



RUSSIA
INVESTMENT CLIMATE STATEMENT
2015

Table of Contents

Executive Summary

1. Openness To, and Restrictions Upon, Foreign Investment

- 1.1. *Attitude Toward FDI*
- 1.2. *Other Investment Policy Reviews*
- 1.3. *Laws/Regulations of FDI*
- 1.4. *Industrial Strategy*
- 1.5. *Limits on Foreign Control*
- 1.6. *Privatization Program*
- 1.7. *Screening of FDI*
- 1.8. *Competition Law*
- 1.9. *Investment Trends*
 - 1.9.1. *Tables 1 and if applicable, Table 1B*

2. Conversion and Transfer Policies

- 2.1. *Foreign Exchange*
 - 2.1.1. *Remittance Policies*

3. Expropriation and Compensation

4. Dispute Settlement

- 4.1. *Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts*
- 4.2. *Bankruptcy*
- 4.3. *Investment Disputes*
- 4.4. *International Arbitration*
 - 4.4.1. *ICSID Convention and New York Convention*
- 4.5. *Duration of Dispute Resolution*

5. Performance Requirements and Investment Incentives

- 5.1. *WTO/TRIMS*
- 5.2. *Investment Incentives*
 - 5.2.1. *Research and Development*
- 5.3. *5.3 Performance Requirements*
- 5.4. *Data Storage*

6. Right to Private Ownership and Establishment

7. Protection of Property Rights

7.1. Real Property

7.2. Intellectual Property Rights

8. Transparency of the Regulatory System

9. Efficient Capital Markets and Portfolio Investment

9.1. Money and Banking System, Hostile Takeovers

10. Competition from State-Owned Enterprises

10.1. OECD Guidelines on Corporate Governance of SOEs

10.2. Sovereign Wealth Funds

11. Corporate Social Responsibility

11.1. OECD Guidelines for Multinational Enterprises

12. Political Violence

13. Corruption

13.1. UN Anticorruption Convention, OECD Convention on Combatting Bribery

14. Bilateral Investment Agreements

14.1. Bilateral Taxation Treaties

15. OPIC and Other Investment Insurance Programs

16. Labor

17. Foreign Trade Zones/Free Ports/Trade Facilitation

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

19. Contact Point at Post for Public Inquiries

Executive Summary

Russia's attempted annexation of Crimea in March 2014 is not recognized by the U.S. government. That annexation and Russia's incitement of and involvement in conflict in Eastern Ukraine have led to the placement of economic sanctions by the United States and other countries on individuals as well as entities in the Russian banking and energy sectors. Future decisions on sanctions — relating either to their expansion, continuation, or termination — will be based on Russian actions relative to Ukraine. Russia has responded to Western sanctions by ramping up rhetoric (already present before 2014) of economic nationalism and attempting to decrease its dependence on the global economy, including through government policies to bolster domestic industry and retaliatory sanctions on many Western agricultural products. While import substitution was a policy goal prior to the Ukrainian crisis, it has become a central tenet of government policy to shift Russia's reliance on imported goods to those either produced domestically or from "friendly" nations. The Russian government hopes to achieve a higher level of self-reliance through a combination of localization and procurement restrictions that foster domestic industry. As of April 1, 2015, all international payment systems were required to transfer their Russian transaction processing to the national payment card system (NPCS). Additionally, by September 1, 2015, all companies that process personal data on Russian citizens will be required to store that data on servers located in Russia.

Russia's economy has been hit hard by the fall in the price of oil, which accounts for approximately 20 percent of GDP, two-thirds of exports, and approximately half of federal government revenues. Furthermore, the ruble lost 46 percent of its value against the U.S. dollar in 2014 (compared to only 17.7 percent in the last economic downturn in 2008), which has exposed sectors of the economy that are heavily dependent on imports. While these factors potentially make Russian assets and investment relatively cheap, political risk presents the greatest obstacle to investing in Russia. Furthermore, the Russian economy still requires structural reforms which most observers believe are unlikely in the near future.

According to the UN Conference on Trade and Development (UNCTAD), foreign direct investment in Russia fell 70 percent to USD 19 billion in 2014. In 2015, economists predict a recession in Russia, with GDP likely to contract by 3-5 percent. While Russian government officials have consistently referred to the current economic downturn as a crisis, it is not yet an official recession as of the first quarter of 2015. Russia's Sovereign Wealth Funds were created to save windfall energy profits for years when oil prices were low. The Reserve Fund and National Wealth Fund (NWF) stood at just under USD 150 billion as of March 1, 2015, and are sufficient to cover budget gaps and provide infrastructure spending in the near term. (The Reserve Fund is for the budget; NWF is for pensions, but is widely used for infrastructure and other spending.)

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 uncertainty, 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. A new law in 2014 limits foreign ownership of any media outlet to 20 percent. 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. Additionally, long-standing concerns about rule of law persist. Concerns over property rights have resurfaced in the wake of the government's effective renationalization of the oil company Bashneft in 2014. Finally, Russia maintains control over half of Russia's GDP through state-owned enterprises.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Russia's occupation and attempted annexation of Crimea in March 2014 is not recognized by the U.S. government. Russia's actions to destabilize eastern Ukraine have led to the placement of U.S. and other countries' sanctions on individuals as well as entities in the Russian banking and energy sectors. In addition, the United States placed sanctions barring any U.S. persons (including businesses) from investing in, importing to, exporting from, or providing guarantees of transactions in Crimea. 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 August 2014, the Russian government retaliated against the United States, European Union, Canada, Australia, and Norway by banning the import of many food products from these countries. The banned products include certain fresh fruits, vegetables, meat, poultry, fish, and dairy products. These countersanctions support Russia's broader import substitution policy by limiting competition for domestic suppliers, although a lack of domestic production of these goods (for example, citrus, certain fruits, and vegetables, etc.) and difficulties in ramping up production have moderated potential gains for domestic suppliers. As the ruble's value weakened against the U.S. dollar and Euro in December 2014, the Russian government created unofficial barriers to grain exports, such as refusing to issue certificates needed for exports, in an attempt to keep the domestic price of grain down; it subsequently levied an export duty on grain in February 2015. Primarily as a result of the weakened ruble, food price inflation reached more than 20 percent year-on-year in early 2015.

Despite the imposition of sanctions on Russia and its countersanctions on many Western foodstuffs, the Russian government continues to express interest in attracting higher levels of domestic and foreign investment by private companies. Regarding domestic investment, the government adopted a law on taxation and reporting requirements for controlled foreign companies (FZ-376) on November 24, 2014, which entered into force on January 1, 2015. The law required individuals and companies to report foreign assets by April 1. However, on March 19, President Putin announced that implementation of the deoffshorization law would be delayed until it could be coordinated with the capital amnesty for Russian citizens bringing overseas assets back to Russia, which President Putin promised on December 4, 2014.

Other Investment Policy Reviews

The Organization for Economic Cooperation and Development conducted an Investment Policy Review of Russia in 2010-12, in the context of Russia's attempt to become an OECD member, based on the OECD Policy Framework for Investment.

Laws/Regulations of Foreign Direct Investment

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 Right to Private Ownership and 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 Entrepreneurs' 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).

Industrial Promotion

Not applicable.

Limits on Foreign Control

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 six separate occasions. As of April 2015, 45 activities require government approval for significant foreign investment. Foreign investors wishing to increase or gain ownership above certain thresholds need to seek prior approval from the government commission described above.

In October 2014, President Putin signed a law banning foreign firms and individuals from owning more than 20 percent of any media outlet in the country. Firms have until January 1, 2016 to restructure ownership in order to comply.

Privatization Program

The 2013 Privatization Program for state-owned enterprises (SOEs) has fallen behind its original schedule for 2014-2016. Most of the sales were supposed to involve selling off minority share positions, privatization through dilution of shares rather than divestment, and retaining golden shares to maintain government veto power on company boards. In June 2014, Prime Minister Dmitry Medvedev approved a "Plan to Implement State Programs on Federal Property Management in 2014-2016" in which the GOR laid out concrete annual plans to decrease its ownership in various companies. However, these plans to decrease state ownership in such companies as Russian Railways by 5 percent, Sovkomflot by 25 percent, and Aeroflot by 1.2 percent by the end of 2014 did not materialize. In addition, after years of debate, the government released an order in December authorizing the sale of a 19.5 percent stake in Rosneft at the

market price, but no lower than the share price at Rosneft's 2006 initial public offering. As Rosneft shares were priced at USD 7.55 in 2006, but traded at around USD 4.70 at the time of the privatization announcement, potential buyers would have to pay a 60 percent premium to the market price.

According to a report issued by Russia's Accounting Chamber in March 2015, Russia fully or partially privatized 1,180 joint-stock companies and 274 federal unitary enterprises in 2010-2014. However, privatization proceeds in 2010-2014 amounted to only 21 percent of the planned total; the bulk of the privatization program has been postponed. The main reasons are low asset prices, compounded by the economic slowdown and Western sanctions against Russia.

Russia also established a separate list of strategic companies which includes the largest and most profitable Russian companies via Executive Order No. 1009 of August 4, 2004. Companies identified on this list have some level of government ownership; the Executive Order sets forth the requirements for privatizing these firms. The 2012 addition of Russian privately-held internet company Yandex to the strategic companies list highlights the government's broad interpretation of what is required to protect state security and national defense.

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 investors 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. (See State-Owned Enterprises)

Screening of FDI

The Government Commission on Monitoring Foreign Investment screens FDI in Russia. Established in 2008, the Commission's review is triggered by the industry and not a threshold level of investment. The Commission scrutinizes foreign investment in businesses that have strategic importance for national defense and security. The Prime Minister is the Chairman of the Commission ex-officio. Since 2008, the Commission has received 351 applications for foreign investment. Of that total number, the Commission reviewed 178 applications; another 130 were recognized as transactions for which approval was not required; 37 applications were withdrawn by applicants; and seven are currently being reviewed. Of the total number of applications reviewed by the Commission, 169 were approved (95.5%), including 43 under certain conditions, and only nine applications (5.5%) were rejected.

Competition Law

The current regulation on the Federal Antimonopoly Service (FAS) was adopted by the Russian Government in July 2004, although FAS was originally established in the early 1990s. The stated primary goal of the agency is to enhance development of competition in the economy and financial services market. Since 2004, control over the activity of natural monopolies and observance of the legislation on advertising has been delegated to Federal Antimonopoly Service.

FAS has been criticized for being overly aggressive, particularly toward small and medium enterprises (SMEs). In 2013, FAS reviewed over 55,000 cases – more than all other national anti-monopoly agencies worldwide. Over one-third of the cases investigating abuse of market position were against SMEs, often in rural areas where the local market demand could not support multiple businesses. Only 11 percent of cases reviewed by FAS involved major market players that fell within the top 100 Russian companies in terms of annual revenue. Draft legislation increasing the annual sales threshold (below which Russian companies would not be recognized as dominant regardless of their market share) is currently being developed by FAS and will be submitted to the State Duma in fall 2015. FAS expects that once the amendments are approved, annual sales of about 80 percent of all Russian SME will be below the new threshold, thus only 20 percent of SMEs will remain subject to FAS antimonopoly control.

In March 2015, President Putin signed into law amendments to Article 178 of the Criminal Code aimed at reducing pressure both on small businesses and major market players, further liberalizing Russia's antitrust laws. Article 178 imposes liability on competing business entities for non-admission, restriction, or elimination of competition by entering into agreements that restrict competition (cartels) or by abusing repeatedly their dominant positions in form of fixing and/or maintenance of monopolistic high or monopolistic low prices for goods, unreasonable refusal to conclude or avoidance of concluding an agreement and restriction for entering a market, provided such actions cause major damage to individuals, companies, or the state or involve high profits. The amendments changed the definitions of high profits and major damage by increasing the minimum amounts, thus giving the majority of cases that involve SMEs immunity from criminal prosecution.

Investment Trends

According to the UN Conference on Trade and Development, foreign direct investment (FDI) into Russia fell by 70 percent in 2014, to USD 19 billion. In 2014, capital outflow from Russia reached approximately USD 150 billion, the highest annual outflow on record. Historically, FDI in Russia is characterized by wide fluctuations. For example, in 2013, a single acquisition deal in the energy sector amounted to USD 15 billion in FDI. In addition, FDI in Russia includes “round-tripping” FDI, which originates from Russian investors but appears foreign because it is routed through a second country. Analysts generally consider round-tripping FDI to be less effective than pure FDI because the investors may be less concerned with implementing best management practices, technology transfer, and higher business standards along with investment.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	136 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	62 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	49 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	13,850	data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

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.

The Central Bank moved to a free float of the ruble in November 2014, moving away from a longstanding policy of managing the exchange rate within a specific range. In December 2014, the government asked large exporters to regularly convert foreign currency earnings into rubles in order to reduce the volatility in the ruble exchange rate. This unofficial capital control was lifted in March 2015.

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 an authorized bank which enables 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 USD 50,000.

Remittance Policies

There are no restrictions or limitations on investment remittances in Russia. Citibank and Bank of America confirm investors have had no issues with remittances and in particular with dividends repatriation.

Since November 2014, the Central Bank has employed a floating exchange rate regime. This means there is no exchange rate target and no operational band or predetermined interventions, but the CBR reserves the right to intervene "in case of a sharp increase of financial stability risks." Soon after switching to the floating regime, the ruble came under severe pressure and the Central Bank intervened several times, with the CBR selling a total of USD 10.3 billion from December 1 through December 15, 2014. From December 18, 2014 through January 30, 2015, the Central Bank sold a total of USD 3.92 billion in the market on behalf of the Federal Treasury, which technically did not constitute Central Bank intervention, but had a similar impact on the forex market.

The Russian Federation is a member of the Financial Action Task Force (FATF). Russia is assessed by FATF, the Eurasian group on combating money laundering and financing of terrorism (EAG), and the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval, part of the Council of Europe). Russia was listed as a country of primary concern in the International Narcotics Control Strategy Report for 2014.

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.

On October 8, 2014, the Duma passed the first reading of the so-called Rotenberg Bill (named after an associate of President Putin who was sanctioned), which would allow the confiscation of property, assets, and accounts of U.S. and EU companies, including private companies, as a retaliatory measure against U.S. and EU sanctions. To date, the proposed bill has not been scheduled for a second reading in the Duma.

The re-nationalization of Bashneft in 2014 is a high-profile illustration of many of the challenges

faced by private business in Russia. Prior to September 2014, AFK Sistema owned a majority stake in Bashneft, Russia's sixth largest oil producer. In July, a district court froze AFK Sistema's Bashneft shares just prior to its much-touted London public offering, which would have diluted the company's ownership among foreign investors. Under AFK Sistema management, Bashneft showed one of the highest oil production growth rates in Russia due to restructuring of the previously state-owned company and the application of more advanced oil recovery techniques. In September 2014, Vladimir Yevtushenkov, Board Chairman and majority owner of Sistema, was placed under house arrest on charges of money laundering related to the 2009 privatization of Bashneft. Days later, Russia's Prosecutor General applied to the Moscow Arbitration Court to confiscate Sistema's shares in Bashneft; the court ruled in October to return the oil company's shares to the state. Yevtushenkov was not released until December 2014, after the transfer of Sistema's shares was completed. In January 2015, the Russian government announced that it planned to retain at least 50 percent of Bashneft's shares, effectively completing the renationalization of the company. Many observers have drawn parallels between the Sistema-Bashneft renationalization and the break-up of Mikhail Khodorkovsky's Yukos Oil Company from 2004-2007, although there were clearly political motives in the Yukos case which were absent in the Bashneft case.

4. Dispute Settlement

Russia has conflicting, overlapping, and frequently changing laws, decrees and regulations, which complicate the environment for dispute resolution. Independent dispute resolution in Russia can be difficult to obtain since the judicial system is often ineffective. 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.

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

For the past 20 years, Russia had two parallel court structures: a system of Arbitrage Courts that specialized in commercial cases and answered to the Higher Arbitrage Court; and a second criminal and civil court system that answered to the Russian Supreme Court. The Higher Arbitrage Court was eliminated in June 2014; the lower arbitration courts now answer to the Russian Supreme Court. It is too early to tell if these changes have made it more difficult for foreign investors to receive independent dispute resolution under the new system. As of March 2015, only half of the judge positions on the economic collegium are staffed (30 out of 60). The procedure for selecting Supreme Court judges following the merger excluded most of the former Supreme Arbitrage Court judges. In January 2015, Supreme Court Chairman Vyacheslav Lebedev denied rumors that the specialized courts at lower levels would be eliminated.

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 and firms' 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, so 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 20 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. 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 arbitrage 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.

According to a Federal Law dated December 2011, a specialized court for intellectual property (IP) disputes began to function in July 2013. The IP Court hears matters pertaining to the review of decisions made by the Russian Federal Service for Intellectual Property (Rospatent) and determines issues of IP ownership, authorship, and the cancellation of trademark registrations. It also serves as the court of second appeal for IP infringement cases decided in arbitration (commercial) trial courts and arbitration (commercial) courts of appeal. During the first half of 2014 (statistics for July – December 2014 are not yet available), the IP Court instituted proceedings on 443 cases and tried 323 cases, of which 59 percent were trademark revocations. During the first six months of 2014, the IP Court as the court of 3rd instance (second level of appeal) initiated proceedings on 671 cases and adjudicated 621 cases, of which 64 percent were IP infringement cases. Out of total of 399 infringement cases tried, 40 percent were trademark and 34 percent were copyright, with the remainder being trade secrets, patents, and other IP subject matter. 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.

Bankruptcy

Russia has had a law providing for bankruptcy of enterprises since the early 1990s. Corporate bankruptcies often involve criminal acts. The Deposit Insurance Agency has recently analyzed insolvencies at 220 credit institutions and three private pension funds and found that 80 percent of those resulted from asset stripping and illicit formation of liabilities. President Putin signed a

bill on personal bankruptcy, which had been two years under development, on December 29, 2014. The new law will enter into force on July 1, 2015.

Investment Disputes

To Post's knowledge, 13 investment disputes have involved a U.S. person since 2005. Post does not track disputes lodged by other foreign investors.

In an attempt to address some of the 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.

International Arbitration

Many attorneys refer Western clients who have investment or trade disputes in Russia to international arbitration in Stockholm or other 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 accepts binding international arbitration. However, international arbitral awards still require Russian courts to enforce them and bailiffs to attach assets; these courts have yet to become consistently effective enforcers of court judgments, whether domestic or international.

As a case in point, investors of the now defunct Yukos oil company won two major claims in foreign courts against the Russian Federation in 2014. In July 2014, the Permanent Court of Arbitration in The Hague awarded Yukos investors USD 50 billion, and a separate case in the European Court of Human Rights awarded shareholders approximately USD 2 billion. Shareholders are now seeking to enforce the claims through the legal system in Russia as well as in other countries. In a separate action, on April 1, 2015, Rosneft, which took over many parts of Yukos in 2004-7, announced that it had reached a settlement agreement with former Yukos shareholders and was giving up any claims to the overseas assets that had been moved to Dutch foundations in 2005.

ICSID Convention and New York Convention

Russia is party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. While Russia does not have specific legislation providing for enforcement of the New York Convention, Article 15 of the Constitution specifies that, "the universally-recognized norms of international law and international treaties and agreements of the Russian

Federation shall be a component part of [Russia's] legal system. If an international treaty or agreement of the Russian Federation fixes other rules than those envisaged by law, the rules of the international agreement shall be applied." Russia is a signatory but not a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID).

Duration of Dispute Resolution

Not applicable/information not available.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Russia joined the World Trade Organization on August 22, 2012. Russia agreed that, except for measures subject to a specific transition period, all of its laws, regulations, and other measures concerning matters covered in the TRIMS provisions of the WTO Protocol, whether adopted by it or the competent bodies of the Customs Union or Eurasian Economic Union, would be consistent with its WTO commitments, and in particular with the TRIMS Agreement, as of the date of Russia membership in the WTO.

As part of its WTO Protocol, Russia agreed to eliminate the elements of the automotive assembly investment incentive regimes initiated in 2005 and 2010 that are inconsistent with the TRIMS Agreement by July 2018, and to begin consultations in July 2016 with the United States and other WTO Members on WTO-consistent measures it could take in this sector. The United States will continue to monitor Russia's administration of these programs and its efforts to bring them into compliance with its WTO obligations. Additionally, the United States monitors possible local content requirements by a government-owned agricultural equipment leasing company, RosAgroLeasing, as well as Russian programs that support domestic production at the expense of imports, to ensure Russia's compliance with its international obligations.

Investment Incentives

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. Russia's policy to foster innovation officially continues but now appears to focus more on technology transfer and modification of existing technology to meet Russia's import substitution goals rather than the development of new innovative products. The flagship project, the Skolkovo Innovation Center, was designed to be the Russian equivalent of Silicon Valley and has been assured funding through 2015; funding after that remains uncertain. Skolkovo "resident companies" can receive a broad range of benefits, including exemption from profit tax, value-added tax, property tax, 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 physically present at Skolkovo now. A number of American firms have committed to invest or locate in Skolkovo's technology park, and the Massachusetts Institute of Technology continues

to run a multi-million-dollar program with the 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. However, SkolTech has been stymied by chronic construction delays and has yielded only modest results. The same is true for other Russian innovation efforts in large part because the Russian authorities have not addressed systemic challenges that discourage innovation, such as poor protection of intellectual property rights, arbitrary application of the rule of law, and challenges with developing and retaining talented human resources.

The Duma will consider a public-private-partnership bill in 2015 that could fill a gap in regulations to help develop needed infrastructure with private support.

Research and Development

Not applicable/information not available.

Performance Requirements

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.

In certain sectors, the Russian government has pressed for localization and increasing local content. This was the case in auto manufacturing before Russia joined the World Trade Organization in 2012. Now, Russia is considering local content requirements for industries that have high percentages of government procurement, such as medical devices or pharmaceuticals. Russia is not yet a signatory to the WTO's Government Procurement Agreement. Therefore, restrictions on public procurement appear to be the most likely way that Russia will seek to implement localization requirements without running afoul of international commitments.

The Central Bank of Russia has imposed caps on the percentage of foreign employees in foreign banks' subsidiaries. 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.

Data Storage

Law FZ-242 requires firms to handle and store personal data of Russian citizens on local servers beginning September 1, 2015. According to its authors, the goal of the law is to increase state security by protecting the personal data of Russian individuals. Companies that violate the law will be subject to restricted access to their websites and/or fines imposed by the mass-communications regulator Roscomnadzor. Virtually all Russian and foreign firms have expressed concerns about the law, due to its extremely broad and poorly-defined provisions and

absence of implementing regulations or clarification from the government about the scope of the law. Additionally, some firms have said that there are not enough servers or data centers located in Russia to meet demand.

The Ministry of Economic Development and the Ministry of Industry and Trade set the parameters for determining what constitutes domestic telecommunications equipment, and therefore what equipment could be used in specified applications or projects. The localization level depends on the scope of the research activities and technological operations carried out in Russia, resulting in localization levels from 60 percent to 70 percent. Moreover, to qualify, a company manufacturing telecommunications equipment must be a Russian resident and at least 50 percent owned by a Russian party or entity. Also, the manufacturer must have the legal rights to the technology and software, possess its own production base, manufacture printing boards, and carry out final assembly of the telecommunications equipment in Russia.

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 deemed to affect national security. There is a blanket ban on purchases of property in border areas for national security reasons. In August 2014, Prime Minister Medvedev amended Russia's state land policy with an order to ban foreigners from purchasing agricultural land in Russia or owning more than 50 percent of a Russian company investing in agricultural land.

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 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 (see also Limits on Foreign Control, above).

The Strategic Sectors Law has been amended on four occasions, most recently in February 2014. Activities related to the use of agents of infectious diseases conducted by companies whose core business relates to food production are no longer considered strategic. The latest amendments also introduced certain exceptions to requirements for prior approval from the Government Commission. Specifically, approval is no longer required for the following transactions: (1) those resulting in the acquisition of the right to dispose (directly or indirectly) shares (participatory interests) in strategic subsoil users if, prior to such acquisitions, the relevant foreign investor had the right to control more than 75% of shares (participatory interests) in the strategic subsoil user; (2) transactions resulting in the transfer from one foreign investor to another (without increasing share of participation) of more than 25% of shares (participatory interests) in a strategic subsoil user, if the foreign investors are under control of a person that already has control over the strategic subsoil user; and (3) transactions involving the increase of a strategic subsoil user's charter capital if, as a result of such transition, a participation share of the foreign investor in the subsoil user does not increase.

The largest U.S. investment blocked by the Strategic Sectors law was an April 2013 decision to deny a petition from the U.S. company Abbott Laboratories to purchase Russia's vaccine

producer Petrovax in a deal that was strongly supported by Petrovax. Afterwards, Russian officials stressed the need to control Russian vaccine production on national security grounds. A similar petition for Abbott Laboratories to purchase a controlling share of Russia's generic drug manufacturer Veropharm was approved in September 2014.

7. Protection of Property Rights

Real Property

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 agricultural land 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 2014, mortgage lending grew by 30 percent compared to 2013, with new issuances amounting to USD 31.4 billion. The number of mortgage loans issued increased by 20 percent year-on-year. As a measure to respond to the current economic downturn, the government recently approved a program of mortgage loan rate subsidies for purchases of new middle-income housing. According to the program, for which RUB20 billion (USD 345 million) has been allocated in the budget, the government will compensate banks for capping their interest rates at 12 percent for mortgages originated between March 1, 2015 and March 1, 2016.

Intellectual Property Rights

Russia is included on the 2015 Special 301 Priority Watch List due to continued significant challenges to intellectual property rights (IPR) protection, notably continued decline in enforcement efforts against many forms of IPR infringement. Additionally, Rutracker, Rapidgator, and vKontakte are Russian websites listed in the 2015 Notorious Markets list.

In Russia, the protection of 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.

The United States Government continues to highlight to the Russian government the necessity to improve intellectual property enforcement. Enforcement actions combatting end-user piracy continued to decline over the past year, including a decrease in raids, initiations of criminal cases, and issuances of court verdicts. Industry representatives recommended that the Russian

government strengthen administrative penalties to serve as effective deterrents and increase political will to more effectively combat piracy. Additionally, in December 2014, Russia amended the Law on Circulation of Medicines to allow the submission of registration materials, and data that should be protected under regulatory data protection for “follow-on” drugs three years after the reference drug’s marketing authorization for small-molecule drugs and four years after the reference drug’s marketing authorization for generics. Industry representatives see this “4+2” and “3+3” scheme as a significant weakening of protection for that data as well as a potential violation of Russia’s WTO obligations.

Over the past year, Russia made positive strides in strengthening its intellectual property laws, most notably by improving its online anti-piracy law to include all copyrightable material (except for photographs). This expansion of coverage has been warmly welcomed by the private sector as an indication that Russia is no longer willing to tolerate large-scale online copyright infringement and it is hoped that the availability of online pirated material will decrease.

Resources for Rights Holders

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/>.

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. In addition, in 2014 a law restored the power of police and prosecutors to initiate tax cases, even if the State Tax Authority has not determined there has been a tax violation. Although the new law has been in force only a short

time, there is concern this change could lead to abuses and corruption.

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.

Russia is a member of UNCTAD's international network of transparent investment procedures, available at <http://moscow.eregulations.org/>. Foreign and national investors can find information on administrative procedures applicable to investment and income generating operations, including the number of steps, name and contact details of the entities and persons in charge of procedures, required documents and conditions, costs, processing time, and legal bases justifying the procedures. However, this website does not appear to be fully functioning or regularly updated.

9. Efficient Capital Markets and Portfolio Investment

See below.

Money and Banking System, Hostile Takeovers

Banks continue to make up a disproportionate share of Russia's financial system. Although Russia had 827 banks with a valid license on March 1, 2015, the sector is dominated by state-owned banks, particularly Sberbank and VTB Group. Six out of the eight largest banks in terms of assets in Russia are state-controlled (with private banks Otkrytie ranked #4 and Alfa Bank #7), and the top five held 53.7 percent of all bank assets in Russia as of March 1, 2015. The 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 2015, aggregate assets of the banking sector amounted to 109.4 percent of GDP, and aggregate capital was 11.2 percent of GDP. Russia's banking sector has been suffering from the closing of international capital markets due to sanctions and the economic contraction in recent months, yet corporate loan growth reached 28.7 percent, while retail loan growth sharply decelerated to 9.8 percent in the 12 months running up to March 1, 2015. The share within Russia's banking sector of non-performing and troubled loans (categories III-V) increased from 12.9 to 13.6 percent over a one-year period ending March 1, 2015. 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. 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 since Elvira Nabiullina became its Governor in June 2013 and began tightening oversight of banks and reining in shadow banking activity. The Central Bank revoked licenses from 124 banks between June 2013 and March 2015, with many banks cited for violating anti-money laundering or anti-terrorist financing (AML/CFT) laws. This effort is succeeding not only in much-needed banking sector consolidation, but also in weeding out bad banks that have been complicit in money laundering and facilitating the so-called "dubious 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 financial institutions remain small relative to the size of the financial sector. Pension funds were once 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 decision by the government in late 2013 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. The decision was upheld for a second year in summer 2014, calling into question the government's commitment to this funding mechanism. In March 2015, President Putin promised that the program would not be discontinued.

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 development of sanctions against financial entities and the slowing of the Russian economy has dampened enthusiasm for the Moscow Exchange to serve as a domestic source of funding.

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 in the second half of 2014 first Clearstream and later Euroclear started settling Russian equities. 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

According to the latest government list, there are over 4,100 state-owned enterprises (SOEs), which play a prominent role across much of the Russian economy. The public sector accounts for a considerable share of economic activity with revenues of at least 71 percent of GDP, expenditures of at least 68 percent of GDP, and an estimated surplus of 3 percent of GDP. Russia is not yet party to the WTO Government Procurement Agreement, which would have an impact on the benefits enjoyed by SOEs in Russia. The Russian government appears to be increasing state control over the country's leading economic institutions as the economy continues to weaken.

SOEs play a large role in the energy sector. For example, SOE Gazprom [the State owns a 50.23 percent stake] produced 67.5 percent of Russia's total natural gas output as of 2014. Similarly, SOE Rosneft accounted for 36.2 percent of petroleum output in Russia. In December 2014, Prime Minister Medvedev relaxed a 2011 reform banning senior government officials from serving on SOE boards. Rosneft, Gazprom, and Transneft now have ministers and deputy prime ministers on their boards.

The government, in its latest count in January 2013, listed 4,132 SOEs, divided into 1,795 federal unitary enterprises and government stakes in 2,337 joint-stock companies. The government also maintains a list of 176 "strategic companies" that are either wholly or partially owned by the Russian state and that cannot be privatized due to their national significance. This list includes 128 federal unitary enterprises (100% government-owned) and 48 joint stock companies, which have varying percentages of state ownership. A specific variant of SOE, state corporations (there are currently five), are 100% owned by the Russian government and operate under separate legislation. Moreover, in February 2015, the government released a list of 199 "backbone" companies, considered pillars of the national economy, which will be considered first for special assistance in the government's anti-crisis measures.

Private enterprises are theoretically allowed to compete with SOEs on the same terms and conditions, and in some sectors, including those 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. In April 2014, the Economic Development Ministry approved a series of key performance indicators (KPIs) for all state-owned enterprises 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.

OECD Guidelines on Corporate Governance of SOEs

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.

Sovereign Wealth Funds

There are two sovereign wealth funds in Russia: the Reserve Fund (USD 77.05 billion, or 6.1% of GDP as of March 1, 2015, compared to USD 87.33 billion and 4.4% of GDP as of March 1, 2014) and the National Wealth Fund (USD 74.92 billion, or 5.9% of GDP as of March 1, 2015, compared to USD 87.25 billion and 4.4% of GDP as of March 1, 2014). 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 (the standing body of state financial control established by Russia's parliament), and the results are reported to the Federal Assembly. At the beginning of 2015, the government spent approximately USD 8.3 billion from the Reserve Fund. In March 2015, the Duma was considering a draft budget that would allow the government to spend an additional USD 51.2 billion by the end of the year to finance the expected budget deficit. There were no plans to tap the National Wealth Fund for that purpose, although there are numerous applications from companies and infrastructure projects for National Wealth Fund support.

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 to do so. 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 outreach rather than contribute to an already existing organization. The Russian government is a powerful stakeholder in the development of certain companies' CSR agendas; some companies view CSR as merely financial support of social causes, and choose to support local health, educational, and social welfare organizations favored by the government. 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.

OECD Guidelines for Multinational Enterprises

Not applicable.

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 in February 2014, the Russian government and Russian society as a whole have been gripped by nationalist rhetoric. The government liberally tars its critics with Soviet-era phrases such as "national traitors" and the "fifth column," accusing them of fomenting revolution on behalf of outside forces.

On February 27, 2015, the prominent opposition politician Boris Nemtsov was murdered in a brazen attack as he walked across a bridge in front of the Kremlin. Nemtsov's death is the highest-profile political murder in Russia since the double murder of human rights lawyer Stanislav Markelov and journalist Anastasia Baburova in January 2009.

In the past year, the government has continued to suppress and harass what few independent media outlets remain in operation. Apparent government influence was at play in the dismissal of the editor of Lenta.ru, a highly regarded news website. The government used regulations on "extremism" to intimidate news organizations from reporting on sensitive subjects, such as the battle for the Donetsk airport in Ukraine. In October 2014, the Russian Government adopted legislation to limit foreign ownership of mass media to no more than 20 percent by the end of 2016.

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 took place on March 1, 2015, when over 60,000 people took to the street in Moscow, and over 15,000 in St. Petersburg to protest after the murder of opposition politician Boris Nemtsov. On September 21, 2014, a peace march protesting Russian policy in Ukraine drew at least 20,000 participants. 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 and anti-corruption whistleblower 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 its actions. The "Anti-Maidan" march on February 21 and a mass rally to celebrate the anniversary of the illegal annexation of Crimea drew tens of thousands of participants; reportedly schools and government offices compelled attendance, and others were offered money to attend. Official counts of participants at demonstrations tend to overestimate numbers at pro-government events and underestimate those at anti-government events.

Some individuals who took part in Moscow's Bolotnaya Ploshchad protest in May 2012 are currently serving jail sentences of up to four 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 has faced multiple questionable court cases that led to his long-term confinement on house arrest; similar cases have been lodged against some of his associates.

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, Ingushetia, and Dagestan. These republics and neighboring regions in the northern Caucasus have a high risk of violence and kidnapping.

13. Corruption

In 2012, then-President Dmitry Medvedev stepped up the Russian government's campaign against corruption. In April 2014, Russian President Vladimir Putin renewed the National Anti-Corruption Plan for 2014-2015. The 2012 plan contains 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 the 2014-2015 plan, President Putin ordered executive and legislative authorities to make relevant amendments to their anti-corruption plans and to ensure control over their execution, and he instructed the Prosecutor General's Office to check a number of state organizations for their propensity for corruption. The Education Ministry, jointly with the Interior Ministry and the Investigative Committee, was instructed to explain to employees and students of higher educational and vocational education establishments how bribery and mediation in bribery are punished in line with the law. A press conference following up on the results of the first year of the current Anti-Corruption Plan is expected to take place in April 2015.

In January 2015, Sergey Ivanov, Chief of the Presidential Administration, said that approximately 5,000 persons were held accountable as a result of anti-corruption checks conducted in the first half of 2014, adding the amount of anti-corruption information on government websites of state agencies doubled over the course of 2014.

In a high-profile anti-corruption case in early March 2015, the Federal Security Service (FSB) raided Sakhalin Oblast's Government House as part of an investigation into corruption. Sakhalin Oblast Governor Aleksandr Khoroshavin and several members of his team were detained and sent to Moscow for questioning, prompting Federation Council Speaker Valentina Matviyenko to call the arrest "convincing proof that the government is very serious about fighting corruption." Shortly after the arrest, Khorovshavin was charged with large-scale bribery involving an energy company, having received more than USD 5.6 million in bribes to facilitate business activities for an energy company. Under Russia's Criminal Code, he could be fined or jailed for up to 15 years. Press reports stated that Khorovshavin's detention was connected to the audit he ordered

of the oblast's Ministry of Investment and Foreign Relations projects, amidst concerns regarding the transparency and control of public procurement.

Some analysts have expressed concern that lack of depth in the compliance culture in Russia will render Russia's adherence to international treaties 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 appear to have been 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.

The Ombudsman for the Protection of the Rights of Entrepreneurs, Boris Titov, is currently working on legislative proposals that would lessen the punishments for economic crimes, and to introduce rigid regulations for investigations of economic- and business-related cases in court. According to Titov, penalties proportional to the inflicted damage should replace imprisonment in most cases involving economic crimes, in particular if an alleged offender agrees to pay compensation during the course of the investigation, before the case goes to trial.

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/>.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Russia is a signatory to the UN Convention against Corruption (UNCAC), the Council of Europe's Criminal Law Convention on Corruption, and, as of 2012, the OECD Anti-Bribery Convention. Russia will host the 2015 biannual meeting of UNCAC members in November 2015 in St. Petersburg. Russia has yet to ratify Article 20 (on unlawful enrichment) of the UNCAC, arguing that it contradicts the Russian Constitution. 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, such as schools.

Resources to Report Corruption

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 was not ratified by Russia, thus is not in force.

Bilateral Taxation Treaties

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

The U.S. Overseas Private Investment Corporation (OPIC) announced in the wake of Russia’s actions in Ukraine that it had suspended consideration of any new financing and insurance transactions in Russia. Prior to this decision, OPIC had been authorized to provide loans, loan guarantees (financing), and investment insurance against political risks to U.S. companies investing in Russia since 1992. Detailed information about OPIC’s programs can be accessed at www.opic.gov. In July 2014 the White House stated that the Export-Import Bank (Ex-Im Bank) imposed a hold on all new transactions for exports to Russia. Ex-Im Bank previously provided export credit insurance with payment coverage for both commercial and political risks, and offered foreign buyers financing (with extended repayment terms) to buy U.S.-made capital goods and services.

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. On the other hand, a large number of inefficient enterprises with high vacancy levels offer workers unattractive, uncompetitive salaries and benefits.

The rate of actual unemployment (calculated according to ILO methodology) in February 2015

was low at 5.8 percent. Average unemployment in urban districts (5.1 percent) was much lower than in rural districts (8.1 percent). In December 2014 - February 2015, two regions in the North Caucasus had the highest unemployment rates in the country: Ingushetia (23.1 percent) and Chechnya (17.7 percent). In stark contrast, the unemployment rate was 1.5 percent in St. Petersburg and 1.6 percent in Moscow. There are an estimated 6 - 8 million migrant workers in Russia, mostly from former Soviet republics. Migrant workers are concentrated in construction, retail, and housing and utilities sectors.

Although previously businesses faced increasing labor costs due to competition over a limited pool of workers, wages in real terms have begun to decline due to the economic slump and high inflation in early 2015. 2015 started with changes in labor migration regulation. On November 24, President Putin signed Federal Law No. 357-FZ which changes the regulatory system for labor migration in Russia for visa-free countries: instead of work permits, employment licenses (“patents”) previously available for personal services workers are now available to an expanded group including construction companies, for example. The law, which became effective January 1, 2015, introduced economic mechanisms for managing labor migration flows. The regions have some authority over the process. Private business must compete with those SOEs where Russians have indicated in recent surveys they would prefer to work given better salaries and benefits. The public sector, which maintains inefficient and unproductive positions, directly 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 and the Russian government employs a limited number of labor inspectors. Employers cannot reduce employment in light of worsening market conditions without being required to make severance payments. Regulations to monitor labor abuses, health, and safety standards are enforced through normal labor inspections. The minimum wage is currently below the subsistence wage (Russian poverty level). The low unemployment levels have made it difficult to enforce laws against some abuses. The government generally complies with International Labor Organization (ILO) conventions protecting worker rights, though enforcement is often insufficient.

By law, labor unions are independent of the government. In practice, labor unions complain of numerous alleged violations of their rights, including government interference in labor union matters, unwillingness and procrastination by state authorities to register unions, acts of anti-union discrimination and absence of effective mechanism to ensure protection against such acts, denial of facilities for workers’ representatives, violation of the right to bargain collectively and failure of the state authorities to investigate those violations. Chapters 6 and 7 of the Labor Code regulate the collective bargaining process and agreements. According to Chapter 61 of the Labor Code, collective labor dispute resolution includes such mechanisms as conciliation procedures and commissions, intermediaries, labor arbitration, state bodies (Federal Service for Labor and Employment, RosTrud), and striking.

Starting with 2015, the share of foreign workers in construction, vegetable farming, and ground transport is limited to 50 percent. The following restrictions remain for foreign workers: sports – 25 percent; alcohol and tobacco retail trade – 15 percent; pharmaceuticals – 0 percent; retail

trade outside shops (street kiosks and markets) – 0 percent. [Note: The number of foreign workers in these fields is at or below these established quotas.]

17. Foreign Trade Zones/Free Ports/Trade Facilitation

Russia has 32 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 percent 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/>.

In 2014, the Ministry for the Russian Far East established a mechanism for creating Territories for Advanced Development. These areas will have an anchor investor and will operate on a similar basis to SEZs, including tax incentives, although regulatory authority will rest with Russian Far East Ministry instead of the Ministry for Economic Development. To date, other plans for specific areas are still in progress.

The Russian government has proposed a draft federal law “On the free port of Vladivostok” to attract investment in the Russian Far East. The measure would facilitate ship traffic and port operations, as well as an “open sky” regime at the Vladivostok airport. It would also include short visa-free travel and reduce the tax burden for investors.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Rosstat has released Russia's 2014 GDP, estimated at RUB 70.975 trillion, compared to RUB 66.194 trillion in 2013. Using a rough estimate of the average of the annual exchange rate, Russia's GDP in 2013 was USD 2.08 trillion (average exchange rate: RUB 31.861/USD 1) and USD 1.84 trillion in 2014 (average exchange rate RUB 38.53/USD 1). While Russia's GDP rose slightly over the past year, the ruble depreciation in relation to the U.S. dollar is responsible for the lower 2014 data point. The official USD equivalent has not yet been published.

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2013	2.077m	2013	2.097m	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	2013	17,979	2013	14,631	BEA data available 3/19/14 at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Host country's FDI in the United States (\$M USD, stock positions)	2013	739	2013	6,197	U.S. BEA
Total inbound stock of FDI as % host GDP	2013	%0.23	2013	%0.23	

*Central Bank of Russia: http://www.cbr.ru/eng/statistics/?Prtid=svs&ch=PAR_31141

Table 3: Sources and Destination of FDI

Table 3 shows flows of foreign investment into and out of Russia by country in 2013. According to Russian statistical practice, total foreign investment numbers include direct investment (FDI), portfolio investment, and other investment (largely trade credits). FDI flows between Russia and both Cyprus and the Netherlands indicate “round-tripping” FDI. FDI from these two countries to Russia 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 by country for 2014 are not yet available, overall FDI outflows from Russia reached USD 150 billion in 2014.

Direct Investment from/in Counterpart Economy Data

From Top Five Sources/To Top Five Destinations (US Dollars, Millions)

Inward Direct Investment			Outward Direct Investment		
Total Inward	472,281	100%	Total Outward	385,315	100%
Cyprus	188,276	39%	Cyprus	151,101	39%
Netherlands	48,948	10%	Virgin Islands, British	74,924	19%
The Bahamas	31,987	7%	Netherlands	45,252	12%
Bermuda	30,415	6%	Austria	25,529	7%
United Kingdom	21,759	5%	United States	21,007	5%

"0" reflects amounts rounded to +/- USD 500,000.

Source: Central Bank of Russia

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets

Top Five Partners (Millions, US Dollars)

Total			Equity Securities			Total Debt Securities		
All Countries	63,414	100%	All Countries	6,383	100%	All Countries	57,031	100%
Ireland	17,756	28%	Jersey	1,895	30%	Ireland	17,751	31%
Luxembourg	17,210	27%	Cyprus	803	13%	Luxembourg	17,005	30%
United Kingdom	3,865	6%	United States	619	10%	United Kingdom	3,374	6%
Cyprus	3,380	5%	United Kingdom	491	8%	Ukraine	3,009	5%
Ukraine	3,009	5%	Luxembourg	205	3%	Cyprus	2,578	5%

Source: IMF Coordinated Portfolio Investment Survey

19. Contact for More Information

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