia signed a bilateral investment treaty (BIT) in 1992, it is not in force due to lack of ratification by the Russian Duma. In January 2014, Russia and the United States began talks on ways to improve the bilateral investment relationship. Those talks were suspended after Russia's illegal invasion of Crimea in February 2014. Russia has BITs with 75 countries, 54 of which are currently in force.

The United States and Russia have shared an income tax treaty since 1992, which is designed to address the issue of double taxation and fiscal evasion with respect to taxes on income and capital. Full text of the treaty: <http://www.irs.gov/pub/irs-trty/russia.pdf>. There is some concern that taxation requirements have sometimes been used in Russia as a way to "raid" or illegally take possession of foreign companies, particularly small and medium enterprises.

15. OPIC and Other Investment Insurance Programs

Since 1992, the U.S. Overseas Private Investment Corporation (OPIC) has been authorized to provide loans, loan guarantees (financing), and investment insurance against political risks to U.S. companies investing in Russia. OPIC's political risk insurance and financing help U.S. companies of all sizes invest in Russia. OPIC insures against three political risks: expropriation; political violence; and currency inconvertibility. OPIC recently announced that political risk insurance now covers private equity fund investments. To meet the demands of larger projects in Russia and worldwide, OPIC can insure up to \$250 million per project and up to \$300 million for

projects in the oil and gas sector with offshore, hard currency revenues. Projects in the oil and gas sector with offshore, hard currency revenues may be approved for an exposure limit up to \$400 million if the project receives a credit evaluation (shadow rating) of investment grade or higher. The individual per project exposure limit for financing is \$250 million. The maximum combined (insurance and financing) exposure limit to OPIC on a single project is \$400 million. OPIC has no minimum investment size requirements. OPIC also makes equity capital available for investments in Russia by guaranteeing long-term loans to private equity investment funds. Detailed information about OPIC's programs can be accessed at www.opic.gov. Russia is also a member of the World Bank's Multilateral Investment Guarantee Agency.

16. Labor

The Russian labor market remains fragmented, characterized by limited labor mobility across regions and consequent wage and employment differentials. Earnings inequalities are substantial, enforcement of labor standards is relatively weak, and collective bargaining is underdeveloped. Employers regularly complain about shortages of qualified skilled labor. This is due in part to weak linkages between the education system and the labor market. In addition, the economy suffers from a general shortage of highly skilled labor. Businesses face increasing labor costs as competition over a limited pool of workers intensifies. On the other hand, private business must compete with SOEs, where Russians have indicated in recent surveys they would prefer to work due to salaries and benefits. The public sector, which maintains inefficient and unproductive positions, accounts for about 25 percent the workforce. The 2002 Labor Code governs labor standards in Russia. The enforcement of worker safety rules continues to be a major issue, as enterprises are often unable or unwilling to invest in safer equipment or to enforce safety standards.

The rate of actual unemployment (calculated according to ILO methodology) in 2013 was low at 5.5 percent. Average unemployment in urban districts (4.7 percent as of December) was much lower than in rural districts (8.3 percent). In 2013, two regions in the North Caucasus had the highest unemployment rates in the country: Ingushetia (43.7 percent) and Chechnya (26.9 percent). In stark contrast, the unemployment rate was 1.5 percent in St. Petersburg and 1.7 percent in Moscow.

17. Foreign Trade Zones/Free Ports

Russia has 26 Special Economic Zones (SEZs), which fall in one of four categories: industrial and production zones; technology and innovation zones; tourist and recreation zones; and port zones. Enterprises operating within SEZs enjoy a range of benefits that the Ministry of Economic Development (MED) – which manages the SEZ program – estimates can save investors up to 30% of the cost of doing business. Specifically, investors enjoy streamlined administrative requirements and procedures, a more favorable customs regime (including the waiver of import duties and refunds of the value-added-tax), and reduced tax rates on income, property, land, and transport. SEZ investors also receive discounts on infrastructure expenses, including facilities and utilities costs. Such benefits are extended for an agreed introductory period, often lasting five years.

Progress in attracting foreign investors to SEZs is uneven. The majority of SEZ investments are still listed as “planned,” meaning investors are still able to back out of commitments. The lack of interest from foreign investors in addition to environmental concerns led to the closure of the proposed Kaliningrad tourist and recreational zone SEZ in late 2012. The Russian government has been hesitant to go forward with major SEZ infrastructure projects. Detailed information about the benefits and results of Russia's SEZs can be found at the MED’s SEZ website: <http://www.economy.gov.ru/minec/activity/sections/sez/main/>.

Independent of the SEZs, in 2010 then-President Medvedev launched an initiative to establish the Skolkovo Innovation Center in the Moscow suburbs to promote investment in high-technology startup businesses, research, and commercialization of technological innovation. Inspired by the model of Silicon Valley, Skolkovo “resident companies” can receive a broad range of benefits, including exemption from profit tax, value-added tax, property taxes, and import duties, and partial exemption from social fund payments. Applicants for residency are evaluated and selected by an international admission board; company performance is monitored to ensure continued qualification for benefits. According to the Skolkovo Foundation, over 1,000 startups have been selected as residents thus far, although very few are physical present at Skolkovo now. The infrastructure for Skolkovo is still being built.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 1 shows flows of foreign investment into Russia by country for the first nine months of 2013, compared to the same period in 2012. Total foreign investment increased by 15 % year-on-year. According to Russian statistical practice, total foreign investment numbers include direct investment (FDI), portfolio investment, and other investment (largely trade credits). FDI flows into Russia also increased in 2013, rising by 52%; the largest share came from Cyprus according to available data. FDI from the Netherlands and Cyprus is consistently high, reflecting the fact that most FDI coming from these countries is likely either returning or reinvested Russian capital through subsidiaries or off-shore “shell” vehicles. The data in the table below is from the Central Bank of Russia. While official statistics for 2014 are not yet available, anecdotal evidence suggests that uncertainty spawned by the crisis in Ukraine as well as market fluctuations in Russia will drive FDI numbers down for this year.

Table 1: Top Investors - By Year (in \$ million)

Country	Jan-Sep 2013		Jan-Sep 2012		Jan-Sep 2011	
	Total	FDI	Total	FDI	Total	FDI
Switzerland		754	43,252	88	69,115	70.1
Netherlands	12,812	2,655	15,676	909	13,218	3,023
Cyprus	17,612	7,772	11,788	3,842	12,972	2,758
Germany	6,338	2,411	3,799	1,119	8,169	1,480
UK	12,158		10,618	500	6,336	176
All Others			29,330	5,819	23,976	4,228

Total	132,385	18,610	114,463	12,277	133,784	11,736
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The numbers in Table 2 represent the accumulated stock of total foreign investment in Russia by originating country, including FDI, portfolio, and "other" investment as of September 30, 2013, compared to the amount accumulated a year prior. Source: Central Bank of Russia.

Table 2: Top Investors - Accumulated Basis (in \$ million)

Country	As of Sep 30, 2013		As of Sep 30, 2012		As of Sep 30, 2011	
	Total	FDI	Total	FDI	Total	FDI
Cyprus	67,635	44,160	78,566	53,357	69,057	47,290
Netherlands	67,113	23,385	59,223	21,723	46,295	23,328
Luxembourg	47,197	1,319	39,808	1,191	35,051	643
Germany	21,969	12,119	24,757	11,393	29,779	11,386
China	32,383	1,492	27,792	1,346	27,356	1,238
All Others			123,198	46,298	115,650	42,529
Total	379254	122500	353,344	135,308	323,178	126,415

Table 3 shows total foreign investment by region over the first nine months of 2013, compared to the same period in 2012. Moscow continues to attract the lion's share of investments, mainly due to the concentration of companies' headquarters and consumers with high purchasing power. Source: Central Bank of Russia, including direct, portfolio and "other" investments.

Table 3 – Foreign Investment – Top Regions (in \$ million)

	Jan-Sep 2013			Jan-Sep 2012			Jan-Sep 2011		
	Amount	%	Rank	Amount	%	Rank	Amount	%	Rank
Moscow (city)	78,383	59.20%		63,211	55.20%		84,878	63.40%	1
Tyumen Region	4,669	3.50%		6,975	6.10%		9,821	7.30%	2
Sakhalin Region	1,908	1.50%		8,541	7.50%		6,570	4.90%	3
St. Petersburg	8,974	6.80%		6,580	5.70%		3,972	3.00%	4
Belgorod Region	1,433	1.10%		465	0.10%		3,171	2.40%	5
Others							25,371	19.00%	

Total	132,385	100%		114,463	100%		133,784	100%	
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Table 4 shows investment by sector over the first nine months of 2013, compared to the same period in 2012. Total investment increased in six of the ten top sectors. Data for investment into the financial sector was not available. Source: Central Bank of Russia

Table 4: Foreign Investment: Top Sectors (in \$ million)

Industry/Sector	Jan-Sep 2013		Jan-Sep 2012		Jan-Sep 2011	
	%	Amount	%	Amount	%	Amount
Finance	11.77%	15,579	33.46%	38,300	49.10%	65,711
Extraction of Fuel	5.06%	6,702	10.60%	12,136	9.60%	12,850
Wholesale and Retail Trade	16.97%	22,463	15.79%	18,074	9.20%	12,363
Production of coke and oil products	34.42%	45,563	10.78%	12,338	7.50%	9,997
Metallurgy	7.50%	9,932	6.05%	6,927	4.40%	5,902
Transport and Communications	2.41%	3,190	2.95%	3,377	4.10%	5,494
Real Estate and Related Services	4.79%	6,337	6.25%	7,150	3.60%	4,782
Chemical Industry	3.67%	4,858	2.09%	2,387	2.70%	3,636
Food Industry	2.08%	2,755	1.38%	1,583	1.50%	1,964
Production of vehicles	3.90%	5,164	2.45%	2,802	1.40%	1,845
All Others	7.43%	9,842	9.20%	9,389	6.90%	9,240
Total	100.00%	132,385	100.00%	114,463	100.00%	133,784

Table 5 shows stocks of Russian FDI abroad as of September 30, 2013 and September 30, 2012, as well as flows of Russian FDI abroad for the first nine months of 2013, compared to the same period in 2012. Russian FDI stocks decreased in the Netherlands and the United States but increased in Cyprus, the United Kingdom and Luxembourg (data from 2011 was unavailable for Luxembourg and the United Kingdom). Source: Central Bank of Russia.

Table 5: Top Destinations of Russian FDI - By Year (in \$ million)

Country	as of Sep 30, 2013		as of Sep 30, 2012		as of Sep 30, 2011	
	Stock	Flow	Stock	Flow	Stock	Flow
Netherlands	22,284	6,388	31,049	6,848	25,067	8,427
Cyprus	33,595	14,974	25,686	10,834	14,280	842
Switzerland	8,190	36,446	8,115	38,641	2,814	328
United States	4,004	545	7,880	642	6,663	439
United Kingdom	9,157	3,550	6,270	7,528	N/A	N/A
Luxembourg	6,846	7,873	6,206	213	N/A	N/A
Belarus	5,501	2,831	5,820	5,877	2,685	629

19. Contact Point at Post for Public Inquiries

- William Muntean
- Senior Trade Officer
- Bolshoy Deviatinsky Pereulok No. 8,
Moscow 121099, Russian Federation
- +7 (495) 728-5000
- moscow.office.box@mail.doc.gov