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R95 **Russian Economy in 2021. Trends and outlooks. (Issue 43)** / [V. Mau et al; scientific editing by Kudrin A.L., Doctor of sciences (economics), Radygin A.D., Doctor of sciences (economics), Sinelnikov-Murylev S.G., Doctor of sciences (economics)]; Gaidar Institute. – Moscow: Gaidar Institute Publishers, 2022. – 568 pp.: illust.

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The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 43th issue. This publication provides a detailed analysis of the most significant trends in the Russian economy, global trends in the social and economic development. The work contains 6 big sections that highlight different aspects of Russia’s economic development, which allow to monitor all angles of ongoing events over a prolonged period: global economic and political challenges and national responses, economic growth and economic crisis; the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The work is based on an extensive array of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

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6.5. Customs administration in Russia in 2021¹

The year 2021 saw the accomplishment of reforms within the scope of the Comprehensive Program for Development of the RF Federal Customs Service till 2020 and the Strategy of the Development of the RF Customs Service till 2020. The main transformations are related primarily with the introduction of modern information technologies in customs procedures making it feasible to switch over to automatic registration of customs declarations and automatic (with no involvement of customs officials) release of goods. Vladimir Bulavin, Head of the RF Federal Customs Service declared that in 2021 25% of customs declaration were issued in an automatic mode when importing goods and nearly 43% when exporting. “After carrying out customs reforms, the customs authorities have achieved an optimal operating mode: at present 68%, 80% and 98% of customs declarations are released within an hour, 4 hours and a day, respectively, while only 2% of declarations are sent for checking. From January through November 2021, customs authorities registered in an automatic mode over 4.1 mn declarations and released automatically over 1.34 mn declarations.”² Notably, an increase in the share of consignments with an automatic release of goods takes place amid a 37% pickup in foreign trade as compared with 2020.

A tax maneuver in the oil industry³ changed the pattern of customs payments: imports account for nearly two-thirds of customs duties and taxes administered by the customs authorities (import customs duties, VAT, excises and single customs payments from individuals).

In 2021, the RF Government paid a particular attention to support Russian exports. By RF Government Resolution No.2393-r of August 28, 2021, a new version of the plan (road map) of implementation of the mechanism of management of

1 This section was written by *Balandina G.V.*, Senior Researcher, IKND RANEPА.

2 Official website of the Federal Customs Service. – URL: <https://customs.gov.ru/press/federal/document/319904>

3 Tax maneuver suggests a stepwise reduction in export duties on oil to zero with a simultaneous increase in the barrelage tax (severance tax) for the equivalent amount.

system-based changes in regulation of entrepreneurial activities – “Transformation of the Business Environment” in the line of “Exports of Goods and Services” – was approved. This Plan includes initiatives aimed at specifying legal regulation of various requirements set to exporters in order to remove or reduce administrative barriers.¹

According to the research into regulatory base and the survey of exporters, it was established that in customs administration the most sensitive regulatory measures for exporters included difficulties in application of customs procedures for processing on the customs territory. Customs procedures envisage the option of importing materials, raw products and components meant for production of export products without payment of customs duties and VAT. Administration of customs control over each consignment of foreign goods in the unit or consignment of manufactured goods (identification of foreign goods in derived products) blocks up the application of customs procedures in respect of manufacturing – based on continuous utilization of foreign components – allowing for the mixture of products supplied by individual consignments in the process of storage or production.

Though the effect of each individual administrative procedure regulating exports is insignificant, their multiplicity, which is now and then associated with duplication of functions of individual agencies (for example, securing of a permit for the exports of products from the relevant agency requires a conversion of a permit into the license of the RF Ministry of Industry and Trade), differences in requirements set to exporters as regards provision of documents and information, including a hard copy thereof for securing the required permit, as well as repeated provision of the same information, overburdens the overall mechanism of exports and frightens off SME from engaging in export operations. A new approach to administrative supervision based on a single provision and multiple utilization of one and the same information in an electronic format for all types of state control is needed.

Also, restrictions in the field of foreign exchange and exports control are sensitive to exporters. As regards the foreign exchange control, exporters incur expenses because of the requirement to repatriate foreign currency proceeds, the need to comply with procedural requirements in terms of provision of reports to authorized banks, as well as risks of high penalties and criminal prosecution for the violation of the existing requirements. Despite the measures taken in this

¹ To identify administrative barriers in exports, the RF Ministry of Economic Development together with the Russian Academy for Foreign Trade developed a special instrument in terms of a matrix of the exporter’s customized path specifying the exporter’s all moves of networking with state authorities from production of goods and entering into an export contract to settlement payments on the export deal with assessment of the effect of regulatory measures on the exporter’s time inputs and financial costs. Based on the outputs of this work together with exporters, proposals are elaborated to specify the regulatory base. The first outputs and proposals were discussed by representatives of the RF Ministry of Economic Development, the RAFT, the REC, think-tank on exports of goods and services and some exporting companies within the framework of the “Exporter’s New Customized Path: First Steps” session of the “Made in Russia” Forum on December 10, 2021. The Forum was sponsored by the Russian Export Center. The official website of the RF Ministry of Economic Development. – URL: https://economy.gov.ru/material/news/minekonomrazvitiya_rossii_sozdali_matricu_klientskogo_puti_eksportera.html.

field to liberalize the legislation, exporters stand for a complete cancelation of foreign exchange control, which initiative could narrow the gap between the export-regulation regime of Russian companies with that of companies from the OECD member-countries. In the field of export control, the goods “identification” procedure, that is, a confirmation proving that goods are not subject to export control restrictions is still sensitive to exporters.

The year 2021 saw further elaboration of control measures to be taken after the release of goods. After the release of goods, customs control is carried out by the customs authorities in terms of verification of documents and information, desktop customs audit and on-site customs inspection within 3 years from the date of release of goods. A shift of customs control from the “declaration” stage to the “after release” stage will reduce considerably the time-limits for the release of goods. According to Vladimir Bulavin, Head of the Federal Customs Service, in 2021 additional customs payments for the overall sum of over Rb23 bn were charged thanks to such supervising measures.”¹

The RF Federal Customs Service has been carrying out an experiment on introduction of customs audits – a mechanism of verification of compliance by corporate entities, foreign trade operators having relevant guidelines and competences for doing it, with the customs legislation – since the end of 2021. By Order No.960 of October 29, 2021 of the RF Federal Customs Service “On Carrying Out an Experiment with Introduction of Customs Audit”,² envisaging the imposition of the audit-related initiative on the business within the scope of the experiment to be held from November 8, 2021 till March 31, 2022, it is established that based on the outputs of work to be done within the specified period it is necessary to determine the requirements (terms and criteria) to auditor-companies and auditees, issues to be specified in the findings prepared by the auditor-company and feasibility of utilization of such findings for relevant decision-making by customs authorities.

The list of goods, which circulation in the Russian territory is allowed provided that they are marked with relevant means of identification, has been extended. The mandatory marking of cheese, ice cream and edible ice was introduced from June 1, of dairy products, whose storage life is over 40 days, from September 1 and of dairy products with storage life of less than 40 days and bottled mineral natural water from December 1. The RF Government is planning to expand application of mandatory marking requirements to beer, bicycles, wheeled chairs and carbonated and low-alcohol beverages.³ In light of the expansion of the range of products which are subject to mandatory marking, the business community comes out with a proposal to create additional conditions for marking imported goods in the Russian territory, for example, to do it at temporary storage facilities. Due to a limited number of customs warehouses where it is allowed to do marking,

1 The official website of the RF Federal Customs Service. – URL: <https://customs.gov.ru/press/federal/document/320107>.

2 The official website of the RF Federal Customs Service. – URL: <https://customs.gov.ru/uchastnikam-ved/tamozhennyj-audit/obshhaya-informacziya>.

3 Resolution No.792-r of April 28, 2018, of the Government of the Russian Federation (as amended on January 17, 2022).

importers incur additional marking-related expenses. With a flat rate of one code in the amount of 50 kopeks without VAT, by our estimates, the cost of marking-related services at the customs warehouse may amount to Rb7-Rb35 per one code depending on the type of goods.

In 2021, the first free warehouse owned by the OOO Arctic SPG 2 was established.¹ Free warehouse customs regime envisages the importation of foreign goods (equipment and spare parts, primary products, materials and components) without payment of import customs duties and charges provided that these goods are used only in the territory of the free warehouse. The Arctic SPG 2 is a plant specializing in production, storage and shipment of liquefied natural gas and stable gas condensate. The project envisages the building of three lines of production of liquefied natural gas and stable gas condensate. The overall capacity of three production lines amounts to 19.8 mn tons of liquified natural gas per year. The Arctic SPG 2 mineral resource potential is the Utreneye deposit situated on the Gydan peninsula in the Yamal-Nenets Autonomous National Area. The project operator and assets owner is the OOO Arctic SPG 2, a joint-venture which incorporates TotalEnergies (10%), the PAO NOVATEK (60%), Chinese-based corporations CNPC (10%) and CNOOC (10%) and Japan Arctic LNG (a consortium of Japanese-based companies Mitsui and JOGMEC) (10%). The first, second and third production lines are expected to be put into operation in 2023, 2024 and 2025, respectively.²

The free warehouse customs regime is an option of importing technological equipment, primary goods, as well materials and components needed for production without payment of import duties and taxes. A precondition for the establishment of a free warehouse is the compliance with administrative requirements set by the EEU's Customs Code and the Russian legislation as regards customs regulation of the development and outfitting of territories meant for production activities, as well as accounting of goods and operations with them for customs purposes.

As regards the development of the institution of authorized economic operators, no considerable positive changes have taken place. In 2021, the Register of Authorized Economic Operators (AEO) included 25 companies, while their overall number in the register of Russian AEO is equal to 167. The AEO status means greater credibility on the part of the customs authorities in terms of a simplified and fast-track customs procedures, for example, the right to release goods on the basis of the minimum information provided with a subsequent customs declaration of goods in the following calendar month by means of submitting a single customs declaration in respect of all goods released within a calendar month. If authorized economic operators submit to the customs authorities a general guarantee of customs duties payment up to euro 1.5 mn, they are released from the need to provide non-recurrent guarantees in carrying out individual customs operations. Specifically, the overall sum of the general license decreases if AEO commits no

1 Order No.1015 of November 23, 2021 of the RF Federal Customs Service "On Entry of OOO Arctic SPG 2 in the Register of Owners of Free Warehouses and Issuing of Certificate of Entry in the Register of Owners of Free Warehouses"

2 URL: <https://corporate.totalenergies.ru/ru/Arctik-SPG-2>

violations. Special customs requirements have been set in respect of accounting of goods transported via the EEC's customs border and operations with them.

In the past few years, the Accounts Chamber of the Russian Federation have carried out customs administration-related supervising on a regular basis. In particular, in 2021 they checked correctness of assessments of customs payments in respect of goods which importation is related with payment of license royalties for intellectual property items. It was identified that foreign trade operators did not include license royalties in the customs value pattern. According to the oversight agency, as a result of this practice short-received customs duties and charges were equal to Rb98.5 bn (as estimated).¹ The publication of the outputs of the RF Accounts Chamber's review led to the customs authorities' large-scale checking of importing companies with a request to provide for examination license agreements which the latter failed to submit when declaring imported goods. Apart from trading companies paying license royalties for the utilization of trademarks, manufacturing companies engaging in production of licensed goods (under licensed know-how) were subjected to examination and requested to pay extra customs fees. It is noteworthy that the rules of including license royalties in the customs value in the EEU and the Russian Federation are not elaborated enough and this leads to disputes and conflicts between customs authorities and foreign trade operators. Arbitration courts of the Russian Federation reviewed about 300 lawsuits of importers to the customs authorities as regards the decision on including license royalties into the customs value. The results of court hearings of such cases and legal assessments of license royalties' inclusion into the customs value lack uniformity. Under similar circumstances, courts' rulings may be quite the opposite, thus enhancing the risks of additional customs charges being applied to the earlier released goods. However, by our estimates, courts make decision in favor of foreign trade operators on over 50% of such cases (with such a category of disputes).

The issues of classification of goods in accordance with EAEU CN of FEA are still topical for foreign trade operators. The main challenges are related with frequent cases of changes in the customs authorities' approaches to the classification of goods (CN of FEA code) with application of new approaches to goods imported in the previous period, which practice results in a retrospective revaluation of customs duties liable to payment. The right of foreign trade operators to secure the customs authorities' preliminary decision as regards classification of goods corresponds to the competence of the customs authorities to carry out verification within three years after the release of goods. Legal value of a preliminary decision consists in the fact that it cannot be changed retrospectively unless the foreign trade operator provided knowingly the falsified information. In other words, the preliminary decision on the classification is a kind of guarantee of stability of certain customs duty rate for a foreign trade operator. However, the institution of preliminary decisions needs fine tuning in terms of organization. In compliance with Order No.166 of March 2, 2021 of the RF Federal Customs Service, all regional

¹ The official website of the RF Federal Customs Service. – URL: <https://ach.gov.ru/checks/schetnaya-palata-vvyavila-priznaki-zanizheniya-tamozhennykh-platezhey-na-98-5-mlrd-rub->

customs (RC) are entrusted with the authorities to take preliminary decisions on classification of goods in accordance with EAEU CN of FEA, except for oil and petrochemicals which are attributed to group 27 of CN FEA, the prerogative of the RF Federal Customs Service. Specifically, regional customs lack skilled personnel for taking decisions on classification of a broad nomenclature of goods. The rules of classification in accordance with CN of FEA require special knowledge in various sectors (the chemical industry, metals, engineering and other). Each regional customs lacks narrowly-focused experts in specific sectors and therefore foreign trade operators are often refused for formal reasons to be given a preliminary decision. Further, as it is envisaged that a preliminary decision is to be made on each individual product of a certain trademark, model, article and modification, the institution of preliminary decisions becomes virtually inaccessible to foreign trade operators with a vast and often renewable range of the same-type goods with similar classification features.

In 2021, the RF Federal Customs service elaborated the “intellectual” crossing point concept which became an integral part of the Strategy of the Development of the RF Customs Service till 2030 approved by Instructions No.1388-r of May 23, 2020 of the Government of the Russian Federation. An “intellectual” crossing point is expected to be based on a single digital platform integrated with databases of all supervising authorities and software of technical control facilities: batch scanning units (PDM), dimension and weigh measurement systems, radiation control systems and systems identifying vehicle license plate number and containers’ ID numbers. For each type of transportation (by road, railway, sea and air), the “intellectual” crossing point will be built with the specifics of carriage taken into account.

By Instructions No.3744-r of December 21, 2021 of the Government of the Russian Federation, a strategic line was approved in the field of digital transformation of the transportation industry of the Russian Federation till 2030, envisaging within its scope the “Seamless Freight Logistics” project aimed at completing the introduction of a freight tracing system with utilization of electronic navigation seals; developing a digital platform of the RF transportation industry; creating a system of end-to-end exchange of electronic carriage documents (including on an inter-state level); establishing a national digital logistics contour within the scope of implementation of the ecosystem of digital transportation corridors of the Eurasian Economic Union, as well as creation of conditions for development of e-platforms for ordering freight carriage services, logistics services and e-commerce services (FaaS) and establishing of intellectual crossing points on the state border of the Russian Federation.

By the Concept of development of electronic document flow at harbor border crossing points of the EEU member countries approved by Decision No.1 of February 5, 2021 of the Eurasian Intergovernmental Council, it is envisaged that the goal of a complete shift to electronic document flow and digital technologies at harbor border crossing points will be achieved in 2023–2025. It is planned to realize the principle of multiple utilization of data and single provision thereof by freight carriers, maritime agents, sea terminal operators and business entities to seaport captains, authorized entities and state authorities of member countries

for carrying out all types of state control (supervision), as well as for formalization of a vessel' call at and departure from a seaport and request for services there.

The RF Federal Customs Service is planning to upgrade the risk management system by shifting from risk assessment based on categorization of foreign trade operators to that based on big data processing and analysis, which data aggregate may point to violations.¹

Also, they are developing a mobile app for air passengers who will be able to fill in a customs declaration on their smartphones and calculate and pay customs duties and fees. The new service is expected to be introduced in H1 2022.²

1 The official website of the Public Council under the RF Federal Customs Service. – URL: <https://www.osfts.ru/meropriyatiya/2021/2110-glavnye-tseli-otkrytost-i-rezultativnost>

2 The official website of the RF Federal Customs Service. – URL: <https://customs.gov.ru/press/federal/document/319904>

