

Section 6. Institutional Changes

6.1. Public property management¹

6.1.1. Economic subjects in public ownership

From 2016 onwards, statistical data on public property entities have been published within the framework of the System of Public Property Management Efficiency Estimates. It was approved by Decree of the RF Government No. 72 dated January 29, 2015, and introduced to replace the public sector monitoring data that had been collected and released by the Federal State Statistics Service (Rosstat) since the early 2000s in accordance with the provisions stipulated in RF Government Decree No. 1 dated January 4, 1999 (as amended on December 30, 2002). Among other things, the System contains data on the number of federal state unitary enterprises (FSUEs) and joint-stock companies (JSCs) with RF stakes in their capital; previously, such data were usually published as part of government privatization programs (from 2011, for three-year period; and prior to 2011, for one-year period). In the current Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2020–2022, relevant data are available only as of early 2019 (*Table 1*). So, in order to adequately describe the processes observed over the course of the current year, one must rely specifically on data in the System of Public Property Management Efficiency Estimates.

As of July 1, 2019, the Russian Federation held stakes in 948 joint-stock companies (JSC) and was property owner of 640 FSUEs, 46 federal treasury enterprises (FTE), and 13,915 federal state institutions (FSI).

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Table 1

Societies and organizations in federal ownership entered in the Federal Property Register and the System of Public Property Management Efficiency Estimates in 2010–2020

Date	Economic societies with federal stakes, units		Other holders of ownership rights to registered federal property entities, units		
	stake (share) in capital	special right to participate in company's management ('golden share') without holding any stake ^a	FSUEs	FTEs	FSIs
As of January 1, 2010	3,066/2,950 ^b		3,517 ^b		
As of January 1, 2013	2,356/2,337 ^b		1,800/1,795 ^b	72	20,458
As of January 1, 2016	1,557/1,704 ^b	88/64 ^c	1,488/1,247 ^b	48	16,194
As of April 7, 2016 ^c		1,683/1,620 ^d	1,236	48	16,726
As of July 1, 2016	1,571	82	1,378	47	16,990
As of January 1, 2017	1,356/1,416 ^e	81	1,245/1,108 ^e	48	16,846
As of July 1, 2017	1,247	78	1,058	53	16,244
As of January 1, 2018	1,189	77	984	50	15,985
As of July 1, 2018	1,060	77	868	50	15,520
As of January 1, 2019	1,084/1,130 ^b	76	792/700 ^b	48	15,140
As of July 1, 2019	1,059	73	712	48	14,942
As of January 1, 2020	989	67	672	48	14,576
As of July 1, 2020	948	67	640	46	13,915

^a – special right is not entered in the Register as a separate registered item; however, it is mentioned in various materials published by the RF Federal Agency for State Property Management (Rosimushchestvo) in the context of data on state stakes in joint-stock capital;

^b – number of JSCs and FSUEs as stated in the privatization programs for 2010–2013, 2014–2016, 2017–2019 (data based on OKVED Codes (All-Russia Classifier of Economic Activities) refer to companies with shares (or stakes) in federal ownership), and 2020–2022 (number of economic societies);

^c – according to data published in Rosimushchestvo's annual report for 2015;

^d – the numerator is the total number of legal entities, including CJSCs and LLCs; the denominator is the number of stakes and shares (it is assumed that the difference between the two figures equals the number of JSCs with a 'golden share', but there is no explicit statement of that fact);

^e – based on data published in the Report on the implementation, in 2017, of the Forecast Plan (Program) of Federal Property Privatization for 2017–2019.

Sources: Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2011–2013; Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2014–2016; URL: www.economy.gov.ru, April 23, 2013; RF Federal Agency for State Property Management (Rosimushchestvo)'s Annual Report for 2015; Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2017–2019; Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2020–2022; statistical data from the System of Public Property Management Efficiency Estimates. URL: <http://rosstat.gov.ru/>, March 20, 2016, September 5, 2016, March 20, 2017, September 5, 2017, March 20, 2018, September 5, 2018, March 20, 2019, September 5, 2019, March 20, 2020, September 5, 2020.

When these figures are set against the corresponding data for the previous year, it can be noted that the number of FSIs plunged by 1,027 units (or 6.9%); that of FSUEs, by 72 units (or more than 10%); and that of JSCs with state stakes, by 111 units (or 10.5%), while the number of JSCs with 'golden shares' (the Russian Federation's special right to participate in their management) declined by 6 units

(8.2%). The number of FTEs shrank by 2 units (4.2%), and this happened in H1 2020.

Over this shorter period, the movement patterns of the main categories (organizational legal forms) of economic subjects appeared to be as follows. The number of unitary enterprises declined by 4.8%, that of state institutions, by 4.5%, and that of JSCs with state stakes, by 4.1%; as a result, in H1 2020, the number of the latter for the first time plunged below 1,000 units.

Now let us look at the category of economic societies with various degrees of state participation, which is more relevant from the point of view of their role in the economy¹ (Table 2).

Table 2

The movement patterns of the number and structure of economic societies (JSCs and LLCs) relative to the size of state stakes in their capital (less JSCs subject to special right ('golden share') without a RF stake) in 2010–2020

Date and source	Economic societies (JSCs and LLCs) where RF is shareholder (or participant)									
	total, units	share, %	of these, with RF stake in charter capital amounting to							
			100%		50–100%		25–50%		less than 25%	
			units	%	units	%	units	%	units	%
<i>RF Government (forecast privatization plans (FPP))</i>										
As of January 1, 2016 (FPP)	1,704 ^a	100.0	765	44.9	93	5.4	172	10.1	674	39.6
As of January 1, 2019 (FPP)	1,130 ^b	100.0	368	32.55	30	2.65	95	8.4	637	56.4
<i>Rosstat (System of Public Property Management Efficiency Estimates, JSCs only)</i>										
As of January 1, 2016	1,557	100.0	816 ^c		52.4 ^c		174	11.2	567 ^d	36.4 ^d
As of July 1, 2016	1,571	100.0	711 ^c		45.3 ^c		189	12.0	671 ^d	42.7 ^d
As of January 1, 2017	1,356	100.0	575 ^c		42.4 ^c		128	9.4	653 ^d	48.2 ^d
As of July 1, 2017	1,247	100.0	514 ^c		41.2 ^c		108	8.7	625 ^d	50.1 ^d
As of January 1, 2018	1,189	100.0	488 ^c		41.0 ^c		102	8.6	599 ^d	50.4 ^d
As of July 1, 2018	1,060	100.0	448 ^c		42.3 ^c		87	8.2	525 ^d	49.5 ^d
As of January 1, 2019	1,084	100.0	442 ^c		40.8 ^c		85	7.8	557 ^d	51.4 ^d
As of July 1, 2019	1,059	100.0	429 ^c		40.5 ^c		85	8.0	545 ^d	51.5 ^d
As of January 1, 2020	989	100.0	387 ^c		39.1 ^c		74	7.5	528 ^d	53.4 ^d
As of July 1, 2020	948	100.0	362 ^c		38.2 ^c		66	7.0	520 ^d	54.9 ^d

^a – the number of JSCs as stated in the FPP for 2017–2019 (the data based on OKVED Codes (All-Russia Classifier of Economic Activities)) refer to companies with shares (or stakes) in federal ownership);

^b – the number of economic societies;

^c – the total number of JSCs with federal stakes of more than 50% (without counting separately the JSCs with 100% federal stakes), and their relative share;

^d – the estimated total number of JSCs with federal stakes and the number of such JSCs in other categories, based on the federal stakes in their charter capital.

Sources: Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2017–2019; Forecast Plan (Program) of Federal Property Privatization

1 Previously, this group of companies could be described in more detail on the basis of information derived from the year-end reports on the management of federal stakes in OJSCs and the use of the Russian Federation's special right to participate in an OJSC's management ('golden share'), which were published by Rosimushchestvo from 2012 until recently.

and the Main Directions of Federal Property Privatization for 2020–2022; statistical data from the System of Public Property Management Efficiency Estimates. URL: <http://rosstat.gov.ru/>, March 20, 2016, September 5, 2016; March 20, 2017, September 5, 2017; March 20, 2018, September 5, 2018, March 20, 2019, September 5, 2019, March 20, 2020, September 5, 2020; own calculations.

An analysis of Rosstat data published in the framework of the System of Public Property Management Efficiency Estimates revealed, over the period between mid-2019 and mid-2020, the presence of a continuing downward trend in the share of those JSCs where the State as a shareholder exercised full corporate control.¹ Their share as of July 1, 2020 was 38.2% vs 40.5% a year earlier. The share of JSCs with federal blocking stakes shrank from 8% to 7%. Meanwhile, the share of all the other companies with federal stakes, on the contrary, increased from 51.5% to almost 55%.

The movement of data in the System of Public Property Management Efficiency Estimates, which are not limited to the federal level alone, follows the following patterns (*Table 3*).

Table 3

The number of organizations operating in the public sector of the economy on the records of Rosimushchestvo, its territorial branches, and the bodies responsible for the management of public property held by subjects of the Russian Federation in 2013-2014, and the number of economic subjects in public ownership in 2016–2020 (as entered in State registration records), by their organizational legal form

Date	Total	FSUEs, including treasury enterprises	State institutions	Economic societies with shares (or stakes) amounting to more than 50 percent of charter capital owned by	
				State	economic societies operating in public sector
As of January 1, 2013	670,03 ^a	4.891	56,247	3,501	2,364
As of July 1, 2013	661,31 ^a	4.589	56,100	3,201	2,241
As of January 1, 2014	646,16 ^a	4.408	54,699	3,097	2,412
As of July 1, 2014	636,35 ^a	4.236	54,173	2,988	2,238
As of January 1, 2016	655,87 ^b	4.284	56,693/56,649 ^c	3,888 ^d	–
As of July 1, 2016	652,18 ^b	3.982	56,893/56,856 ^c	3,718 ^d	–
As of January 1, 2017	644,57 ^b	3.719	56,548/56,507 ^c	3,532 ^d	–
As of July 1, 2017	626,55 ^b	3.294	55,414/55,361 ^c	3,353 ^d	–
As of January 1, 2018	617,34 ^b	3.053	54,851/54,814 ^c	3,239 ^d	–
As of July 1, 2018	603,91 ^b	2.763	53,933/53,899 ^c	3,125 ^d	–
As of January 1, 2019	596,08 ^b	2.608	53,394/53,360 ^c	3,054 ^d	–
As of July 1, 2019	588,39 ^b	2.366	52,901/52,870 ^c	2,972 ^d	–
As of January 1, 2020	579,03 ^b	2.225	52,207/52,176 ^c	2,864 ^d	–
As of July 1, 2020	569,09 ^b	2.050	51,474/51,445 ^c	2,787 ^d	–

^a– including those organizations whose charter documents, after their State registration, do not specify property types, but less those joint-stock companies where more than of 50% shares (or a

1 Summary statement based on the total number of JSCs with 100% and majority stakes held by the State.

similar stake in charter capital) are in joint RF and foreign ownership;

^b – including economic subjects with an organizational legal form other than unitary enterprise, state institution, or joint-stock company (production and consumer cooperatives, associations (unions), housing cooperatives, foundations, public law companies, etc.);

^c – total number of institutions created by the RF and subjects of the Russian Federation (less state academies of sciences and private institutions, which are listed as institutions in the new System, but must not be taken in account here);

^d – total number of economic societies, the size of their state stake (or shares in charter capital) being irrelevant; data concerning the number of economic societies with controlling state stakes are available only for JSCs with federal stakes.

Sources: On the Development of the Public Sector of the Economy of the Russian Federation in 2012 (pp. 7–11), in H1 2013 (pp. 7–11), in 2013 (pp. 7–11), in H1 2014 (pp. 7–11), Moscow, Rosstat, 2013–2014; Statistical information on public property management efficiency estimates. URL: <http://rosstat.gov.ru/>, March 20, 2016, September 5, 2016, March 20, 2017, September 5, 2017, March 20, 2018, September 5, 2018, March 20, 2019, September 5, 2019, March 20, 2020, September 5, 2020.

According to data collected within the framework of the new System of Estimates, by mid-2020 the total number of economic subjects belonging to the public ownership category amounted to approximately 56,900 units, which is less by approximately 1,900 units (or by 3.3%) than a year earlier, and by approximately 6,700 units less than the corresponding index for mid-2014.¹

For some categories of economic subjects it can be noted that, relative to mid-2019, the number of unitary enterprises declined by 316 units (or 13.4%), that of economic societies – by 185 units (or 6.2%), and that of state institutions – by approximately 1,400 units (or 2.7%).

As far as the changes that occurred within a shorter period of time are concerned, over H1 2020 the number of unitary enterprises shrank by 7.9%; that of economic societies, by 2.7%; and that of state institutions, by 1.4%.

According to the results of the Accounts Chamber of the Russian Federation's expert-analytical study "Analysis of the practices of formation and implementation in 2017–2018 and the expired period of 2019 of the dividend policy in the exercise, on behalf of the Russian Federation, of the rights of a shareholder (participant) of business entities, shares (stakes) in the authorized (joint-stock) capital of which are in federal ownership, and the powers of the owner of the property of federal state unitary enterprises in determining the directions of distribution of the amount of profit remaining after taxes and other obligatory payments of federal state unitary enterprises", the decline in the number of state-owned organizations occurred in the main for reasons other than their privatization. According to data released by 37 federal bodies of executive authority (FBEAs), including data on enterprises without any affiliation to government departments, the most significant patterns of reducing the number of federal state unitary enterprises over the period 2017–2019 were their liquidation due to termination of their activities, bankruptcy (32.6%), and mergers of enterprises (28.9%). The input of privatization procedures amounted to 18.3%; and that of transformation of FSUEs into budget-funded and state institutions, to 13.0%.²

1 The last bulletin on the developments in the public sector of the RF economy covers the period of January–September 2014; however, for the purpose of a medium-term analysis, the data for H1 2014, released as of 1 July 2014, are quite sufficient.

2 Bulletin of the Accounts Chamber of the Russian Federation. Federal Property Management, No. 8 (273) 2020, p. 17.

6.1.2. Privatization policy

In 2020, the Forecast Plan (Program) of Federal Property Privatization and the Main Directions of Federal Property Privatization for 2020–2022, approved by Directive of the RF Government No. 3260-r dated December 31, 2019, was launched. This is the fourth 3-year privatization program developed with a view towards a longer planning period established for a forecast plan (or program) of federal property privatization (extended from 1 to 3 years) on the basis of the alterations introduced into prevailing legislation on privatization in spring 2010.

As was the case with the previous privatization program, numerous adjustments and alterations were later introduced into that document. Over the course of last year, a total of 15 normative legal acts (NLA) pertaining to these issues were adopted, which is comparable with the legislation adjustments made during the first and the last years of the previous privatization program (15 NLAs in 2017, and 14 NLAs in 2019).

The most relevant alterations were introduced by Directive of the RF Government No. 3573-r dated December 26, 2020.

The basic characteristics of the organizations and property entities included in the forecast privatization plan remained the same,¹ but only two categories of them were left as additional exceptions: (1) joint-stock companies (JSCs) and enterprises entered on the list of strategic organizations, and (2) organizations registered outside of the territory of the Russian Federation. The categories of minority federal stakes in JSCs, as well as shares in JSCs affiliated to the core companies of vertically integrated structures (VIS) earmarked for subsequent redistribution among the latter, have been taken off the list of additional exceptions.

The list of biggest companies to be privatized by special presidential and governmental decisions, with due regard for the market situation and recommendations of eminent investment consultants (Section I of the privatization program), included 4 companies (JSCs) in respect of which the State was planning to withdraw from their capital (Makhachkala Commercial Sea Port JSC, Adler Trout Breeding Farm, Novorossiysk Commercial Sea Port (NCSP), and Foreign Trade Association Almazuvelirexport); now, NCSP has been struck off that list, as it was repeatedly included in the previous privatization programs but never became subject to any real deal.

Section I has also been augmented by the impending (by 2022) reorganization into JSCs of five federal state unitary enterprises and treasury enterprises (Scientific & Technical Center Khimvest, FSUE National Fish Resources, Amursk Cartridge Plant Vympel, Voskresensk State Treasury Aggregate Plant, and Building Construction Administration No. 30), which will take place if the President of the

1 The privatization plan targets those enterprises (organizations) in federal ownership that are not natural monopolies or organizations belonging to the defense complex; economic societies established by the Russian Federation or created by way of privatization of relevant FSUEs within the framework of the forecast plans (programs) of federal property privatization implemented during the previous planning periods; shares in JSCs transferred gratis by legal entities or individuals; shares in JSCs recognized to be heirless property; and shares in JSCs transferred into federal ownership as a result of reorganization of economic societies, or by a court ruling, or by a decision of the RF Government, or acquired at the expense of the federal budget.

Russian Federation decides that they should be struck off the list of strategic organizations. The reorganization of FSUEs and FTEs into JSCs is for the first time announced within the framework of a 3-year privatization program.

Also in accordance with RF Government Directive No. 3573-r, the forecast privatization plan has been augmented by 73 economic societies and 93 treasury property entities; the relevant procedures targeting these entities will be implemented only in 2021.

After the amendments to legislation designed to regulate the activities of unitary enterprises were adopted in late 2019, the government once again raised the issue of the necessity to accelerate the process of their reorganization. The RF Ministry of Finance, the RF Federal Agency for State Property Management (Rosimushchestvo), the Federal Tax Service, the Federal Antimonopoly Service (FAS), and the RF Ministry of Industry and Trade were assigned the task of corporatization or liquidation of the existing FSUEs by the end of 2021. In this connection, they can either be reorganized into state institutions, or retain their previous organizational legal form with the approval of the Government Commission on Administrative Reform. So far, these developments have had little effect on the implementation of the current privatization plan. By the aforesaid government directive, another 35 enterprises were included in this plan.¹

When discussing the results of the privatization program implementation over the course of last year, one should first of all make note of the privatization deals arranged according to individual schemes.

The long-standing deal to reduce the state stake in Sovcomflot PJSC was closed at last. It did not generate budget revenue because it was carried out through an additional issue of shares (IPO) and their public offering by open subscription, on condition that the stake held by the Russian Federation in the company's charter capital should be not less than 75% + 1 share. As part of the public offering of shares in the additional issue launched by Sovcomflot PJSC, by Rosimushchestvo's order based on RF Government directives, the essential terms of the forthcoming deal were approved. The company's board of directors issued its decision that the initial offer price of the additional ordinary shares should be Rb105 per share. The amount of funds raised by Sovcomflot PJSC through the public offering of ordinary shares is expected to total approximately Rb42.9 bn.²

Under the current forecast privatization plan, similarly to all the previously implemented 3-year privatization programs, Sovcomflot has been listed in the group of biggest companies to be privatized by special presidential and governmental decisions, with due regard for the market situation and recommendations of eminent investment consultants. However, the size of the state stake to be reduced was becoming steadily less in each consecutive program. By the results of the IPO held this year, the state retained its controlling stake in the amount of 82.8% of the company's charter capital.³ Sovcomflot PJSC plans to use the funds that it has

1 *Grinkevich D.* Subtle reorganization: the Cabinet orders that FSUEs should be get rid of by the end of 2021. *Izvestia*, November 16, 2020; RF Federal Agency for State Property Management (Rosimushchestvo)'s Annual Report for 2020. URL: <http://rosim.gov.ru>

2 URL: <http://rosim.gov.ru>, October 7, 2020

3 *Vedomosti*, October 7, 2020.

thus raised to finance its investment program that envisages the construction of a fleet to service large-scale gas projects at domestic shipyards.

In the context of this transaction, it is worth mentioning another company that is entered in the list of strategic organizations along with Sovcomflot - Aeroflot PJSC. Although it is not included in the current privatization program, in Rosimushchestvo's annual report for 2020 on the implementation of the forecast plan (program) of federal property privatization, the information on an additional issue of Aeroflot shares immediately follows that on the Sovcomflot deal.

By RF Government Directive No. 1937-r dated July 24, 2020, Rosimushchestvo, the RF Ministry of Transport, and the RF Ministry of Finance are instructed to carry out, in accordance with the established procedure, the measures designed to increase the company's charter capital through an additional issue of shares by open subscription, while securing the state stake in its charter capital in the amount of not less than 51.17%. This decision is in line with the Executive Order of the President of the Russian Federation issued in 2014, whereby it was allowed to increase the charter capital on condition the state stake should remain not less than 50% of the votes + 1 voting share.

In connection with the additional issue of shares, the Board of Directors of Aeroflot PJSC decided to set the offering price of the newly issued ordinary shares, including for the shareholders who subscribed under the pre-emptive rights process, at Rb60 per share. The offering price was derived on the basis of the received applications from shareholders and investors to subscribe for the shares being offered.¹

The total amount of funds raised by Aeroflot PJSC by way on an additional issue of shares was Rb80 bn, including Rb30 bn from investors in the open subscription. However, the bulk of the additional issue (Rb50 bn) was covered by public money from the National Wealth Fund (NWF), the state stake in the charter capital of Aeroflot PJSC being 57.34%. Meanwhile, 40.65% of its shares are in free circulation (these are held by both institutional and retail investors). Quasi-treasury shares take up 1.96%, while the company's CEOs own 0.05%. VTB Capital was the only global coordinator and bookrunner; and White I Case I.I.P. acted as an international legal consultant.²

The purpose of the additional offer of shares was to boost the liquidity of the Aeroflot group in order to play down the negative impact of the coronavirus pandemic. Aeroflot PJSC plans to use the funds thus raised to deal with its general corporate purposes and reduce its debt burden.

From among the companies on the list of assets earmarked for privatization within the framework of individual schemes, Rosimushchestvo sold, on December 8, 2020 for Rb539 mn, 100% of shares in Adler Trout Breeding Farm JSC. The deal was closed by way of complying with RF Government Directive No. 2211-r dated August 31, 2020. According to the government directive, the contract for the

1 URL: <http://rosim.gov.ru>, October 9, 2020.

2 Rosimushchestvo's report, for 2020, on the implementation of the forecast plan (program) of federal property privatization in 2020-2022. URL: <http://rosim.gov.ru>, www.aeroflot.ru, October 26, 2020

sale and purchase of shares in a JSC must provide for keeping the existing staff number unchanged, and the fulfillment by the buyer, within 10 years from the date of transfer of ownership rights, of the following conditions: (1) maintaining the company's core activities, (2) complying with a temporary ban on the alienation of real estate, including land plots, (3) complying with a temporary ban on any further transfer of rights to shares over the period established for the fulfillment of the specified conditions.

In addition to these deals, the year 2020 saw the sale of blocks of shares (or stakes in charter capital) in 23 economic societies, including the sale of shares in three JSCs within the framework of the previous privatization program for the period 2017–2019, and the sale of Etna LLC, which was completed in 2020, and the company was struck off the privatization program's list by RF Government Directive No. 3573-r dated December 26, 2020. Besides, relevant decisions were adopted concerning the terms of privatization deals involving 16 FSUEs, 12 of which were corporatized (*Table 4*).

Table 4

Comparative data on the movement of the number of privatization deals involving federal state unitary enterprises and federal stakes in 2008–2020

Period	Number of privatized enterprises (entities) formerly in federal ownership (data released by Rosimushchestvo)		
	privatized FSUEs, ^a units	sold stakes in JSCs, units	sold treasury property entities, units
2008	213	209 ^b	–
2009	316+256 ^c	52 ^b	–
2010	62	134 ^b	–
2008–2010	591+256 ^c	395 ^b	– ^d
2011	143	317 ^e /359 ^b	3
2012	47 ^f	265 ^e	40
2013	26	148 ^e	22
2011–2013	216	730 ^e	65
2014	33	107 ^e	12
2015	35 ^g	103 ^e	38
2016	60 ^g	179 ^e	282
2014–2016	125 ^g	389 ^e	332
2017	69	47	77
2018	4	46	173
2019	8	51	171
2017–2019	81	144	421
2020	16	23 ^h	312 ^h

^a – all preparatory work is completed, and the relevant decisions concerning the terms of privatization are adopted;

^b – including those stakes that were put up for sale in the previous year;

^c – the number of FSUEs in respect of which the decisions concerning their reorganization into JSCs were made by the RF Ministry of Defense, in addition to those cases where a similar decision was made by Rosimushchestvo;

^d – available information concerning sales of other property entities over that period is reduced to that concerning the 4 immovable military property entities sold over the period between October 2008 and January 2009, and the decisions, issued in late 2010, concerning some other property entities to be put up for sale and the terms of their privatization, the deals being actually closed in 2011;

^e – less sales of shares with the participation of investment consultants;

^f – estimated value based on data on the total number of FSUEs in respect of which directives concerning the terms of their privatization in the form of reorganization into OJSCs (216 units) were issued, taken from Rosimushchestvo's Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2011–2013, and the year-end results of 2011 and 2013;

^g – for several enterprises, the decisions concerning the terms of their privatization were abolished in 2015–2016 and then readopted, so the number of FSUEs with regard to which privatization decisions were made individually over the three-year period is somewhat higher than in the tabulated period-end data for 2014–2016 (125 units);

^h – including those stakes in JSCs and treasury property entities that were sold within the framework of implementing the previous privatization program.

Sources: Rosimushchestvo's annual report for 2008; Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2009, Moscow, 2010; Report of the RF Ministry of Economic Development on the Results of Federal Property Privatization in 2010; Report of the RF Ministry of Economic Development on the Results of Federal Property Privatization in 2011; Report on the Implementation of the Forecast Plan (Program) of Federal Property Privatization in 2011–2013; Rosimushchestvo's reports on the implementation of the Forecast Plan (Program) of Federal Property Privatization in 2014–2016 for 2014, 2015, 2016; Rosimushchestvo's reports on the implementation of the Forecast Plan (Program) of Federal Property Privatization in 2017–2019 for 2017, 2018, 2019; Rosimushchestvo's reports on the implementation of the Forecast Plan (Program) of Federal Property Privatization in 2020–2022 for 2020. URL: <http://rosim.gov.ru>.

The spread of the new coronavirus infection (COVID-19) and the resulting increased volatility in financial markets, quite logically, translated into a significantly reduced investment demand for privatized property. Out of the 100 biddings for the economic societies put up for sale, 74 were canceled, mainly due to the absence of any bids (67).

Another factor contributing to this state of affairs was that, during the period of selecting legal entities to be commissioned to organize, on behalf of the Russian Federation, the sales of privatized federal property and (or) to perform the functions of a seller, no pre-sale preparation procedures for the 95 economic societies earmarked for sale were carried out. The results of the selection process handled by Rosimushchestvo were approved only as late as Q4. By RF Government Directive No. 2951-r dated November 12, 2020, Auction House of the Russian Federation (RAD) OJSC was commissioned to sell shares (or stakes) on behalf of the Russian Federation; that particular agent had already been performing these functions for several years under an agency agreement.

As a result, in 2020, the number of sold economic societies more than halved relative to the year-on-year indicators of the previous privatization program (for 2017–2019). Moreover, this number was record low for the entire previous period.

However, the financial results were by no means the lowest. According to the year-end data for 2020 released by the Federal Treasury as of February 2, 2021, the amount of revenue generated by sales of federal stakes and other forms of capital participation over that year was Rb4.08 bn (including the deals launched in 2019).¹ This is significantly more than the amount of revenue generated by the

¹ This figure, cited by Rosimushchestvo, with a reference to the Federal Treasury's data, in its report for 2020 on the implementation of the forecast plan (program) of federal property privatization in 2020–2022, equals about 1/3 of the amount of revenue generated by sales of federal shares and other forms of capital participation specified in the operational data report on federal budget execution as of January 1, 2021 (in particular, on the use of internal sources of budget deficit financing), which is available on the Federal Treasury's official website (Rb12.6 bn). The remaining amount generated under this (deficit financing) budget item was the repayment of debt owed by Sistema Public Joint Stock Financial Corporation. URL: <http://rosim.gov.ru>

sales of blocks of shares (or stakes) in economic societies that do not belong to the category of biggest companies in 2018 (Rb2,857.05 mn) and 2019 (Rb2,064.64 mn), and equals approximately 3/4 of the corresponding index for the first year of the implementation of the previous privatization program (Rb5,396.14 mn in 2017). Thus, for the first time in several years, it was possible to exceed the revenue targets of the forecast privatization programs (Rb5.6 bn per annum in 2017–2019, and Rb3.6 bn per annum in 2020–2022).

The biggest deal of 2020 was the sale of 100% of shares in Voronezh Experimental Agricultural Station JSC. The sale was handled by VEB Capital Plc.¹ The electronic auction, which was held in an open bidding format both in terms of types of participants and forms of submitting bid price proposals, was participated by 13 bidders. The resulting deal value was Rb1,206.92 mn, jumping more than 46 times over the initial offer price (Rb26 mn).

As for the other five JSCs whose blocks of shares were sold for not less than Rb100 mn each, these were not obviously concentrated in the region surrounding the capital, unlike the situation in 2019. Only two of these JSCs were situated in the city of Moscow, and the other three, in Kaliningrad, Sochi, and Samara. Besides, the total deal value index for the sales of JSCs in the capital (over Rb578 mn) was slightly below the corresponding indices for other three cities (about Rb660 mn). The sales of all the five property entities were handled by VEB Capital Plc.

The evidently sluggish pace of privatization of JSCs (economic societies) clearly contrasts with that of treasury property privatization. In 2020, 312 treasury property entities were sold (including one unit sold within the framework of the previous privatization program for 2017–2019); this is 80% higher than the corresponding index for the previous year (171 units), and also exceeds the previous historic high achieved in 2016 (282 units). The number of sold treasury property entities is almost 14 times higher than that of sold blocks of shares (stakes) in JSCs. According to the year-end data for 2020 released by the Federal Treasury as of February 2, 2021, the amount of federal budget revenue generated by sales of property entities owned by the Russian Federation, including the deals launched in 2019, is approximately Rb0.9 bn. A year earlier, the total value of such deals, according to Rosimushchestvo's data, amounted to Rb755.4 mn.²

A new aspect of the ongoing privatization process in this segment has been the accelerated privatization of property entities representing construction-in-progress projects (hereinafter CPP). Out of 49 objects of federal property entities (lots) put up for sale and listed in the privatization program, including 124 CPPs, 30 units (more than 60%) were sold, including 88 CPPs (more than 70%). In 2020, the success of realization of state stakes (or shares in charter capital) and treasury property entities, calculated as the ratio between the number of sold assets and the number of biddings, stayed approximately at the same level (21–23%).

¹ URL: <http://rosim.gov.ru>, March 24, 2020

² Rosimushchestvo's reports, for 2019, on the implementation of the forecast plan (program) of federal property privatization in 2020-2022; Rosimushchestvo's reports, for 2020, on the implementation of the forecast plan (program) of federal property privatization in 2020-2022.

The most significant sales of treasury property objects were handled by Rosimushchestvo and its territorial bodies (302 units). To the latter, in order to speed up the privatization procedures shortly after the onset of the pandemic, the powers to handle the privatization deals involving more than 900 treasury property entities were delegated, which resulted in shortened pre-sale preparation procedures and created opportunities for stimulating the interest of regional investors in these auctions, including representatives of small businesses and individual entrepreneurs. The agents commissioned to handle the sales (Auction House of the Russian Federation OJSC), VEB Capital Plc., and Agency for Direct Investments JSC) succeeded in selling 10 property entities (or 3.2%) over the reporting period.

In Q1 2021, the results of the announced sales of 15 economic societies and 245 treasury property entities should be released.

In 2020, within the framework of implementation of 18 Executive Orders of the President and 21 RF Government Directives concerning the creation or expansion of vertically integrated structures (VISs), Rosimushchestvo set out to establish 9 VISs. As of the year-end of 2020, the relevant decisions concerning the terms of privatization were taken with regard to 5 FSUEs, 26 JSCs, and 3 treasury property entities. Among the integrated structures that were expanded in 2020, we can point out state corporations (SC) state corporations (SC) Rostec, Roscosmos and Rosatom; Rosgeologia JSC, Almaz-Antey Air and Space Defence Corporation; Tactical Missile Armament Corporation; United Shipbuilding Corporation; and Russian Railways.

Over the course of that year, some alterations have been introduced into the current privatization law (adopted in 2001).

The previously existing norm concerning the establishment, by the RF Government, of the procedure for developing a forecast plan of federal property privatization now applies not only to all state-owned property entities (i.e. those owned by subjects of the Russian Federation), but also to municipal property entities. The annual report on the results of federal property privatization, which the government is required to submit to parliament, must contain the information entered in the reports on the results of implementation of forecast plans (programs) of state and municipal property privatization, in accordance with the special report forms approved by the RF Government. Previously, the information on the results of privatization of property owned by subjects of the Russian Federation and municipalities, had also to be attached to the report submitted to the State Duma, but its format was not specified. Consequently, the powers of regional and local authorities to develop their own privatization programs at the local level and their own forms for reporting on their implementation must now be regulated within the framework of the said federal documents. Several articles of the privatization law have been properly amended and edited, to bring them in line with these alterations.

The alterations, whereby the rules for the development of forecast plans (programs) of federal property privatization that were approved back in 2005 are now also to be applied to the property entities owned by subjects of the

Russian Federation and municipalities, were introduced by RF Government Decree No. 2352 dated December 29, 2020. By that time, the RF Ministry of Finance had already replaced the RF Ministry of Economic Development in its capacity of the government department responsible for the development of privatization programs. The upshot was the redistribution of powers between government departments in early 2020, and this change more strongly affected the management of state-owned property.

6.1.3. Strategic organizations and the management of economic subjects operating in the public sector

After the subordination of Rosimushchestvo to the RF Ministry of Finance, many of the functions that had previously been performed by the RF Ministry of Economic Development were transferred to the latter. As a result, several dozen normative legal acts had to be properly adjusted, and this was done by RF Government Decree No. 1133 dated July 29, 2020. As far as property management policy is concerned, the alterations addressed the privatization process, the management of economic subjects operating in the public sector, the entry in records of property entities, and many other issues.¹ Basically, this was just a 'mechanical' replacement of one government department by another one, without any changes in their functions. Thus, the RF Ministry of Finance (instead of the RF Ministry of Economic Development) is required to submit to the RF Government, by January 1, 2021, the draft lists of federal state unitary enterprises, state institutions and federal autonomous institutions, the directors of which may be appointed (or their appointment approved), dismissed from their posts, and reimbursed by paying year-end bonuses, only with the consent of the deputy chairs of the RF Government responsible for coordinating the activities of the relevant federal bodies of executive authority.

In principle, the concentration of multiple powers for the implementation of property management policy in the hands of the RF Ministry of Finance, where a special department has been set up for that purpose, may give rise to a situation where the financial issues (the payment of dividends, approval of investment programs) arising within the framework of the relationship between the government and state-owned companies will be resolved at a higher level. On the other hand, interdepartmental controversy cannot be ruled out, either, because the RF Ministry of Economic Development has retained its function of developing government policy and regulating 'corporate relations'.²

As far as the list of strategic organizations is concerned, in 2020 it was augmented by one FSUE and two JSCs. Over the same period, nine FSUEs were struck off the list of strategic organizations; of these, four are being reorganized into JSCs, with all their stocks to be subsequently transferred as a property contribution of the State to SC Rostec, three (all of them are treasury enterprises) are to be

1 The changes in the roles performed by the government departments are discussed in more detail later in this section, on the example of their powers executed during the management of unitary enterprises.

2 Galieva D. To give more food, or to milk more often // Kommersant, No. 71, April 28, 2020, p. 2.

merged with another treasury enterprise, and another one is to be reorganized into a federal budget-funded institution. In addition, after the reorganization of Russian Post, it was entered on the list of strategic joint-stock companies and simultaneously struck off the list of strategic unitary enterprises; and another two enterprises remained on that list after having been renamed.

Besides, five JSCs were struck off the list of strategic organizations.

With regard to four JSCs, including two previously created integrated structures (Concern Morinformsystem-Agat JSC and Concern Oceanpribor JSC), their transformation had to do with the establishment of Marine Instrument Engineering Corporation JSC (situated in St. Petersburg), 100% of its shares being in federal ownership. The state contribution to the charter capital of the new integrated structure consists of money in the amount of Rb200 mn and stakes in 20 JSCs, of which only four are nearly in full state ownership (100% - 1 share), while in the other JSCs the State holds only minority stakes (less than 3% each). The newly created structure has also received one share in each of the four JSCs struck off the list of strategic organizations, within the framework of a trust management agreement, without a tender for the right to conclude such an agreement without remuneration. In this connection, the trust management agreements of 11 JSCs with Concern Morinformsystem-Agat JSC and Concern Oceanpribor JSC have been terminated.

Of much greater importance is the fact of Channel One Russia JSC having been struck off the list of strategic organizations at the end of December 2020. Its charter capital is to be increased by an additional issue of shares and its sale to private shareholders, while the state stake should secure for the Russian Federation not less than 34% of votes at a general meeting of shareholders.

The government should determine the list of private shareholders and ensure that they conclude a shareholder agreement with the State, whereby the procedure for exercising the rights secured by shares in Channel One Russia JSC, as well as the titles thereto, should be established in compliance with the requirements of legislative acts and other normative legal acts of the Russian Federation, including those regulating the procedure for the management and disposal of state-owned shares. The lower government corporate control threshold in the capital of Channel One Russia JSC is counterbalanced by the decision that the Russian Federation should hold the special right to participate in the joint-stock company's management ('golden share'). It is important to note that previously, the majority state stake (51%) secured by the company's entry on the list of strategic organizations was of a complex nature, as it consisted of the stake held by Rosimushchestvo (38.9%), and also the stakes held by two FSUEs: ITAR-TASS (9.1%), and Ostankino Television Technical Center (3%).

The additional issue of shares was the response to the need for financial rehabilitation of Russia's leading TV broadcaster, which had accumulated a net loss and huge accounts payable. Presumably, its private shareholders could be VTB Group, SOGAZ and the National Media Group, the latter having already become its second biggest shareholder after Rosimushchestvo (29%). VTB Group, which previously owned a 20% stake that was transferred to SOGAZ, does not

rule out the possibility of converting into shares the debt on existing loans. Representatives of both companies, alongside government officials, have been nominated candidates to the board of directors of Channel One Russia JSC.¹

The expected reduction of the state stake in the capital of Channel One Russia JSC is on a par with the already closed Sovcomflot deal, because it has launched a trend towards bringing down the size of state stakes in major companies of nationwide importance while retaining government control over their activities through a variety of instruments.

On the other hand, the past year also saw some opposite examples. Thus, on one of its last days, the claim filed by the Prosecutor General's Office concerning the seizure in favor of the State (represented by Rosimushchestvo) of all shares in the Bashkir Soda Company (BSC) JSC was satisfied; this had been preceded by a conflict with the local residents over the company's failure to comply with environmental legislation, and a reprimand by the President of Russia in connection with profits being withdrawn to offshore and a decreasing participation of the State in the company's joint-stock capital. However, in this particular case, the Republic of Bashkortostan performed its shareholder functions through its participation in the Regional Fund JSC, which held a 38.2% stake in the BSC.² Meanwhile, Rosatom State Corporation plans to become FESCO's partner in managing Commercial Port of Vladivostok PJSC (VMTP PJSC), which is the main asset held by the latter (so far, without any participation in its capital). FESCO replaced its major stakeholders, which gave rise to an acute corporate conflict. The conflict also affected VMTP PJSC, because the newly appointed management was met with a sharp rejection by the seaport staff.³

Special mention should be made of the purchase, by the RF Government from the Bank of Russia, of the 50% equity stake in Sberbank PJSC; the deal was regulated by specially adopted Law No. 50-FZ dated March 18, 2020, and was part of the placement of funds of the RF National Wealth Fund. The deal value was determined on the basis of organized trades executed on the Moscow Exchange over the period from March 9, 2020 through April 7, 2020, at Rb189.44 per share. The total deal value amounted to Rb2,139,435.71 mn.⁴

Leaving aside some important aspects of that deal, which deserve separate consideration (its feasibility and priority from the point of view of budget expenditure in the new socio-economic situation, the ways of spending the money received by the RF Central Bank, etc.), we believe it to be worthwhile to discuss the following point.

As far as administering the collection of non-tax revenues is concerned, it should be noted that previously, the incomes derived by the RF Central Bank from its stake in Sberbank were treated as 'other non-tax budget revenues' and, on the basis of special laws, were to be transferred to the federal budget, and their amount was deducted from the part of the RF Central Bank's total profits

1 URL: www.rbc.ru, January 31, February 3, 2021

2 URL: www.rbc.ru, August 26 and 31, December 4, 2020

3 URL: www.rbc.ru, November 5, December 23, 2020

4 URL: www.minfin.gov.ru, April 10, 2020

earmarked for the federal budget. In view of the new management format, it would be logical to expect an increase in the total volume of dividends received by the federal budget.

From the point of view of corporate governance, it is worthwhile to discuss in detail the provision in the said law whereby a shareholder agreement between the parties on the execution of the rights secured by ordinary shares in Sberbank is regulated, which addresses in the main the formation of its supervisory board.

Until the alienation, by the Bank of Russia, of all its shares, up to five candidates are nominated and elected to that body; these are government officials, who are individuals acting on the supervisory board of Sberbank in accordance with the agreement on representing there the interests of the RF Government, and employees of the Bank of Russia.

They should include not less than one candidate from among government officials, and not less than one candidate from among employees of the Bank of Russia. The proportionate numbers of government officials, the individuals acting on the supervisory board of Sberbank in accordance with the agreement on representing there the interests of the RF Government, and employees of the Bank of Russia to be nominated and elected to the supervisory board by voting of the parties at a general meeting of shareholders (GMS), should be determined with due regard for the actual quantitative distribution of Sberbank ordinary shares between the parties as of January 1 of the relevant calendar year.

After the Bank of Russia has alienated all its shares, up to four candidates, including one employee of the Bank of Russia, are to be nominated and elected to Sberbank's supervisory board by voting at a general meeting of shareholders, on behalf of the RF Government represented by the federal body of executive authority responsible for the development of government policy and legal regulation in the field of budgetary, tax, insurance, currency and banking activities. Likewise, by voting of the parties, not more than one representative of the executive bodies of Sberbank PJSC is to be nominated and elected to its supervisory board.

The government officials, who are individuals acting on the supervisory board of Sberbank PJSC in accordance with the agreement on representing there the interests of the RF Government, are to be independent in their decision-making and voting on the issues included in the supervisory board meeting's agenda, unless the RF Government has issued instructions, in accordance with the procedure established in its normative legal acts, that they should vote in a specific way on the issues determined by the shareholder agreement.

The candidates nominated by the parties to the supervisory board as independent directors must meet the criteria for an independent director established by the rules of the organized of trade appointed to handle the listing of Sberbank ordinary shares.

The shareholder agreement is to be concluded within one month after the transfer of ordinary shares in Sberbank by the Bank of Russia to the RF Government represented by the federal body of executive authority responsible for the development of government policy and legal regulation in the field of budgetary, tax, insurance, currency and banking activities, i.e. the RF Ministry of Finance.

The special role of this particular government department is consolidated by the Regulation on the exercise, on behalf of the RF Government, of the rights of a shareholder of public joint stock company “Sberbank of Russia”, approved by RF Government Decree No. 1326 dated August 31, 2020, which directly states that the RF Ministry of Finance should exercise these rights with due regard for the provisions of the shareholder agreement, which is effective from the moment of its conclusion and until its expiration date, set to be three years from the moment of alienation by the Bank of Russia of all its ordinary shares in Sberbank.

The standpoint of the Russian Federation, in its capacity of a shareholder, on making proposals concerning the nomination of candidates to be elected to the supervisory board is to be determined by a decision of the RF Government; and that on including items in the agenda of a general meeting of shareholders, presenting a request to hold an extraordinary meeting of shareholders, or voting on the items entered in its agenda is to be determined by directives (or instructions) approved by the Chairman or Deputy Chairs of the RF Government. The representative of the RF Government, when voting on issues included in the agenda of a GMS, should be guided by the said directives (instructions) and act on the basis of a power of attorney issued by the RF Ministry of Finance.

The proposals concerning the nomination of candidates to be elected to the supervisory board, including one employee of the RF Central Bank,¹ should be submitted by the RF Ministry of Finance to the RF Government not later than 60 days before the deadline for the submission of the relevant proposals to the PJSC (in the event of an extraordinary general meeting of shareholders, not later than 15 days before the deadline for their submission to the PJSC), with all the necessary materials attached to it.

The RF Ministry of Finance, when preparing its proposals concerning the nomination of candidates to be elected to the supervisory board in the capacity of independent directors, should be guided by the assumption that the individual nominated by the RF Government must meet the criteria for an independent director established by the rules issued by the Russian trade organizer who handles the listing of Sberbank ordinary shares.

During the term of the shareholder agreement, not more than four candidates, including one employee of the RF Central Bank and independent directors, should be nominated to the supervisory board on behalf of the RF Government.

The individuals elected in the established procedure to the supervisory board from among the candidates nominated by the RF Government are representatives of the RF Government’s interests in that body, who should perform their functions in the procedure established by the said Regulation, with the exception of those individuals who are nominated candidates to be elected as independent directors.

Representatives of the RF Government’s interests can be the individuals holding government positions, civil service positions, employees of the RF Central

¹ The proposals from the RF Central Bank concerning that individual should be submitted to the RF Ministry of Finance not later than 70 days before the established deadline for submitting relevant proposals to the PJSC (in the event of an extraordinary general meeting of shareholders, not later than 25 days before the deadline for submitting those proposals to the PJSC).

Bank, as well as other individuals acting in accordance with the agreement on representing the interests of the Russian Federation in the supervisory board of the PJSC concluded with the RF Ministry of Finance (professional attorneys).

The agreement should provide for the right of a professional attorney to initiate a discussion in the RF Ministry of Finance, where the other representatives of the RF Government's interests in the supervisory board should also be invited, of the issues submitted to a supervisory board meeting, and to obtain the information necessary for the execution of the powers delegated to the attorney.

Representatives of the RF Government's interests carry out the following duties, which should also be stipulated in an agreement with a professional attorney:

- to conscientiously and reasonably exercise all their delegated duties and powers, which are attributed to the competence of the supervisory board of the PJSC;
- to notify, in due time, the RF Ministry of Finance of those meetings, the agenda of which includes items requiring the issuance of directives;
- to vote in accordance with the issued directives (whenever it is established that there is a need for the issuance of such directives concerning certain items on the agenda of a supervisory board meeting);
- to participate in the work of its committees (if a professional attorney is elected to those committees);
- to call a meeting of the supervisory board and include in the agenda of its meeting the issues proposed by the RF Government (if a professional attorney is elected as chair of the supervisory board).

Representatives of the RF Government's interests in the supervisory board are independent in their decision-making and voting concerning the items included in the agenda of its meeting until the expiration of the shareholder agreement, except for those cases when they vote on the basis of approved written directives (or instructions) concerning the following items included in the agenda of a supervisory board meeting, the list of which is to be determined by the shareholder agreement:

- approval of the agenda of a GMS;
- election (or re-election) of the chair of the supervisory board of the PJSC;
- the creation of the single executive body and early termination of its powers;
- recommendations concerning the size of dividend on shares and the procedure for its payment, as well as recommendations concerning the approval of the PJSC's dividend policy.

In the event of alterations being introduced into the wording of the resolutions to be issued on the items included in the agenda of a supervisory board meeting in the course of the relevant discussions, with regard to which written directives (or instructions) have been received by representatives of the RF Government's interests, the latter should not take part in voting on the said issues.

If certain circumstances impeding the exercise of powers by a representative of the RF Government's interests should arise, as well as in the event of dismissal

of the latter from a public office, the said individual is obliged to notify Sberbank and the RF Ministry of Finance within five workdays from the day on which the said circumstances arose.

The relevant government department, in its turn, should submit to the RF Government, within 15 days from the date on which it became aware of the circumstances impeding the exercise of powers by the representative of the RF Government's interests, one of the following proposals:

- on the feasibility of terminating the powers of the representative of the RF Government's interests who was previously elected to the supervisory board of the PJSC, while simultaneously suggesting, in the established procedure, the candidates to be elected to the supervisory body at a general meeting of shareholders, the agenda of which should include the issue of electing supervisory board members, and, if necessary, suggesting that an extraordinary general meeting of shareholders should be called for the consideration of this issue;
- on the feasibility of keeping in their position the previously elected representative of the RF Government's interests.

If one of the proposals submitted by the Ministry of Finance concerns a member of the supervisory board of the PJSC who has been nominated from among the employees of the RF Central Bank in accordance with the shareholder agreement, the said proposal should be coordinated with the RF Central Bank.

The RF Ministry of Finance, within 15 workdays from the date on which it became aware of the dismissal of a representative of the RF Government's interests from a public office, a civil service position, or from the RF Central Bank, should conclude with the latter the same agreement as with a professional attorney.

After the expiration of the shareholder agreement, the representatives of the RF Government's interests in the supervisory board of the PJSC should vote on the basis of written directives (or instructions) approved by the Chairman or Deputy Chairs of the RF Government. The draft directives (or draft instructions) are to be submitted by the RF Ministry of Finance to the RF Government not later than 7 days before the day of a supervisory board meeting.

It should be noted that the general regulations on the procedure for managing federal stakes in JSCs and the exercise of the special right of the Russian Federation to participate in their management ('golden share'), approved by RF Government Decree No. 738 dated December 3, 2004, do not apply to Sberbank. In fact, the alteration whereby Sberbank was no longer obliged to comply with the core document determining the state-owned property management mechanism in the corporate sector was the only significant alteration introduced in 2020.

At the same time, there were innovations concerning the management of unitary enterprises.

The amendments to the special Law adopted in 2002 (No. 161-FZ) were by no means fundamental.

The minimum size of the charter capital of a state-owned or municipal enterprise was set at not less than Rb500,000 and Rb100,000, respectively. Previously, these caps were calculated relative to the minimum wage. This criterion has also been

removed from the definition of a major deal, and only the threshold value (more than 10% of the charter capital (for a state-owned or municipal enterprise) or the book value of assets (for a treasury enterprise)) were left.

In the event of property alienation, or the possibility of property alienation, the higher of the two values is to be compared with the charter capital of a state-owned or municipal enterprise (or the book value of the assets of a treasury enterprise): the alienation value of the said property, or its book value. In the event of a unitary enterprise acquiring property, the authorized capital of a state-owned or municipal enterprise (or the book value of the assets of a state-owned enterprise) is compared with the purchase price of the said property.

State Corporation Rostec, along with the RF Government, federal bodies of executive authority (FBEA), and State Corporation Roscosmos, have been granted the opportunity to exercise the powers of the owner of property held by a federal treasury enterprise (FTE).

In response to the redistribution of powers between government departments in early 2020, relevant alterations concerning the new role of the RF Ministry of Finance were introduced into RF Government Decree No. 739 dated December 3, 2004, whereby the powers of federal bodies of executive authority to exercise the rights of owner of property held by a federal state unitary enterprise are regulated. The RF Ministry of Finance has replaced the RF Ministry of Economic Development in the exercise of certain powers (approval of a model charter of a federal state unitary enterprise and a model employment contract with its director; approval of standard terms of transactions with real estate held by an enterprise by right of economic jurisdiction, including its transfer under lease agreements, unless established otherwise by other normative legal acts adopted in accordance with federal laws; coordination of draft decisions concerning the reorganization of FSUEs into federal state institutions or autonomous non-profit organizations (ANO) submitted to the RF Government by federal bodies of executive authority; participation in a conciliation meeting at Rosimushchestvo in the event of a proposal by the latter to the effect that the employment contract with the director of an enterprise should be terminated in accordance with RF legislation¹).

It was also established that the decision-making procedure concerning transactions with property held by FSUEs situated outside of RF territory, the procedure for handling transactions with that property, as well as the decision-making procedure for writing off that property should be introduced by a normative legal act of the RF Government whereby the procedure for managing federal immovable property entities situated outside of RF territory is regulated.

Another innovation is directly linked to the financial and economic issues that arose over the course of last year. In the context of several documents whereby the procedure for coordinating with FBEAs the transactions with immovable property

¹ The meeting is to be held in the event of disagreement between Rosimushchestvo and the FBEA responsible for the relevant enterprise, and should be participated not only by representatives of the RF Ministry of Finance, but also by those of the relevant FBEA, as well as the FBEA responsible for the development of government policy and legal regulation in the relevant field.

entities consolidated to federal state enterprises and institutions managed by right of economic jurisdiction or by right of operative management is regulated, one of the norms stipulated in RF Government Decree No. 739 dated December 3, 2004 does not apply to the addenda to agreements on the lease of federal immovable property entities concluded in compliance with RF Government Directive No. 670-r dated March 19, 2020.

This document provided for the possibility, in 2020, of a temporary deferral for the lease payments owed by small and medium-sized enterprises (SMEs) who held federal property entities under lease agreements (RF treasury property and property consolidated to the state-owned enterprises and state institutions subordinated to FBEAs). It was envisaged that addenda to such lease agreements could be concluded, and the said economic subjects were to be informed in advance about their possessing such a right. The lease holders operating in the sectors that were hit hardest by the crisis were entitled to full exemption, over Q2, from the payments that they owed under such agreements. Later on, by RF Government Directive No. 1296-r dated May 16, 2020, the list of recipients of the relief measures was augmented by socially oriented non-profit organizations, and the grace period was extended from three to six months, i.e. until October 1, with the rent arrears to be redeemed within two years (2021–2022).¹

Rosimushchestvo's territorial bodies carried out the necessary work to inform SMEs of the opportunity to make addenda to their federal property lease agreements concluded in accordance with RF Government Decree No. 645 dated August 21, 2010 "On subsidies to small and medium-sized enterprises renting federal."

According to data released by Rosimushchestvo,² its territorial bodies received a total of 3,985 applications for these benefits from SMEs. In response to 3,281 applications, addenda to federal treasury property lease agreements were concluded, whereby a deferral of or exemption from lease payments was granted, to the total value of Rb715.2 mn. This amount cannot be assessed to be particularly significant, even if we give consideration to the fact that in response to 643 applications, the addenda on the provision of benefits were signed by Rosimushchestvo's territorial bodies, and then were sent to the SMEs, to be signed by the latter.³ For reference: the total budget revenues generated by payments for the lease of federal property in 2020 more than doubled (to about Rb10.2 bn), thanks to the increased payments for the lease of property entities managed by right of operative management by federal bodies of state authority and the institutions created by the latter (with the exception of budget-funded and autonomous institutions) (about Rb7.7 bn). Probably, the most effective channel

1 URL: <http://rosim.gov.ru>, April 10, 2020, May 20, 2020

2 Rosimushchestvo's annual report for 2020 on the implementation of its plan. URL: <http://rosim.gov.ru>

3 For more details on the property-generated income of the State, see later in this section. However, the relief measures involving federal treasury property lease agreements cannot be considered to be the only source of support for SMEs; more significant figures could be expected at the level of RF subjects and municipalities.

for supporting small businesses was the lease of RF treasury property (except land plots); the revenues from this source in 2020 shrank (to Rb2.5 bn).

6.1.4. The budgetary effect of Russia's property management policy

In 2020, in contrast to the situation in the previous year, the movement of federal budget revenues that had to do, in one or other way, with public property was multi-vectored. Alongside a certain reduction in the amount of revenues generated by the use of public property (renewable sources), those generated by privatization and sale of property (non-renewable sources) demonstrated significant growth, which was quite unexpected in view of the economic realities of that crisis-ridden year.

Below (*Tables 5 and 6*) we present data taken from the reports on federal budget execution, limited to the revenues generated by the use of public property and the sale of public property entities belonging only to some specified categories of tangible property.¹

1 Within the framework of this review, we do not consider the federal budget revenues generated by payments for the use of natural resources (including biological water resources, revenues from the use of forest fund, and the extraction of mineral resources), compensation for the losses incurred by the agricultural production sector as a result of confiscation of agricultural land, revenues generated by financial operations (revenues from placement of budget funds, revenues from federal budget residuals and their investment; from 2006 onwards, these include the revenues from the management of the RF Stabilization Fund (and from 2009 onwards, the Reserve Fund and the National Welfare Fund)); revenues from investment of monies accumulated in the course of trading RF stocks in the auction market); interest on budget-funded domestic loans, covered by the federal budget; interest on government loans (monies received from the governments of foreign countries and their legal entities as interest payments on RF government loans); money transfers from legal entities (enterprises and organizations), subjects of the Russian Federation, and municipal formations received as interest and guarantee payments on loans received by the Russian Federation from foreign governments and international financial organizations; revenues from paid services rendered to the population or monies received by way of compensation of government expenditures; transfers of the RF Central Bank's profits; certain categories of payments from state and municipal enterprises and organizations (patent duties and registration fees for official registration of software, databases, integral microcircuit topologies; and other revenues which until 2004 were part of mandatory payments of state organizations (except revenues generated by the operations of Joint Venture *Vietsovpetro* (from 2001) and transfers of part of profits generated by FSUEs (from 2002); revenues from the implementation of product share agreements (PSA); revenues from the disposal of confiscated and other property earmarked as government revenue (including property transferred to state ownership in the procedure of inheritance or gift, or treasure trove appropriation); revenues generated by lotteries; other revenues from the use of property and rights in federal ownership (revenues from the execution of rights to the results of intellectual activity (R&D and technologies) intended for military, special, or dual use; revenues generated by the execution of rights to the results of scientific and technological research held by the Russian Federation; revenues generated by the exploitation and use of property relating to motor roads, motor road levies imposed on transport vehicles registered in the territory of other states; execution of the Russian Federation's exclusive right to the results of intellectual activity in the field of geodesy and cartography; fees for the use of spatial data and materials that are not subject to copyright, kept in the Federal Fund of Spatial Data; and other revenues from the use of property in the ownership of the Russian Federation; revenues generated by organizations from their permitted types of economic activity and earmarked for transfer to the federal budget; and revenues from realization of government reserves of precious metals and precious stones. By contrast with the previous years, the law on federal budget execution for 2015–2019 contains no aggregate data listed under each revenue classification code or sub-code, or listed according to the classifications of transactions in the public administration sector on revenue side (these are listed only by their classification code for each revenue administrator). Therefore, we used

Table 5

**Federal budget revenues generated by the use of public property
(renewable sources) in 2000–2020, millions of rubles**

Year	Total	Dividends on shares (2000–2020) and revenues generated by other forms of capital participation (2005–2020)	Payment for lease of land in state ownership	Revenues generated by lease of property in state ownership	Revenues from transfer of part of net profits of FSUEs after taxes and other mandatory payments	Revenues from other sources (in 2000–2007 and 2011, those generated by Joint Venture Vi-etsovpetro; and in 2018–2020, those generated by property transferred as pledge or into trust management)
2000	23,244.5	5,676.5	–	5,880.7	–	11,687.3 ^a
2001	29,241.9	6,478.0	3,916.7 ^b	5,015.7 ^c	209.6 ^d	13,621.9
2002	36,362.4	10,402.3	3,588.1	8,073.2	910.0	13,388.8
2003	41,261.1	12,395.8		10,276.8 ^e	2,387.6	16,200.9
2004	50,249.9	17,228.2	908.1 ^f	12,374.5 ^g	2,539.6	17,199.5
2005	56,103.2	19,291.9	1,769.2 ^h	14,521.2 ⁱ	2,445.9	18,075.0
2006	69,173.4	25,181.8	3,508.0 ^h	16,809.9 ^j	2,556.0	21,117.7
2007	80,331.85	43,542.7	4,841.4 ^h	18,195.2 ^j	3,231.7	10,520.85
2008	76,266.7	53,155.9	6,042.8 ^h	114,587.7 ^j	2,480.3	–
2009	31,849.6	10,114.2	6,470.5 ^h	13,507.6 ^j	1,757.3	–
2010	69,728.8	45,163.8	7,451.7 ^h	12,349.2 ^j	4,764.1	–
2011	104,304.0	79,441.0	8,210.5 ^h	111,241.25 ^j	4,637.85	773.4
2012	228,964.5	212,571.5	7,660.7 ^k	3,730.3 ^j	5,002.0	–
2013	153,826.25	134,832.0	7,739.7 ^k	4,042.7 ^j +1,015.75 ^m	6,196.1	–
2014	241,170.6	220,204.8	7,838.7 ^k	3,961.6 ^j +1,348.5 ^m	7,817.0	–
2015	285,371.1	259,772.0	9,032.3 ^k	5,593.8 ^j +1,687.8 ^m	9,285.2	–
2016	946,723.35/ 254,328.3 ^o	918,969.1/ 226,574.1 ^o	9,412.4 ^k	5,843.25 ^o +3,026.7 ^m	9,471.9	–
2017	275,168.2	251,327.0	9,825.1 ^k	5,318.4 ^o +2,857.7 ^m	5,840.0	–
2018	333,396.13	312,565.8	9,783.0 ^k	1,988.6 ^o +2,922.6 ^m	6,136.0	0.13
2019	465,974.25	441,620.4	12,051.65 ^k	1,290.4 ^o +3,239.2 ^m	7,616.9	155.7
2020	451,514.34	422,662.8	10,290.7 ^k	7,654.2 ^o +2,504.6 ^m	8,401.9	0.14

^a – according to data released by the RF Ministry of Property Relations, in the law on federal budget execution for 2000 this item is not specified separately; instead, the amount of payments received from state-owned enterprises is entered (Rb9,887.1 mn) (without any components being specified);

^b – the amount of lease payments (i) for the use of agricultural land, and (ii) for the use of land plots in the territories of towns and settlements;

^c – the amount of revenues from the lease of property consolidated to (i) scientific research organizations, (ii) educational establishments, (iii) healthcare institutions, (iiii) state museums, state cultural and arts institutions, (iii) archival institutions, (iiii) the RF Ministry of Defense,

data from the annual reports on federal budget execution as of January 1, 2016; January 1, 2017; January 1, 2018; January 1, 2019; January 1, 2020; and operational data on federal budget execution as of January 1, 2021.

(iiiiiii) organizations subordinated to the RF Ministry of Railways, (iiiiiii) organizations providing research-related services to the academies of sciences with the status of a state entity, and (iiiiiii) other revenues from the lease of property in state ownership;

^d – according to data released by the RF Ministry of Property Relations, in the law on federal budget execution for 2001 this item was not specified separately; this value turned out to be the same as the amount of other revenues received as part of payments transferred by state and municipal organizations;

^e – total amount of revenues generated by the lease of property entities in public ownership (without specifying the amount of lease payments for land);

^f – the amount of lease payments (i) for the use of land plots in the territories of towns and settlements, (ii) for the use of land plots in federal ownership after the delineation of titles to land plots between different tiers of government;

^g – the amount of revenues from the lease of property consolidated to (i) scientific research organizations, (ii) educational establishments, (iii) healthcare institutions, (iiii) state cultural and arts institutions, (iiiii) state archival institutions, (iiiiiii) institutions of the federal postal service of the RF Ministry of Communications and Informatization, (iiiiiii) organizations providing research-related services to the academies of sciences with the status of a state entity, and (iiiiiii) other revenues generated by the lease of property in federal ownership;

^h – the amount of lease payments after the delineation of titles to land plots between different tiers of government and revenues generated by the sale of right to conclude lease agreements in respect of land plots in federal ownership (with the exception of land plots held by federal autonomous institutions (2008–2011) and budget-funded institutions (2011));

ⁱ – the amount of revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them, and property held by right of economic jurisdiction by FSUEs: properties transferred for operative management to organizations with the status of a state entity: (i) scientific research institutions, (ii) organizations providing research-related services to the Russian Academy of Sciences and ‘branch’ (sectoral) academies, (iii) educational establishments, (iiii) healthcare institutions, (iiiii) federal postal service institutions of the Federal Communications Agency, (iiiiiii) state cultural and arts institutions, (iiiiiii) state archival institutions, and (iiiiiii) other revenues generated by the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them, and property held by right of economic jurisdiction by FSUEs¹ (for the period 2006–2009, less revenues from the permitted types of economic activity and revenues from the use of federal properties situated outside of RF territory, which are received abroad, and which were not listed as a separate revenue item in the previous years²);

^j – the amount of revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them (with the exception of federal autonomous institutions and budget-funded institutions): properties transferred for operative management to organizations with the status of a state entity: (i) scientific research institutions, (ii) organizations providing research-related services to the Russian Academy of Sciences and to the ‘branch’ (sectoral) academies, (iii) educational establishments, (iiii) healthcare institutions, (iiiii) state cultural and arts institutions, (iiiiiii) state archival institutions, (iiiii) properties held by right of operative management by the RF Ministry of Defense and its subordinated institutions (2010), (iiiiiii) properties in federal ownership disposed of by the Executive Office of the RF President (2010), and (iiiiiii) other revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them (less revenues from the permitted types of economic activity and revenues from the use of federal properties situated outside of RF territory, which are received abroad);

^k – the amount of lease payments after the delineation of titles to land plots between different tiers of government and revenues generated by the sale of right to conclude lease agreements in respect of land plots in federal ownership (with the exception of land plots held by federal budget-funded institutions and autonomous institutions), and (i) lease payments received for the lease of land plots

1 For the period 2008–2009, there is no mention of FSUEs as sources of revenues generated by the lease of property consolidated to them by right of economic jurisdiction, while the revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them do not include revenues generated by property held by autonomous institutions.

2 According to data released by the RF Ministry of Property Relations, the revenues from the use of federal properties situated abroad (less the revenues received by the Russian partner in Joint Venture Vietsovpetro) amounted to Rb315 mn in 1999 and Rb440 mn in 2000. Thereafter, the major role in organizing the commercial use of federal immovable property situated abroad was assigned to FSUE Goszagransobstvennost.

in federal ownership, situated in public motor road precincts of federal importance (2012–2020), (ii) payments for the execution of agreements on the establishment of servitude with regard to land plots situated within public motor road precincts of federal importance for the purposes of building construction (or reconstruction), capital repairs and exploitation of road service entities, installation, relocation, reconstruction, and exploitation of utility networks, installation and exploitation of elevated advertising structures (2012 and 2014–2020), and (iii) payments received in the framework of agreements on the establishment of servitude with regard to land plots in federal ownership (2015–2020);

^l – the amount of revenues from the lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them (with the exception of budget-funded institutions and autonomous institutions): properties transferred for operative management to organizations with the status of a state entity: (i) scientific research institutions, (ii) educational establishments, (iii) healthcare institutions, (iiii) state cultural and arts institutions, (iii) state archival institutions, (iiiiii) other revenues from the lease of property held by right of operative management by federal treasury institutions, (iiiiiii) federal bodies of state authority, the Bank of Russia, and the managerial bodies of RF government extrabudgetary funds, (iiiiiiii) federal treasury institutions (2015 only) (less revenues from the use of federal properties situated outside of RF territory, which are received abroad);

^m – the amount of revenues from the lease of RF treasury property (with the exception of land plots);
ⁿ – less the revenues generated by the sale of the stake in *Rosneft* (Rb692,395 bn) (less interim dividend payments);

^o – for the period 2016–2020, we apply aggregate data, without identifying by-sector groups of institutions. The more general classification consists only of 2 revenue categories, distinguished depending on the recipient of revenues generated by lease of property (federal bodies of state authority, the Bank of Russia and the managerial bodies of RF government extrabudgetary funds, and federal treasury institutions).

Sources: Laws on federal budget execution for the period 2000–2014; reports on federal budget execution as of January 1, 2016; January 1, 2017; January 1, 2018; January 1, 2019; and January 1, 2020 (annual data); and operational data on federal budget execution as of January 1, 2021. URL: <http://roskazna.gov.ru>; own calculations.

In 2020, the aggregate revenues generated by renewable sources declined by only 3% relative to the previous year, amounting to Rb451.5 bn.

This was achieved in the main due to the receipts of dividends in the federal budget (Rb442.6 bn), which now stood 4.3% below the record high of 2019 (Rb441,6 bn). The receipts of part of profits paid by unitary enterprises, on the contrary, gained more than 10%. When taken in absolute terms (Rb8.4 bn), this index jumped above its 2014 level, but was still below its record highs of the period 2015–2016.

The aggregate revenues generated by lease of federal property more than doubled (approximately Rb10.2 bn). This happened as a result of an unexpected explosive growth (nearly sixfold) of the revenues from lease of property held by right of operative management by federal bodies of state authority and by the state institutions established by them (with the exception of budget-funded institutions and autonomous institutions) (Rb7.65 bn). This value turned out to be the highest since 2013, when within the general structure of revenues from federal property lease, the revenues generated by lease of property held by the RF Treasury (except land plots) began to be identified in budget reports as a separate entry. The latter, on the contrary, decreased by almost 23%, amounting to Rb2.5 bn. This index is the record low of the last 5 years. After having prevailed for two years in a row, now it amounted to about 1/4 of the total revenue generated by lease of federal property. Probably, this dynamics points to a really widespread reliance on the relief measures introduced in connection with the coronavirus

crisis. The amount of revenue generated by lease of land plots plunged by about 15% (about Rb10.3 bn).¹

As had been the case a year earlier, dividends held a dominant position in the structure of renewable federal budget revenue sources (approximately 94%, just as in 2019). The relative share of lease payments for land plots amounted to 2.3%; that of payments for property lease, to 2.2%; and that of profits transferred by FSUEs, to 1.9%. Their aggregate relative share remained nearly unchanged relative to 2019; only the share of payments for property lease nearly doubled.²

While proceeding to an analysis of federal budget revenues generated by the privatization and sale of state property (*Table 6*), it should be noted that, from 1999 onwards, the revenues from the sale of such assets (state stakes, and over the period 2003–2007, also land plots³) have been treated as a source of funding to cover budget deficit.

Table 6

Federal budget revenues generated by privatization and sale of property (non-renewable sources) in 2000–2020, millions of rubles

Year	Total	Sale of shares in federal ownership (2000–2020) and other forms of federal capital participation (2005–2020) ^a	Sale of land plots	Sale of miscellaneous properties
2000	27,167.8	26,983.5	–	184.3 ^b
2001	10,307.9	9,583.9	119.6 ^c	217.5+ 386.5+0.4 (ITA) ^f
2002	10,448.9	8,255.9 ^e	1,967.0 ^f	226.0 ^g
2003	94,077.6	89,758.6	3,992.3 ^h	316.2+10.5 ⁱ
2004	70,548.1	65,726.9	3,259.3 ^j	197.3+1,364.6+0.04 (ITA) ⁿ
2005	41,254.2	34,987.6	5,285.7 ^l	980.9 ^m
2006	24,726.4	17,567.9	5,874.2 ^l	1,284.3 ⁿ
2007	25,429.4	19,274.3	959.6 ^o	5,195.5 ^p
2008	12,395.0	6,665.2+29.6	1,202.0 ^q	4,498.2+0.025 (ITA) ^r
2009	4,544.1	1,952.9	1,152.5 ^q	1,438.7 ^r
2010	18,677.6	14,914.4	1,376.2 ^q	2,387.0+0.039 (ITA) ^r
2011	136,660.1	126,207.5	2,425.2 ^q	8,027.4 ^r
2012	80,978.7	43,862.9	16,443.8 ^q	20,671.7+0.338 (ITA) ^r

1 Probably, this budget item was also influenced by the relief measures. The amount of lease payments for land plots, just as a year earlier, included lease payments received for the lease of land plots in federal ownership situated in public motor road precincts of federal importance; payments for the execution of agreements on the establishment of servitude with regard to land plots situated in public motor road precincts of federal importance for the purposes of building construction (or reconstruction), capital repairs and exploitation of road service entities, installation, relocation, restructuring, and exploitation of utility networks, and installation and exploitation of elevated advertising structures; and payments for the execution of agreements on the establishment of servitude with regard to land plots in federal ownership.

2 In the last two years, the classification of federal budget revenues generated by use of property was augmented by one more new source – proceeds from the transfer of federal property as collateral or for trust management (with the exception of property owned by federal budget-funded and autonomous institutions, as well as property of federal state unitary enterprises, including treasury enterprises). However, the share of that source in the structure of renewable revenue sources was negligible (Rb0.144 mn).

3 Data for the period 2003–2004 include revenues generated by the sale of leasing right.

Year	Total	Sale of shares in federal ownership (2000–2020) and other forms of federal capital participation (2005–2020) ^a	Sale of land plots	Sale of miscellaneous properties
2013	55,288.6	41,633.3	1,212.75 ^g	12,442.2+0.310 (ITA) ^f
2014	41,155.35	29,724.0	1,912.6 ^g	9,517.7+1.048 (ITA) ^f
2015	18,604.1	6,304.0	1,634.55 ^g	10,665.5+0.062 (ITA) ^f
2016	416,470.5	40,6795.2	2,112.7 ^g	7,562.6+0.012 (ITA) ^f
2017	21,906.7	14,284.5	1,199.6 ^g	6,421.3+1.3 (ITA) ^f
2018	28,252.0	12,787.5	1,660.6 ^g	13,803.7+0.2 (ITA) ^f
2019	20,129.3	11,527.5	1,647.5 ^g	6,954.3 ^f
2020	27,929.9	12,570.7	3,219.2 ^g	11,240.1+1.9 (ITA) ^f +898.0 ^h

^a – treated as an internal source of funding to cover federal budget deficit; the Rb29.6 mn received in 2008 (as stated in the report on federal budget execution as of January 1, 2009) is treated as federal budget revenue, but it is absent in the 2008 law on federal budget execution;

^b – revenues generated by privatization of entities in public ownership and treated as an internal source of funding to cover federal budget deficit;

^c – revenues generated by the sale of land plots and the right to lease land plots in state ownership (with special entry concerning those land plots in which privatized enterprises are situated), treated as federal budget revenues;

^d – the amount of revenues generated by (1) the sale of property in federal ownership, treated as an internal source of funding to cover federal budget deficit, (2) revenues generated by (i) the sale of apartments, (ii) the sale of state-owned production and non-production assets, transportation vehicles, other equipment and tangible assets, and (3) revenues generated by the sale of intangible assets (ITA), treated as federal budget revenues;

^e – including Rb6 mn generated by the sale of shares held by subjects of the Russian Federation;

^f – revenues generated by the sale of land and intangible assets, their amount not specified as a separate entry, treated as federal budget revenues;

^g – revenues generated by the sale of property in public ownership (including Rb1.5 mn generated by the sale of properties held by subjects of the Russian Federation), treated as an internal source of funding to cover federal budget deficit;

^h – this figure includes revenues generated by (1) the sale of land plots in which immovable property entities are situated, which prior to their alienation were federal property, the proceeds being transferred to the federal budget, (2) the sale of other land plots, as well as the sale of the right to conclude lease agreements in respect of those land plots, (3) the sale of land plots after delineation of titles to land plots, as well as the sale of the right to conclude lease agreements with respect to those land plots, the proceeds being transferred to the federal budget; these are treated as an internal source of funding to cover federal budget deficit;

ⁱ – the sum of (1) revenues generated by the sale of properties in federal ownership, treated as an internal source of funding to cover federal budget deficit, and (2) revenues generated by the sale of intangible assets, treated as federal budget revenues;

^j – this figure includes the revenues generated by: (1) the sale of land plots prior to delineation of public titles to land plots, in which immovable property entities are situated, which prior to their alienation were federal property, the proceeds being transferred to the federal budget, (2) the sale of other land plots, as well as the sale of the right to conclude lease agreements in respect of those land plots, (3) the sale of land plots after delineation of titles to those land plots, as well as the sale of the right to conclude lease agreements with respect to those land plots, the proceeds being transferred to the federal budget; these are treated as an internal source of funding to cover federal budget deficit;

^k – the sum of (1) revenues generated by the sale of properties in federal ownership, treated as an internal source of funding to cover federal budget deficit, (2) revenues generated by (i) the sale of apartments, (ii) the sale of equipment, transportation vehicles and other tangible assets, the proceeds being transferred to the federal budget, (iii) the sale of the products of ships recycling industry, (iiii) the sale of property held by state unitary enterprises and state institutions, as well as the sale of military property, (iiiii) the sale of the products of recycled armaments, military technologies and ammunition, (3) revenues generated by the sale of intangible assets (ITA); these are treated as federal budget revenues;

^l – this figure includes the revenues generated by: (1) the sale of land plots prior to delineation of titles to land plots, in which immovable property entities are situated, which prior to their alienation

were federal property, (2) the sale of land plots after delineation of titles to land plots, the proceeds being transferred to the federal budget, (3) the sale of other land plots, which prior to delineation of titles to land plots between different tiers of government were public property, and which are not earmarked for housing construction (this subdivision is true only with regard to data for 2006); these are treated as sources of funding to cover federal budget deficit;

^m – revenues generated by the sale of tangible and intangible assets (less federal budget revenues generated by the disposal and sale of confiscated property and other property treated as government revenue), this figure includes revenues generated by (i) the sale of apartments, (ii) the sale of property held by FSUEs, (iii) the sale of property held by right of operative management by federal institutions, (iiii) the sale of military property, (iiiii) the sale of the products of recycled armaments, military technologies and ammunition, (iiiii) the sale of other properties in federal ownership, (iiiii) the sale of intangible assets; these are treated as federal budget revenues;

ⁿ – revenues generated by the sale of tangible and intangible assets (less revenues received as profit share in the framework of product share agreements (PSA) and federal budget revenue generated by the disposal and sale of heirless property, confiscated property, or other property earmarked as government revenue), this figure includes revenues generated by (i) the sale of apartments, (ii) the sale of property held by FSUEs, (iii) the sale of property held by right of operative management by federal institutions, (iiii) the sale of military property, (iiiii) the sale of the products of recycled armaments, military equipment and ammunition, (iiiii) the sale of other properties in federal ownership; these are treated as federal budget revenues;

^o – revenues generated by the sale of land plots after delineation of titles to land plots formerly in federal ownership, treated as sources of funding to cover federal budget deficit;

^p – revenues generated by the sale of tangible and intangible assets (less revenues received as profit share in the framework of product share agreements (PSA) and federal budget revenues generated by the disposal and sale of heirless property, confiscated property, or other property earmarked as government revenue, and revenues from the sale of timber confiscated from timber poachers), this figure includes revenues generated by (i) the sale of apartments, (ii) the sale of property held by FSUEs, (iii) the sale of property held by right of operative management by federal institutions, (iiii) the sale of redundant movable and immovable military properties and other properties held by federal bodies of executive authority that involve military service, and services that are equated to military service, (iiiii) the sale of military-purpose products from the stores of federal bodies of executive authority within the framework of cooperation in the field of military technologies, (iiiii) revenues generated by the sale of other properties in federal ownership; these are treated as federal budget revenues;

^q – revenues generated by the sale of land plots in federal ownership (less land plots held by federal autonomous and budget-funded institutions (data for 2011–2012)) (except 2019–2020), treated as federal budget revenues; prior to 2015, these also include payments for the enlargement of private land plots resulting from their redistribution, as well the redistribution of land plots in federal ownership;

^r – revenues generated by the sale of tangible and intangible assets (less revenues received as profit share in the framework of product share agreements (PSA), and federal budget revenue generated by the disposal and sale of heirless property, confiscated property, or other property earmarked as government revenue, and revenues from the sale of timber confiscated from timber poachers) (data for 2008–2011), revenues generated by the release of tangible assets from the state reserve of special raw materials and divisible materials (in the part of revenues generated by the sale, temporary lending, and other uses thereof); and with regard to data for 2012–2019, also less revenues generated by the sale of timber produced as a result of measures designed to safeguard, protect, and reproduce forests in the framework of government order for the implementation of such measures without the sale of forest plantations for timber production, and timber produced as a result of use of forests situated in the lands belonging to the Forest Fund of the Russian Federation, in accordance with Articles 43–46 of the RF Forest Code; revenues generated by commodity intervention from the reserve stocks held in the federal intervention fund of agricultural products, raw materials and foodstuffs, revenues generated by the release of tangible assets from the state reserve, revenues generated by the involvement of convicts in reimbursable labor (in the part of sales of finished products), revenues generated by the sale of products requiring special storage conditions); this figure also includes revenues generated by (i) the sale of apartments, (ii) the sale of property held by right of operative management by federal institutions (with the exception of autonomous institutions and budget-funded institutions (data for 2011–2020), less revenues generated by the activities of institutions situated abroad (2015–2020), (iii) the sale of redundant movable and immovable military properties and other properties held by federal bodies of executive authority that involve military service, and services that are equated to military service, (iiii) the sale of the products of recycled armaments, military equipment and ammunition, (iiiii) the sale of products intended for military use and entered

on the list of properties held by federal bodies of executive authority within the framework of cooperation in the field of military technologies (data for 2008 and the period 2010–2020), (iiiiii) the sale of scrapped armaments and other military hardware within the framework of the Federal Target Program of Industrial Recycling of Armaments and Military Equipment (2005–2010) (the period until the year-end of 2017), (iiiiiii) revenues generated by the sale of immovable property held by budget-funded and autonomous institutions (2014–2018 and 2020), (iiiiiiii) revenues generated by the sale of other properties in federal ownership, and revenues generated by the sale of intangible assets (ITA); these are treated as federal budget revenues.

^s – revenues generated by the privatization of properties owned by the Russian Federation, in the part of non-financial treasury assets.

Sources: Laws on federal budget execution for the period 2000–2014; reports on federal budget execution as of January 1, 2016; January 1, 2017; January 1, 2018; January 1, 2019; and January 1, 2020 (annual data); and the monthly report on federal budget execution as of January 1, 2020 (operational data). URL: <http://roskazna.gov.ru>; own calculations

When taken in absolute terms, the amount of property-generated federal budget revenues from non-renewable sources in 2020 increased by nearly 39% (to Rb27.9 bn). In spite of the impressive growth, which was unexpected during the crisis, this index, when set against the indices for the entire period after 2010, surpassed the results of only three years (2015, 2017 and 2019), being just below the index for 2018 (Rb28.3 bn).

The revenues generated by the sale of shares increased by 9% (to Rb12.6 bn), this index relative to the period after 2010 exceeding only that for 2015 (Rb6.3 bn). The revenues generated by the sale of land plots jumped nearly twofold, amounting to Rb3.2 bn,¹ which is a record high of the entire decade, with the exception of the index for 2012. The amount of revenues from the sale of miscellaneous properties jumped by nearly 62%, and their index in absolute terms (Rb11.24 bn) is a record low of the entire period since 2013 but for the index for 2018. In this connection it is necessary to note the appearance in the budget reporting forms of a new item, the revenues generated by the privatization of property owned by the Russian Federation, in the part of non-financial assets held by the RF Treasury (Rb898.0 mn).

The sale of shares accounted for 45% (vs 57.3% in 2019); the sale of property (total), for 43.5%² (vs 34.5% in 2019); and the sale of land plots, for 11.5% (vs 8.2% in 2019).

The aggregate federal budget revenue generated by the privatization (or sale) and use of state property in 2020 (*Table 7*) shrank by 1.4% relative to the previous year.

1 Including the revenues from the sale of the land plots in respect of which state ownership has not been demarcated, and which are used by budget-funded and autonomous institutions (Rb282.9 mn). This item appeared for the first time in the annual report on federal budget execution as of January 1, 2020 (Rb37.9 mn).

Previously, this budget item did not exist in budget reporting forms.

The data released by the Federal Treasury concerning the efficiency of government property management as of January 1, 2020 offer a slightly higher index (Rb40.1mn), without specifying the land plots in federal ownership. Over previous years, similar data describing the efficiency of government property management were also released by the Federal Treasury (in 2015, Rb0.433 mn; in 2016, Rb2.381 mn; in 2017, Rb 4.962 mn; and in 2018, Rb0.1835 mn).

2 Including the revenues generated by the privatization of properties owned by the Russian Federation, in the part of non-financial treasury assets (3.2%).

Table 7

The structure of property-generated federal budget revenues from miscellaneous sources, 2000–2020

Year	Aggregate revenue generated by privatization (or sale) and use of state property		Privatization-generated revenues (non-renewable sources)		Revenues generated by use of state property (renewable sources)	
	millions of rubles	% of total	millions of rubles	% of total	millions of rubles	% of total
2000	50,412.3	100.0	27,167.8	53.9	23,244.5	46.1
2001	39,549.8	100.0	10,307.9	26.1	29,241.9	73.9
2002	46,811.3	100.0	10,448.9	22.3	36,362.4	77.7
2003	135,338.7	100.0	94,077.6	69.5	41,261.1	30.5
2004	120,798.0	100.0	70,548.1	58.4	50,249.9	41.6
2005	97,357.4	100.0	41,254.2	42.4	56,103.2	57.6
2006	93,899.8	100.0	24,726.4	26.3	69,173.4	73.7
2007	105,761.25	100.0	25,429.4	24.0	80,331.85	76.0
2008	88,661.7	100.0	12,395.0	14.0	76,266.7	86.0
2009	36,393.7	100.0	4,544.1	12.5	31,849.6	87.5
2010	88,406.4	100.0	18,677.6	21.1	69,728.8	78.9
2011	240,964.1	100.0	136,660.1	56.7	104,304.0	43.3
2012	309,943.2/ 469,243.2 ^a	100.0	80,978.7/ 240,278.7 ^a	26.1/ 51.2 ^a	228,964.5	73.9/ 48.8 ^a
2013	209,114.85	100.0	55,288.6	26.4	153,826.25	73.6
2014	282,325.95	100.0	41,155.35	14.6	241,170.6	85.4
2015	303,975.2	100.0	18,604.1	6.1	285,371.1	93.9
2016	1,363,193.85/ 670,798.85 ^b	100.0	416,470.5	30.6/ 62.1 ^b	946,723.35/ 254,328.35	69.4/ 37.9 ²
2017	297,074.9	100.0	21,906.7	7.4	275,168.2	92.6
2018	361,648.13	100.0	28,252.0	7.8	333,396.13	92.2
2019	486,103.55	100.0	20,129.3	4.1	465,974.25	95.9
2020	479,444.24	100.0	27,929.9	5.8	451,514.34	94.2

^a – including the proceeds received by the RF Central Bank as a result of the sale of a stake in *Sberbank* (Rb159.3 bn), which is probably an overestimation of the actual aggregate share of non-renewable sources, because the budget did not receive the full amount of those proceeds, but their amount less the balance sheet value of that particular asset plus the costs incurred in the deal of sale. Consequently, the share of renewable sources is, on the contrary, somewhat underestimated;

^b – less the revenues generated by the sale of shares in Rosneft (Rb692,395 bn) (less interim dividend payments).

Sources: Laws on federal budget execution for the period 2000–2014; reports on federal budget execution as of January 1, 2016; January 1, 2017; January 1, 2018; January 1, 2019; January 1, 2020 (annual reports), and monthly report as of January 1, 2021 (operational data). URL: <http://roskazna.gov.ru>; own calculations.

Beside the corresponding index for 2019, their amount in absolute terms (Rb479.4 bn) was below only the record high of 2016, when the deal of sale of stakes in Rosneft was closed.¹ In 2020, there were no such deals, and the relative

1 The proceeds from that deal were to be paid to the federal budget in the form of dividends from Rosneftegaz, the latter being the parent of Rosneft.

share of renewable sources in the structure of aggregate revenues generated by the privatization (or sale) and use of public property slightly shrank.

The relative share of non-renewable sources in the structure of aggregate revenues generated by the privatization (or sale) and use of public property was less than 6%, vs 4% a year earlier. The revenue generated by the use of public property were above 94%, thus jumping to a record high, in absolute terms, that was below only the historic high of the entire period since the early 2000s, while the revenues generated by the privatization and sale of property amounted to approximately a half of the corresponding index for 2013, at the same time being above the indices for 2015, 2017 and 2019.

6.1.5. Reformatting the public property management program

Last year, the RF Government Program (GP) “Federal Property Management”, which had been implemented since 2013, was deprived of the status of a separate document. It consisted of two subprograms: “Improvement of the Efficiency of Government Property Management and Privatization” and “Government Material Reserve Management”, the latter being the major recipient of funding.

By RF Government Decree No. 376 dated March 31, 2020, the Subprogram “Federal Property Management” was included in the Government Program “Economic Development and Innovative Economy”. One of its goals is to improve government policy in the field of federal property management. In the absence of any relevant qualitative indicators for assessing the implementation of this particular program, the applicable quantitative indicators include an increase, by 2024, in the rate of return on federal property management to 22% (relative to 2018), which is one of its targets, alongside the relative share, in the total number of JSCs where the Russian Federation holds more than 50% of voting shares, of those JSCs that generate net profit according to their year-end financial results (the amount according to data from their annual reports, less the results of audit of their activities).

The main provisions concerning property management are stipulated in Section I of the GP, where the priorities and goals of public policy are set forth.

With reference to the Key Guidelines for the Government to 2024, which were approved in September 2018, that is, long before the emergence of the current socio-economic situation, in order to increase the rate of economic development, it was declared that the participation of the State in the activities of commercial and non-commercial organizations in competitive markets should be minimized, and the number of organizations with state participation should be annually reduced by 10%. Meanwhile, it is planned to increase the management efficiency of companies with state participation by improving their corporate governance mechanisms.

It is envisaged that new models of state property alienation should be implemented, including tenders in a format that could attract strategic investors with due regard for the industry-based specific features of those property entities, and to switch the bidding for state and municipal property entities entirely into an electronic format. In order to increase the efficiency of the use of public

assets, the mechanisms of targeted redistribution of property entities between different levels of public authority will be implemented, including the possibility of transferring the ownership of property entities to another level.

The planned development and adoption of the Federal Law “On State and Municipal Property” is expected to make more efficient the procedures of management and disposal of state and municipal property entities.

Meanwhile, the certificate of the Subprogram “Federal Property Management” does not even contain a text part. The RF Ministry of Finance is appointed to be the body responsible for its implementation, and Rosimushchestvo is specified as its participant. The Subprogram’s implementation period is 5 years (until the end of 2024). The volume of federal budget allocations for the entire implementation period is approximately Rb21.2 bn. The total sum is divided into roughly equal annual parts amounting to Rb4,152.3 mn for 2020, to be gradually increased to Rb4,282.5 over the period 2023-2024 (Rb4,204.8 mn for 2021, Rb4,272.9 mn for 2022). However, it should be borne in mind that these, in fact, are planned targets, and not the real amount of funding; the latter will be determined by the actual federal budget for each year, which may have to bear the burden of sudden and large anti-crisis expenses.

The stated goal of the Subprogram is to improve the efficiency of federal property management, and its specific objectives are (1) to create a universal accounting and management system for handling federal property entities and the property entities transferred into public ownership and other seized properties, as well as to identify the ineffectively used or misused federal property entities; (2) to increase the number of RF treasury property entities and land plots involved in civil law relations, and to ensure the safekeeping of those federal property entities that are restricted in terms of property turnover; (3) to exercise corporate control over the implementation of the tasks specified in the target program documents adopted for economic societies and unitary enterprises, and to optimize composition.

The expected results of the Subprogram are as follows:

- to create, by 2024, an up-to-date integrated database on all federal property entities (with the exception of classified data (treated as state secret), as well as the property entities transferred into public ownership and other seized properties, on the basis of primary data entered into other information systems that have been collecting information on such properties; the database is necessary for making adequate property management decisions;
- to ensure the formation and proper delineation of land plots, and to enter annually into the State Real Estate Cadaster the information on the boundaries of land plots with the total area of not less than 100,000 hectares;
- to reduce, by 2024, the area of treasury land plots that are not involved in economic turnover by more than 60% (relative to 2012);
- to ensure growth of federal budget revenues generated by the lease of federal immovable property entities;

- to ensure an annual increase, by not less than 10%, in the number of joint stock companies where the Russian Federation holds more than 50% of voting shares, and which generate net profit according to their year-end financial results;
- to minimize, by 2024, state participation in the activities of commercial companies in competitive markets, and to ensure an annual reduction in the number of organizations with state participation by not less than 10%;
- to create, by 2024, a comprehensive system for identifying ineffectively used or misused federal property entities.

An analysis of the goals, objectives, and results of the Subprogram adopted in a new format makes it possible speak of its continuity with the Subprogram “Improvement of the Efficiency of Government Property Management and Privatization” adopted within the framework of the previous government program. This is also confirmed by the list of 7 targets and indicators set in the new subprogram.

Two of them (the relative share of RF treasury property entities involved in economic turnover in the total number of RF treasury property entities as of the end of each reporting year; and the percentage of reduction in the area of RF treasury land plots that are not involved in economic turnover relative to the total area of land plots held by the RF Treasury in 2012) are exactly the same as stated in the previous government program.

Another two more indicators represent a modification of those previously applied. Instead of the annual reduction in the number of joint-stock companies with state participation and the number FSUEs, listed separately as two indicators, a single indicator is introduced – that of the absolute number of organizations with state participation; while one of the targets is the annual reduction in the number of organizations with state participation by not less than 10%.

The ratio of the value of state property entities that have been sold or transferred into state ownership to their valuation for purposes of sale is replaced by the coefficient of disposal of movable property transferred into state ownership over the course of a reporting year (the ratio of the number of movable property items transferred into state ownership and the number of those disposed of (by means of processing, sale or destruction) to the total number of movable property items transferred into state ownership in the balance sheet as of year-beginning and those received during that year) (%).

Three indicators can be considered to be new ones. These are the area of land plots in federal ownership whose boundaries have been properly determined and delineated, and the corresponding information entered into the State Real Estate Cadaster (hectares); and the sold stakes in JSCs and RF treasury property entities earmarked for sale in accordance with the forecast plan (program) of federal property privatization (%; if not directly stated that physical indicators should be applied).

At the same time, the new subprogram no longer contains the previously available indicators that described the technological development of management processes at the level of Rosimushchestvo, the management tools to be applied

to joint-stock companies with state participation and, most surprisingly, the budget-based performance indicators (the requirement that privatization should generate revenue, and the payment of dividends on federal stakes).

However, this is by no means the only issue that gives rise to questions about the feasibility of the newly introduced Subprogram “Federal Property Management” in the context of the current situation. The target of minimizing, by 2024, state participation in the activities of commercial companies in competitive markets appears to be only declarative, as it is not supported by adequate norms or organizational tools. The declared targets of annual increase, by not less than 10%, in the number of net profit generating joint-stock companies where the Russian Federation holds more than 50% of voting shares, and that of increasing federal budget revenues generated by lease of federal immovable property entities, are not reflected in the list of its indicators. It is questionable whether these targets could be actually achieved in the current conditions.

* * *

The starting period of the new 3-year privatization program for 2020–2022 coincided with the onset of the crisis, which inevitably affected the course of its implementation.

As far as the major assets earmarked for privatization in accordance with individual schemes are concerned, the long-awaited and repeatedly postponed deal to reduce the state stake in Sovcomflot was finally closed. However, it generated no budget revenue. The funds received through an additional issue of shares (about Rb43 bn) are earmarked for the company development. Aeroflot attracted funding in the same way (Rb80 bn), but the bulk of that funding was supplied by State. In both cases, the State remains a direct majority shareholder, which cannot be said about Channel One Russia JSC, where the state stake reduction was followed by securing the special right of the Russian Federation to participate in the company’s management (“golden share”) and signing a shareholder agreement with private shareholders. Thus, the coronavirus crisis has sped up the trend of reducing state participation in big and important companies of nationwide status, while the State retained its control over them with the help of a variety of instruments.

There was an obvious failure to keep up the sales of blocks of shares (or stakes) in economic societies in accordance with standard procedures and the corporatization of unitary enterprises. The number of sold economic societies shrank more than twice relative to the annual indicators of the previous privatization program, and hit its record low of the entire previous period. At the same time, the number of sold treasury property entities increased by more than 80%, jumping above its previous record high of 2016; in this segment, the leading role was played by Rosimushchestvo (its territorial bodies).

By the amendments introduced into the privatization law, the federal procedures for developing privatization programs and reporting on the course

of their implementation are extended to the level of subjects of the Russian Federation and municipalities.

The number of economic societies in federal ownership continued to decline. While the relative share of minority stakes increased, that of the companies where the State could exercise full corporate control declined. To the already routine process of creating vertically integrated structures and strengthening state corporations, the government added the transfer of controlling stakes in Sberbank and the Bashkir Soda Company into the direct state ownership. Of these two deals, the former was the purchase of the stake from the RF Central Bank covered by the NWF and regulated by a specially adopted law, and the latter was the result of a court ruling that followed a series of public scandals.

In the structure of federal budget revenue generated by privatization (or sale) and use of state-owned property, just as a year earlier, renewable sources played a dominating role (more than 94%). As before, their bulk was represented by dividends transferred to the budget. There was revenue decline in absolute terms from practically all the sources, with the exception of the transfer, by unitary enterprises, of part of their net profits, and the general revenues generated by the lease of property. The significant growth in the amount of the latter contrasts sharply with the repeated statements made at the official level about supporting small and medium-sized businesses, although the revenues generated by the lease of treasury property entities and land plots have indeed declined. An unexpected phenomenon in the times of crisis was the growth of revenues from all non-renewable sources, the biggest input having been generated by the sale of land plots. However, the sale of shares (stakes) in economic societies remained the most significant revenue source.

Last year, the Government Program “Federal Property Management”, which had been launched in 2013 as a separate document, was reformatted. From 2020 onwards, it has been incorporated as a subprogram into the Government Program “Economic Development and Innovative Economy”. The RF Ministry of Finance is appointed to be the body responsible for its implementation, and Rosimushchestvo is specified as its participant, supervised by the RF Ministry of Finance in accordance with the new structure of the RF Government adopted at the beginning of this year. The Subprogram’s implementation period is 5 years (until the end of 2024). An analysis of the goals, objectives, and targets of the subprogram adopted in a new format points to a certain continuity with the subprogram implemented within the framework of the previous government program.

The prospects for the new Subprogram “Federal Property Management” are relatively good. Among its targets, those that are not obviously pegged to value indicators (which are prone to risks in crisis conditions) prevail. At the same time, the indicators related to property management and value measurements are set forth in the core Government Program “Economic Development and Innovative Economy”, while the set of targets and indicators set forth in the subprogram itself gives rise to questions from the point of view of their relevance in the current situation, their relationship with the declared results, and the necessity to

keep up the positive results achieved during the previous phase of implementing the RF Government's property management policy.

6.2. Coronavirus crisis and company bankruptcies¹

6.2.1. Coronavirus crisis and company bankruptcies worldwide: legal aspect

The coronavirus crisis and the measures taken by national governments to combat the pandemic have led to an acute situation in the field of insolvency of companies. Assessments of the situation vary, and there are many reasons for this: the continuation of the pandemic, the introduction of lockdowns, and the adoption of measures to curb the wave of bankruptcies.

For example, according to the Euler Hermes estimates, the world leader in the field of credit insurance and receivables management, the global insolvency index is likely to reach in 2021 a record level of **+35%** for 2020-2021. That said, half of the countries will record a new high after the financial crisis of 2009.² Consequently, the largest increase is expected in North America (+57% compared to 2019), followed by Central and Eastern Europe, Europe (+34%), Latin America (+33%), Western Europe (+32%), and Asia (+31%).

An early termination of emergency government intervention or a longer-than-expected global economic rebound could significantly worsen the situation. For comparison, the projected average number of bankruptcies before the pandemic stood at +6% per year. At the same time, an early rejection of supportive measures can aggravate the situation, increasing the growth of insolvency by 5-10%.³

During 2020, only the first reactions of countries to the coronavirus crisis were noted in terms of resolving the issues of preventing the business insolvency, which included such measures as financial support, tax breaks, credit holidays, changes in bankruptcy legislation, etc. The main goal of changing the regulation in the field of bankruptcy in the countries most affected by the coronavirus was *to contain the mass bankruptcy of companies*. The leading mechanisms of such deterrence today are both operational⁴ and systemic measures of legal regulation of bankruptcies. Among the operational measures, first of all, we can highlight:

1) ban (extension of timeline, suspension of timeline) on filing applications for insolvency within a certain period of time (moratorium on bankruptcy). Such measures have been taken by many countries, including Russia, Great Britain,

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2 *Maxime Lemerle*. Calm before the storm: Covid-19 and the business insolvency time bomb. URL: https://www.eulerhermes.com/en_global/news-insights/economic-insights/Calm-before-the-storm-Covid19-and-the-business-insolvency-time-bomb.html#:~:text=Our%20global%20insolvency%20index%20is,since%20the%202009%20financial%20crisis.16.07.20

3 *Luca Ventura*. COVID-19 Bankruptcies: A Global Snapshot. URL: <https://www.gfmag.com/topics/blogs/covid-19-bankruptcies-global-country>. August 12, 2020

4 See in detail: Coronavirus (COVID-19) Tracker of insolvency reforms globally (as at 2 July 2020). URL: <https://www.insol-europe.org/technical-content/covid19>; Squire pattonboggs. Impact of COVID-19 on Insolvency Laws: How Countries Are Revamping Their Insolvency and Restructuring Laws to Combat COVID-19. – Squire pattongoggs.com, 29.04.20

France, Germany, Italy, Spain, the Czech Republic, India, Argentina, Singapore, and Australia;

2) extension of procedures and deadlines (France, Singapore) in case of bankruptcy of companies (Italy, Argentina, China, Japan, Australia), including for debt restructuring (the Czech Republic);

3) suspension of enforcement of court decisions (Belgium) and/or suspension of certain enforcement actions (Russia, Singapore, Australia);

4) setting a higher threshold for initiating insolvency proceedings (India, Australia, Singapore);

5) postponement of the adoption of new insolvency laws (Italy);

6) providing temporary protection to directors of insolvent companies - debtors of companies (Germany, Singapore, Australia);

7) extension of the debtor's response period to the creditor's claims: the debtor's response period to the creditor's statutory claim has been extended to 3 weeks in the case of legal entities (Singapore, Australia);

8) ban on termination of lease agreements for non-residential premises due to non-performance by the lessee. The duration of such measures is 6 months and can be extended for up to 1 year (Singapore);¹

9) protection of the borrower who is unable to pay rent (Japan);

10) negotiations under the supervision of the court between the debtor and creditors before the opening of bankruptcy proceedings, in the even the cause of the insolvency was a coronavirus infection or measures to combat it (China). As a result of such negotiations, a new agreement can be reached, such as an installment payment, an extension of the debt repayment period, a change in the contract price, etc.;

11) introduction of provisions on virtual (absentee) meetings (meetings of shareholders, meetings of creditors) and electronic signature (Australia).

Japan demonstrates an interesting approach.² Thus, one of the key mechanisms in regulating problems related to COVID-19 is the obligation for listed companies to disclose information about the impact of events related to COVID-19 on the results of their performance.

As of April 16, the number of listed companies that disclosed such information came to 1,389 or 36.7% of all listed companies. The downward revision of the performance of these companies amounted to \$1,801.3 bn in sales and \$1,048.2 bn in profit.

Given that many listed companies were approaching the deadline to announce their financial performance for the fiscal year that ended in March 2020, the Tokyo Stock Exchange recommended disclosing information about bankruptcy risks earlier, stating that financial results can be clarified after the deadline, and this "delay" in meeting the disclosure deadline should only be explained if the delay is significant. In addition, companies can specify their revenue forecasts as "unfixed"

1 Coronavirus (COVID-19) Singapore insolvency reforms COVID-19 (Temporary Measures) Bill. URL: <https://www.insol-europe.org/technical-content/covid19national-reports>. 14.04. 2020

2 Henceforth: Coronavirus (COVID-19) – Tweaks to ground operations for bankruptcy proceedings in Japan in light of COVID-19 24/04/2020. URL: <https://www.insol-europe.org/technical-content/covid19national-reports>.

and provide appropriate updates upon completion. In addition, the Financial Services Agency (Japan's financial regulator) has indicated that the deadline for the disclosure of securities reports on the financial performance of companies ending in March will be extended until the end of September this year, i.e. about 3 months later than usual, even if the application for an extension is not submitted.

As of April 17, 2020, the number of companies that became insolvent as a result of events related to COVID-19 was 66 nationwide (41 were bankrupt and 25 were in the process of preparing for bankruptcy), most of which were in the manufacturing industry, retail sales related to personal consumption, and the service sector. In March 2020 alone, there were 740 bankruptcies, which is about 11.7% more than in March 2019. The total debt of bankrupt companies in Japan in March 2020 amounted to \$105.49 bn, which is approximately 9.0% more than in March 2019. In this regard, despite the lack of changes in the law, the Tokyo District Court decided to postpone all meetings of creditors in bankruptcy cases, which were scheduled from April 8 to May 8, 2020, i.e., until the date that will come in 12 weeks.

As an example of taking *systemic measures* in the field of corporate bankruptcy, we can consider the *United Kingdom*, which declared a moratorium on bankruptcy in April 2020, and in June adopted the Corporate Governance and Insolvency Act 2020 (The Corporate Governance and Insolvency Act 2020 is in force from June 26, 2020), which made the most serious changes to the UK's insolvency law in 20 years. This law introduces new tools to restore the business solvency, such as:

1) *a moratorium* that gives companies a temporary exemption (no more than 40 work days) from the creditors' claims, while they are looking for opportunities to save or restructure the business. The moratorium will allow insolvent businesses, or companies that can become insolvent, 20 work days when they can try to restructure or attract investment without action from creditors. This period can be extended for another 20 days. During the period of the moratorium, the company's performance must be monitored by a qualified bankruptcy specialist;

2) *the company's supply chain* protection provides that companies can continue trading during the moratorium. Provisions ipso facto (provisions that allow termination of an agreement on the grounds that a party has entered into insolvency proceedings) are currently unenforceable in a wide range of supplier contracts;¹

3) *a new restructuring plan* binding creditors to this plan;

4) *temporary changes to the trading regime* applied retrospectively from March 1 to September 30, 2020, which envisage that directors can continue to conduct business without fear of worsening the financial situation of companies in the wake of the pandemic and being held accountable for it;

5) *easing the requirements of corporate governance* in relation to certain commitments for the execution and submission of documents.

¹ Henceforth: Corporate Insolvency and Governance Act 2020: A New Era for Restructuring. – The National law review. URL: <https://www.natlawreview.com/article/corporate-insolvency-and-governance-act-2020-new-era-restructuring>, June 29, 2020

The situation with the bankruptcy of companies in the United States is of particular interest. This is due to two factors: the choice by the United States a different strategy from the Russian one, and the provision of the largest economic stimulus package in recent history, worth about \$2.9 trillion, to overcome the crisis fallout.

For example, on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act CARES Act was signed into law, which contains the following key measures to help companies:

- financial relief to companies experiencing difficulties - a fund of \$500 bn has been allocated for the program of state lending to distressed companies. Of this amount, \$46 billion is intended for sectoral loans (for example, \$25 bn for passenger airlines);
- small business protection to the tune of \$350 bn, including new Small Business Administration loan programs. However, companies with a debt of more than \$7.5 mn will not be eligible for the funds under the new legislation;
- grants to healthcare providers to tune of \$100 bn.

Among the costs of businesses support in the second stimulus package to overcome the pandemic fallout (Additional Law on Appropriations, on the response to Coronavirus and Burden Relief of December 27, 2020, Coronavirus Response and Relief Supplemental Appropriations Act, CRRSA Act), one can name the assistance:¹

- small businesses – \$325 bn, including \$284 bn for forgivable loans through the Paycheck Protection Program; \$20 bn for businesses in low-income communities; and \$15 bn for concert venues, movie theaters, and museums;
- the US Postal Service – \$10 bn in the form of write-offs of previous federal loans;
- health care providers - \$13.5 bn (excluding funds allocated for vaccines and testing);
- agriculture and animal husbandry (both corporations and individual farmers) - \$13 bn.

Nevertheless, despite considerable investments of federal funds, the number of applications for bankruptcy recognition by businesses (commercial and non-commercial) shows an upward trend. Compared to 2019, in 2020, the number of business applications increased by 43% to 32,506. The number of commercial applications increased to 7,829 applications, i.e. almost 1.5 times.² The areas most affected were retail sales and restaurants, which rely heavily on face-to-face services, as well as tourism, housing, leisure and energy companies.

There are three main factors that affect the situation with bankruptcies in the United States:

1 The Associated Press. Highlights of \$900 billion COVID-19 relief, wrapup bills (December 22, 2020). URL: <https://apnews.com/article/health-care-reform-health-legislation-coronavirus-pandemic-762f84e4da11d350d8b5be5680ab01c4>

2 American Bankruptcy Institute. URL: <https://www.abi.org/newsroom/bankruptcy-statistics> (дата обращения: 12.01.2021)

1) the unpredictability of the pandemic development, which became the catalyst for the 2020 crisis, in contrast to the previous crises of the 2000s, the causes of which were mainly financial in nature. Predicting the course and end of the 2020 crisis is much more difficult. Today, the United States is at the top of the list regarding the number of cases and deaths from COVID-19, the vaccines distribution is not fast enough. When the main issue is the health and life of citizens, the country's leadership cannot throw all its efforts at supporting business. The situation is aggravated by protests and mass riots, including those related to the outcome of presidential election;

2) the existing problems of businesses exposed by the COVID-19 crisis: from the inability to meet the rapidly changing needs of consumers to unsustainable debts, an unprecedented amount of which at the pandemic outbreak totaled \$15.5 trillion.;

3) the problems of the American bankruptcy system, which have worsened in the context of the pandemic: the system is more effective for large companies, but not for small and medium-sized businesses; the system does not work well enough when the bankruptcy courts are overloaded; the efficacy of the system depends on the availability of the debtor's financing in the event of bankruptcy. Despite the known shortcomings, no direct changes were made to the US bankruptcy law.

Please note that the statistics on applications for declaration of bankruptcy demonstrate that the relationship between economic crises and bankruptcy registration is not always direct. The number of applications is always growing, but not always notably.¹ Even now, experts are cautiously noting that the wave of bankruptcies by the end of 2020 was not as large as expected, but it has not yet reached its peak, and the number of applications for declaration of bankruptcy can exceed the number of any of the previous crises.

For more information on changes in bankruptcy law in connection with the coronavirus pandemic worldwide, see *Appendix*.

6.2.2. Russia awaiting bankruptcy law reform

Russia was one of many countries that responded to the coronavirus crisis by declaring a six-month moratorium on bankruptcy, namely, the filing of bankruptcy applications by creditors of companies and individual entrepreneurs most affected by the coronavirus crisis in April 2020. Later, in early October 2020, the moratorium was extended until January 7, 2021.

By the end of the moratorium, according to the United Federal Register of Bankruptcy Data (Fedresurs), 14.6% of all companies registered in the Russian Federation and about 40% of individual entrepreneurs were in the "moratorium" lists totaling around 2.13 million. From January 8, 2021 all of them can claim previously collected debts in the framework of enforcement proceedings, charge penalties and forfeits for debts incurred before the moratorium was declared, as

¹ After the .com bubble in early 2000s, the number of business applications went up slightly, from 37,884 in 1999 to 40,099 in 2001. After the global financial crisis of 2007-2009, this number increased by 2-fold – from 28,322 in 2007 to 60,837 in 2009; separately, the number of commercial applications for declaration of bankruptcy increased from 6,245 in 2007 to 15,240 in 2009, i.e. by 2.5-fold.

well as use such a tool of pressure on debtors as initiating bankruptcy proceedings for their debtors.¹

The severity of the problem was already evident at the end of May 2020. By this time, more than half of small and medium-sized businesses (53%), according to monitoring data,² described their situation as a “disaster” or “crisis”. More than half of the respondents (62.2%) estimated the chance of survival of their business at 50% or lower. 13.4% of respondents said that they were fully confident that their business will continue to operate.

Among the main issues faced by small and medium-sized businesses, more than half (52.4%) of the research participants named the inability to pay wages and taxes on wages. In second place were difficulties with paying rent – 42.8%, and 39.1% reported systematic non-payments by business partners.

Since mid-March 2020, the government has put in place anti-crisis measures to support entrepreneurs totaling Rb3.3 trillion.³ The list of industries most affected by the coronavirus pandemic crisis has been repeatedly edited, as a result, at the end of August, according to the Federal Tax Service, it embraced 15 industries.⁴ It is still difficult to assess how effective this assistance was and what percentage of bankruptcies it prevented.

Critics of the government’s actions, which include 90% of large companies surveyed by KPMG,⁵ argue that the government’s proposed anti-crisis tax measures to support businesses were insufficient.⁶ KPMG in its research points out that 62% of large companies were unable to take advantage of tax support measures due to non-compliance with the criteria, with the exception of the postponement of the reporting deadline. The reasons for this situation, along with the complexity of the procedure, were the requirements for the disclosure of the final beneficiaries and information representing a commercial secret.

The most popular measure was the use of reduced insurance premium rates (18% of respondents). Five percent of businesses paid up-front income tax payments based on actual profits and received preferential loans for employees salary payments.⁷

1 REVIEW: Moratorium on bankruptcy froze in the dark. URL: <https://fedresurs.ru/news/5b26d11e-64dc-4c9b-a909-b4cd54504161>. 30.12.20

2 *Poliakova V., Galcheva A.* Half of small and medium-sized businesses called their situation a disaster. URL: https://www.rbc.ru/business/22/05/2020/5ec742969a79470ab2d31eb9?utm_source=yxnews&utm_medium=desktop&utm_referrer=https%3A%2F%2Fyandex.ru%2Fnews.22.05.20

3 *Shuvalova M.* Business support measures in the context of the pandemic: interim results of implementation during restrictions and new solutions for economic stabilization. URL: <https://www.garant.ru/news/1376927/>. 28.05.20

4 Plan to overcome the economic fallout of the new coronavirus infection. URL: https://www.economy.gov.ru/material/dokumenty/plan_preodoleniya_ekonomicheskikh_posledstviy_novoy_koronavirusnoy_infekcii.html. 25.11.20

See in detail: The list of the hardest hit industries due to the spread of the coronavirus infection was approved by a Government Decree dated April 3.04, 2020, No. 434.

5 KPMG – one of the world’s largest professional services networks and one of the Big Four audit firms along with Deloitte, Ernst & Young, and PwC.

6 KPMG. Anti-crisis measures 2020: tax aspects. URL: <https://home.kpmg/ru/ru/home/insights/2020/07/anti-crisis-measures-2020-tax-aspects.html> p. 10

7 *Fedorova N.* Only 2% of large companies took advantage of the tax holidays during the crisis. URL: https://www.rbc.ru/economics/03/08/2020/5f22e8209a794771ae3dcb78?from=from_main_1

In mid-August 2020, it became known that more than 1/3 of Russian companies suffered losses in March-May 2020, losing Rb1.65 trillion (Fin Expertiza estimate).¹ Total profit (excluding small businesses) for the same period decreased year-on-year by 67%, such a drop in profit is was the steepest for the spring months over the entire period of observations, i.e. for at least 16 years. Until now, the 2017 index was considered to be worst, when the Russian companies profits fell by 28%.²

As of July 1, 2020, the external debt of the corporate sector of the Russian economy amounted to *\$17.25 billion*. This figure was the largest over the last 6 years.³

In early September 2020, business ombudsman Boris Titov reported that more than 40% of entrepreneurs believed that they would be unable to fulfill their deferred tax obligations. The greatest difficulties are the need to pay taxes for 2020. In the interests of entrepreneurs, they were asked, in addition to extending the moratorium on bankruptcy, to extend the anti-crisis measures to support businesses: tax deferral for small and medium-sized businesses and also credit holidays.⁴

In early October 2020, the statistics of business bankruptcies for Q3 2020 was released, which showed a decrease in the number of bankruptcies by 19% in January-September 2020 compared to the same period in 2019, which was the result of the moratorium on bankruptcy. The number of reports about the intention to go to court with corporate bankruptcy petition has also decreased. In January-September 2020, the number of such reports from creditors decreased by 11.1% to 19,225 compared to the same period in 2019, and from debtors - by 1.4% to 1,496.

The structure of insolvency petitions exhibits a slight uptick in petitions from debtors from 8.8% to 9.2%, as well as the Federal Tax Service of Russia – from 11.8% to 14.6%. While the petitions from other bankruptcy creditors and employees demonstrate a decrease:

- from 78.8% in January-September 2019 to 75.8% in January-September 2020 (for corporate activities);
- from 0.6% in January-September 2019 to 0.5% in January-September 2020 (for employees).

1 Kalyukov E., Tkachev I. Experts have announced the steepest drop in business profits in Russia in 16 years. URL: https://www.rbc.ru/economics/12/08/2020/5f32bc849a79475a2d8faf68?utm_source=yxnews&utm_medium=mobile

2 The debts of Russians have reached a record level in the XXI century. URL: <https://dolgi.ru/news/6806.12.08.20>

3 Russia's external debt in the corporate sector has exceeded \$17 billion. URL: https://finance.rambler.ru/realty/44516053/?utm_content=finance_media&utm_medium=read_more&utm_source=copylink.16.07.20

4 In addition, Boris Titov proposed the following measures:

- 1) extending tax deferral to businesses that are not included in the list of affected industries if their revenue fell by 30% for Q2 and Q3 2020 compared to revenue for Q4 2019 and H1 2020;
- 2) the creation of a "bad debt bank", which will actually allow you to write off obligations that have arisen as a result of force majeure, without worsening your credit history. Boris Titov asked to extend the vacations for business because of "the end of the year" issue. URL: https://www.rbc.ru/economics/03/09/2020/5f4fa7959a79470349463f2e?utm_source=yxnews&utm_medium=desktop.03.09.20

Companies operating in construction, wholesale trade, real estate, services, and agriculture remained at the top of the list of bankruptcies by August 2020 as it was in 2019 (with almost unchanged indexes).¹

At end-2020, according to the Center for Strategic Research (CSR) “Business Climate in Russia. Year’s results”, 28% of Russian businesses are exposed to the risk of bankruptcy. At the same time, 1/10 of the companies assess this risk as high and plan to stop their activities in the coming months. In the meantime, 65% of companies note that the situation in their business has improved compared to the summer of 2020, but every fifth company note that it has deteriorated. At the end of December 2020, most companies expect their business to recover by 2022, rather than by mid-2021, as was previously the case. By the end of December 2020, 84% of companies say that they need help from the state.²

As for the corporate insolvency statistics for 2020, it was not unexpected and also displayed a decrease in the number of corporate bankruptcies. 9931 organizations were declared insolvent – by 19.9% less than in 2019.

Against this backdrop, the development of *general issues of legal regulation of the activities of the institution of insolvency continued*. So in October 2020, the Ministry of Economic Development of the Russian Federation announced the completion of the preparation of *a new version of the draft law*, conceptually changing the bankruptcy framework, in terms of the corporate bankruptcy. The coronacrisis, the minimal support of businesses by the state and the need to minimize the social implications of such a decision left the government with almost no choice but to change the “rules of the game” in the field of bankruptcy.

The long required measures have been brought forward that according to the developers can ensure an increase in the efficacy of the bankruptcy framework in terms of increasing the number of companies that have restored their solvency in the bankruptcy process. To date, only the mechanisms for declaring the debtor bankrupt and opening bankruptcy proceedings, as well as the introduction of surveillance, are really working. The procedures for the introduction of bankruptcy administration and financial recovery are isolated. The number of rehabilitation procedures carried out in the field of insolvency does not exceed 2% of all bankruptcy cases considered by the court.

Current legal regulation of insolvency framework in Russia formally has a pro-creditor orientation, since the debtor’s ability to avoid bankruptcy is minimal. However, in fact it is even more unprofitable for creditors – the average amount of satisfaction of creditors’ claims in the bankruptcy process ranges from 2 to 5%. Therefore, the legislation protects the interests of debtors very poorly.

The most significant innovations of the draft law laid out by the Ministry of Economic Development are the abolition of supervision, financial rehabilitation

1 Presentation by A. Yukhnin. “Count bankruptcies in the fall: how non-working days, the moratorium and the Covid affected statistics” at the VI annual conference of the journal ‘Vedomosti’ Institute of Bankruptcy in Russia. URL: <https://events.vedomosti.ru/events/bankruptcy2020/materials.11.09.20>

2 CSR stated results of the business environment monitoring in Russia in 2020. URL: <https://www.csr.ru/ru/news/tssr-sformuliroval-itogi-monitoringa-delovoy-sredy-rossii-v-2020-godu/.25.12.2020>

and bankruptcy administration and the introduction of a new rehabilitation procedure – debt restructuring. The restructuring plan is expected to be flexible and will include various management options. It will be valid for 4 years with a possible extension.¹

Presenting the previous version of the draft law on the introduction of debt restructuring, representatives of the Ministry of Economic Development said that, according to preliminary calculations, as a result of the implementation of the envisaged restructuring, the solvency of about 10% of businesses against which an insolvency case was initiated will be restored. This level of recovery of the corporate solvency, of course, will not fundamentally change the most pro-lender orientation in the regulation of the insolvency framework, but it will be the first step in the right direction, which will give impetus to the further development of the institution.

The next course of changes is *to raise the efficacy of the activities of arbitration managers*. It is assumed that it will ensure the introduction of the register of arbitration managers and the granting of the self-regulatory organization (SRO) of arbitration managers along with other rights the right to include and exclude its members.

As for the register of arbitration managers, it will become the basis for the score assessment of managers, SROs and the formation of the overall rating of SROs. The manager will be awarded points depending on the effectiveness of the restructuring or bankruptcy proceedings. The SRO score will be equal to the average score of its members. In addition, it is proposed to introduce an obligation for arbitration managers to take an exam every 3 years to confirm their status, etc.

The idea of confirming the level of qualification is not bad in theory, but this mechanism will be quite easy to use, for example, for representatives of the state as a mechanism for influencing arbitration managers.

As for granting SROs the rights to include and exclude its members, there is a high risk that the already established and existing bureaucratic and managerial stratum of SROs will acquire an additional instrument of influence on arbitration managers, which can be used to lobby for the necessary decisions in the field of insolvency.

The modernization of the bankruptcy liquidation procedure and the exclusion of the possibility of control over the debtor by unscrupulous owners or beneficiaries should be another key area of the bankruptcy reform.

The mechanism that should ensure the implementation of this task is the creation of an information system for the disclosure of data on the bankruptcy assets (market place), which will allow to post information about the property, inventory, and sale in advance – for at least 30 days before the auction.

With regard to the exclusion of the possibility of control over the debtor, it puts in place measures to prevent knowingly unprofitable activities of the debtor,

1 Henceforth: "Ilya Torosov: The global bankruptcy reform project will change the entire architecture of this institution in Russia" URL: https://www.economy.gov.ru/material/news/ilya_torosov_globalnyy_proekt_po_reforme_bankrotstva_izmenit_vsyu_arhitekturu_etogo_instituta_v_rossii.html.09.10.20; Presentation by Deputy Minister of Economic Development of Russia I. Tarasov at the II Annual Conference of Fedresurs "Bankruptcy 2020: at the crossroads", October 8, 2020

in particular, the obligation of the arbitration manager after the introduction of bankruptcy proceedings to put to the vote the question of termination of the organization's activities and termination of activities after 9 months, if there is no such decision. Losses if they are within 9 months can be imposed on creditors who voted to extend the supervision. Thus, the choice of arbitration managers and creditors is to go into the restructuring procedure or to liquidate the enterprise as soon as possible.

Furthermore, it is envisaged to abandon the operators of electronic platforms in favor of the sale of property in accordance with the procedure provided for by Federal Law No. 44-FZ of April 5, 2013 "On the Contract System in the Field of Procurement of Goods, Works, and Services for State and Municipal Needs."

Further, it is supposed to *authorize creditors to negotiate with the debtor before the court on a discount on debts*. This will increase the chances for pre-trial settlement of insolvency issues.

In practice, it is important to create transparent mechanisms for implementing the possibility of reducing the level of debt, primarily on the part of tax, customs and other state bodies acting as creditors in most cases.

Another innovation proposed by the Ministry of Economic Development is *the introduction of the institution of collective arbitration managers*. They will manage, for example, strategic enterprises, enterprises of agro-industrial complex. Rostec, Roscosmos, and the Federal Security Service of Russia can act as collective arbitration managers.

Such provisions of the law create a high risk of abuse, for example, by officials and security forces, unjustified and uncontrolled withdrawal of enterprises from the sphere of market interaction to the sphere of administrative regulation, and a decrease in the level of efficiency of such enterprises.

In mid-November 2020, it became known that the specified draft law of the Ministry of Economic Development was sent by the Main Legal Department of the Presidential Administration for re-revision. According to its conclusion:

- the idea to introduce a point rating system for arbitration managers has not been worked;
- it is premature to abandon the procedures of external management and financial recovery;
- authorization of giving state corporations for functions of arbitration managers in cases of insolvency of strategic enterprises contradicts the idea of the independence of the arbitration manager, and can also lead to a conflict of interests.¹

In addition, at the end of September 2020, draft laws were adopted in the first reading, giving the Bank of Russia the authority to maintain on a permanent basis lists of persons controlling banks, insurance organizations and non-state pension funds. According to the developers, the bill will allow to establish the persons controlling the banks, and possibly the beneficiaries, their assets and bring them

¹ General conclusion: Presidential State-Legal Directorate criticized the draft law of the Ministry of Economic Development on reforming bankruptcy institution. URL: <https://fedresurs.ru/news/63918103-c9ad-439b-a81d-607ab52ed6e8?attempt=1.12.11.20>.

to subsidiary liability for the obligations of bankrupt financial organizations. To do this, the bank will also have the right to request from Rosfinmonitoring an opinion on the compliance of a person with the distinctive features of the controlling person, as well as information confirming the compliance of this person with these distinctive features.

According to the draft law, the Bank of Russia will form a list of controlling entities in accordance with International Financial Reporting Standards (IFRS). Until proven otherwise, a person included in the relevant list by the Bank of Russia will be recognized as a controlling credit institution. The person will have the right to challenge the inclusion in the list of controlling persons.

The bill also authorizes the Bank of Russia to send an application for bringing the beneficiaries of financial organizations to subsidiary liability. At the same time, until such an application is submitted, the regulator will have the right to seize funds, securities and real estate of beneficiaries of financial organizations where it has identified negative capital through the court.¹

The proposed legislative changes demonstrate two opposite vectors (which have not yet received their legislative consolidation): the first is a proposal to resolve the economic and social issues associated with insolvency by changing the legal regulation of the institution of bankruptcy towards greater protection of the debtor's rights); the second is the strengthening of government institutions not only in the field of control and supervisory activities, but also in the redistribution and use of large property, which, most likely, will occur at least during 2021-2022.

To a certain extent, these two trends reflect the presence of two different corporate segments in the country with different needs. On the one hand, this is the state-owned government-resource (let's call it so) segment, whose priorities, since 2007, have been put at the forefront, and on the other hand – the private business that has emerged in Russia over the last 30 years. It is the latter that is now particularly in need of flexible mechanisms to resolve the problem of debts and save the business.

Such *flexible mechanisms aimed at preventing mass bankruptcies* could be:

1. A significant (many-fold) increase in the amount of debt, starting from where it is possible to initiate the bankruptcy procedure of the company in court. This measure was implemented in Australia (4 times), Singapore (10 times), and India (100 times). If this is done within reasonable limits, it is possible without spending on the part of the state, which is important in terms of budget deficits, to qualitatively change the situation with the upcoming wave of bankruptcies and social tension in this respect.

2. The introduction of a rule on the payment of taxes and contributions to funds by companies that have incurred losses from COVID-19 from 2021, based on the current monthly income, and the deferral of 2020 debt for 5 years. Or, as an alternative, authorizing the tax service to grant a deferred payment of taxes for 2020. In order for this mechanism to work effectively, in addition to the introduction of competent legal regulation of this issue, we need:

¹ Deputies approve in the first reading the bill that tears off "corporate veil" from financiers. URL: <https://fedresurs.ru/news/9da42530-0afd-47be-9eb5-aaa45c186ef3>. 30.09.20

- efficiently operating situation tracking system (weekly monitoring);
- operational correction of ongoing processes;
- the right to appeal against the refusal of the tax service.

3. Absolution of the debtor for a year (in the meaning of the Federal Law “On Insolvency”) to apply to the arbitration court with an application for its insolvency granting signs of bankruptcy, if it is induced by COVID-19.

4. Ban on termination of lease agreements for non-residential premises occupied by companies for, say, 2-3 years, with renewal option.

This is able to provide the same basic conditions for the existence of companies for a period sufficient to prevent bankruptcy and reduce costs in the near future. This is especially important for Moscow and St. Petersburg. The adoption of these measures will allow:

- resolve the problems of both creditors and debtors and, where possible, save the business;
- unload the courts;
- reduce social tension.

The obvious advantage of applying the proposed operational measures is the absence of significant material costs with a relatively high degree of efficacy.

Annex

COVID-19 crisis and changes in bankruptcy law¹

Countries	Changes in the bankruptcy law
Belgium	<i>Moratorium on bankruptcy of companies affected by the COVID-19 crisis and its consequences (effective from 24.04.20): protection against forced bankruptcy (exl. - by the decision of the prosecutor or the President of the court, or with the consent of the debtor); protection from liquidation; protection from preventive (interim) and enforcement arrest and the petition of other enforcement measures. For enterprises that are subject to a plan approved as part of the judicial reorganization procedure, the payment terms are extended for the duration of the moratorium. Moreover, the parties cannot terminate agreements (unilaterally or judicially), with the exception of employment agreements, as a result of a breach of payment obligations by the affected business. However, any person can challenge the applicability of the moratorium by petitioning to the President of the Enterprise Court if there are reasons justifying the lifting of the moratorium in whole or in part with respect to the business (i.e. if the company is not affected by the current COVID-19 crisis). Royal Decree No. 15 is in force from 24 April 2020 up to and including 17 May 2020.</i>
Czech Republic	<i>Cancellation of the obligation to file a petition for the debtor's insolvency. Effective from the date of entry into force of the Law on the Mitigation of the Consequences of the Epidemic and up to 6 months after the termination of emergency measures (however, no later than December 31, 2020), if the insolvency occurred as a result of such a situation. The possibility of applying for a temporary suspension of the reorganization plan (if the plan was approved no later than March 12, 2020 and has not yet been fully implemented). In the case of authorization, the reorganization cannot be turned into bankruptcy proceedings during this period (x) excluding the duration of the emergency measures and a further six months from their termination to the relevant period with regards to</i>

¹ This analysis is based on data from the following sources: Coronavirus (COVID-19) Tracker of insolvency reforms globally (as at 2 July 2020). URL: <https://www.insol-europe.org/technical-content/covid19>; Squire pattonbogs. Impact of COVID-19 on Insolvency Laws: How Countries Are Revamping Their Insolvency and Restructuring Laws to Combat COVID-19. – Squire pattonbogs.com, 29.04.20

RUSSIAN ECONOMY in 2020

trends and outlooks

Countries	Changes in the bankruptcy law
Czech Republic	actions for the relative ineffectiveness of an act (Actio Pauliana) and (xi) the debtor-business operator who is not insolvent as of March 12, 2020, will have the opportunity to file a proposal for an extraordinary moratorium, which can last (if extended) up to six months (hereinafter the «extraordinary moratorium»); the extraordinary moratorium will be newly introduced directly in Act No. 182/2006 on insolvency proceedings. The Act on the Mitigation of the Impact of an Epidemic is effective as of 24 April 2020.
Great Britain	The Corporate Insolvency and Governance Act 2020 <i>reforms the UK's insolvency framework to add new restructuring tools including: (i) a moratorium for companies giving them breathing space from creditors enforcing their debts for a period of time while they seek a rescue or restructure. The moratorium will allow insolvent companies, or companies that can become insolvent, 20 working days in which they can try to restructure or raise investment without action from creditors. This period can be extended for another 20 days. During the period of the moratorium, the company's affairs must be monitored by a qualified bankruptcy specialist; (ii) protection of their supplies to enable them to continue trading during the moratorium; (iii) a new restructuring plan, binding creditors to that plan.</i> The reforms also include temporary changes the wrongful trading regime applying retrospectively from March 1 until September 30, 2020. Directors can trade without fear of a deterioration in the financial situation of companies due to the pandemic. The Corporate Governance and Insolvency Act 2020 is in force from 26 June 2020.
USA	<i>Suspending enforcement actions:</i> The Governor of the State of New York signed an Executive Order on March 21, 2020. In part, this order provides that “it shall be deemed an unsafe and unsound business practice if, in response to the COVID-19 pandemic, any bank which is subject to the jurisdiction of the Department shall not grant a forbearance to any person or business who has a financial hardship as a result of the COVID-19 pandemic for a period of ninety days.” <i>Expanded the range of enterprises classified as small businesses.</i> Under the CARES Act, a debtor with aggregate debts up to US\$7,500,000 can qualify as a small business debtor—up from US\$2,725,625. (they are covered by the Small Business Loan Program). The CARES Act adds “payments made under Federal law relating to the national emergency declared by the President under the National Emergencies Act” with respect to coronavirus to the exclusions from the definition of disposable income. This amendment applies to all cases initiated before or after the entry into force of the CARES Act and lasts for one year. The CARES Act also provides that the debtor can modify plan after confirmation if “the debtor is experiencing or has experienced a material financial hardship due, directly or indirectly, to the coronavirus disease.” The CARES Act further provides that the modification can include extending the repayment period for up to seven years after the first payment under the original confirmed plan was due. President signed the CARES Act into law on 27 March 2020.
France	The ordinance No. 2020-341 of March 27, 2020 provides that <i>the insolvency test</i> which would ordinarily be performed for a company as at March 12, 2020 will now be <i>extended for three months after the state of health emergency ends</i> on May 24, 2020 (i.e. until August 24, 2020). <i>Adaptation of the Wage Guarantee Scheme:</i> the debtor may want to request the opening a restructuring procedure (even though not being under an obligation to do so due to the Insolvency Ordinance), in order to benefit from the wage guarantee scheme of the Association for the Management of Employee Claims. <i>Extension of the Duration of Procedures and Deadlines:</i> e.g. conciliation period extended by the duration of the emergency period. Ordinance (ordonnance) No. 2020-341 of March 27, 2020 ‘Adapting the Rules relating to Difficulties of Companies and Farms in the Health Emergency’ (the ‘Insolvency Ordinance’) entered into force on 29 March 2020.
Germany	<i>Temporarily suspension</i> (until 30 September 2020 with the option to extend until 31 March 2021) <i>directors' duties to file for insolvency</i> without undue delay and at the latest within three weeks (21 days) after becoming illiquid or over-indebted. For the suspension to apply, it must be proved that the company's insolvency is caused by the coronavirus pandemic and that the company has requested state aid or is engaged in serious financing or restructuring negotiations with reasonable prospects of restructuring. The COVID-19 Insolvency Suspension Act (COVInsAG) was published on 27 March in the Federal Gazette and has retrospective force from 1 March 2020 onwards.

Countries	Changes in the bankruptcy law
Italy	<p><i>Hearings and procedural terms suspended:</i> between March 9 and May 11, 2020. Such suspension has an impact also on terms concerning pending insolvency proceedings, Insolvency Practitioners' reports' filing and the fulfilment of their duties.</p> <p><i>The recapitalize-or-liquidate rule suspended:</i> for companies with a deficit calculated at accounting values has been suspended by the said Decree No. 23 until December 31, 2020. Therefore, in case of a deficit exceeding the amount of its share capital, directors' duty to liquidate a company is suspended.</p> <p><i>New insolvency laws postponed:</i> from August 15, 2019 to September 1, 2021 the entering into force of the new Code of enterprises' crisis and insolvency (approved with Legislative Decree No. 14 of January 12, 2019).</p> <p><i>Preventive Composition and Restructuring Agreements extended:</i> those approved by creditors and ratified by the courts: terms for the fulfilment of the plan expiring between February 23, 2020 and December 31, 2021 have been extended by six months; those approved by creditors but not yet ratified by the courts as on February 23, 2020: the debtor is entitled to apply to the court for obtaining a time-term to file a new plan or proposal for an agreement to creditors, or the extension of the term of fulfilment of the already approved plan.</p> <p><i>Bankruptcy and extraordinary administration suspended:</i> all petitions for bankruptcy (or Administrative Winding-Up (Liquidazione Coatta Amministrativa) or Extraordinary Administration (Amministrazione Straordinaria) filed between March 9 and June 30, 2020 – either filed by creditors or by the debtor itself - shall be declared inadmissible.</p> <p><i>Tax claims suspended:</i> recovery, precautionary and enforcement of tax claims are suspended until May 31, 2020.</p> <p><i>Bank and other loans: e.g. overdraft facilities cannot be revoked before September 30, 2020.</i> Mortgages and loans with contractual maturity before September 30, 2020 shall be extended, together with the respective ancillary elements (such as collateral) and without any formalities, until September 30, 2020.</p> <p>Law Decree 17th March 2020 No. 18 converted into law from 24 April 2020; No. 27 and Law Decree 8th April 2020 No. 23 will be converted into law 60 days from its publication on 8 April 2020.</p>
Spain	<p><i>Change directors' deadline to file for insolvency.</i> Spain has relaxed its strict deadline which previously required directors to file for insolvency within two months of the company becoming insolvent.</p> <p><i>Stay in procedural timings:</i> if parties need a homologation court ruling to cram down dissenting lenders, they can still file the writ with the competent court, but note that it will not be resolved until the stay in procedural timings has been lifted. General stay: The measures around COVID-19 include a general stay on the time frames of court proceedings, including in this case insolvency proceedings.</p> <p>During the one year period since the State of Alarm started: borrowers who had previously reached a refinancing agreement may launch a new refinancing process, borrowers with a CVA reached within an insolvency may renegotiate the CVA, upon the borrower becoming aware of a breach to an existing CVA, it will not be required to file for liquidation within the insolvency, provided that it submits a CVA amendment proposal and in any insolvencies declared within this period, any auction of assets (aside from the process in the liquidation plan if any) must be made out of court. Further, in any insolvencies declared within two years after the State of Alarm started, any funding provided by specially connected persons to the borrower (or resulting from payments made by those specially connected persons to third parties on behalf of the borrower) and rather be treated as an ordinary claim.</p> <p>Now in force up to 31 December 2020.</p>
Argentina	<p><i>Relaxation of various deadlines:</i> the court resolution that decrees the opening of the re-organization proceeding must set various procedural dates until (or on) which certain relevant legal acts in the insolvency proceeding must take place, such as the date by which creditors must present their claims for verification of credits, the opportunity for the presentation of the individual and general report, and the expiration of the exclusivity period. The determination of the bankruptcy schedule means, in practice, adapting to each specific case the deadlines generically determined in the LCQ. Pursuant to Article 14 of the Argentine Bankruptcy Law number 24522 as amended ('LCQ').</p>

Countries	Changes in the bankruptcy law
<p>India</p>	<p><i>Higher threshold to initiate formal insolvency:</i> The Ministry of Corporate Affairs, Government of India, increased the threshold for the determination of default in insolvency matters from INR One Lakh (100 Thousand) to INR One Crore (10 Million) through the amendment of section 4 of the Code (Notification dated 24 March 2020). <i>Special insolvency resolution framework for MSMEs:</i> The Government has decided to notify a special insolvency resolution framework for the MSMEs. This will be in addition to the earlier announced measures regarding the increase in the threshold for the determination of 'default' under the Code. The measures would contribute to ensuring the continuity of business operations and ensure liquidity. <i>Exclusion of period of lockdown from timelines.</i> In effect, amendments have been under taken in the IBBI (Insolvency Resolution Process for Corporate Persons) Regulations 2016 and the IBBI (Liquidation Process) Regulations 2016.</p>
<p>Singapore</p>	<p><i>Raising the threshold for bankruptcy and insolvency.</i> The monetary threshold for insolvency for companies and partnerships will be raised from SGD 10,000 to SGD 100,000, a ten-fold jump. <i>Extending the response period to demands:</i> the period for a debtor to respond to a creditor's statutory demand will be extended to three weeks (in the case of businesses). Additional provisions suspend certain enforcement actions against non-performing parties and provides a temporary defense to directors against insolvent trading. <i>Prohibition from initiating the following legal actions against a non-performing party:</i> (1) filing court and insolvency proceedings, including, among others, those for schemes of arrangement, judicial management and winding-up (2) enforcing security over immovable property as well as movable property used for the purposes of business or trade (3) calling on a performance bond given under a construction contract, and (4) terminating the leases of non-residential premises. The validity period of these measures is 6 months and can be extended for up to 1 year.¹ Certificate of Urgency the coronavirus (COVID-19) (Temporary Measures) Bill (Bill) On 7 April 2020.</p>
<p>China</p>	<p><i>Court-supervised negotiation between the debtor and those creditors before the opening of bankruptcy proceeding:</i> If the debtor is not eligible to meet its obligation to pay the debt due because of the negative influence of coronavirus (COVID-19) or the epidemic prevention and control measures, although creditors may apply to open bankruptcy proceedings, the court shall direct negotiation between the debtor and those creditors aiming to achieve new agreement such as payment by instalment, extension of the debt performance period, change of contract price, etc. <i>Distinguishing real causes of insolvency when examining bankruptcy criteria:</i> When checking the bankruptcy criteria after the submission of a bankruptcy application, and before formally ordering the opening of bankruptcy proceedings, the court is obliged to find the real reason which caused the debtor's financial trouble. If the debtor was insolvent only because of the epidemic situation or the epidemic prevention and control measures, and was in a healthy financial state before the outbreak of coronavirus (COVID-19), the court shall do its best to prevent the debtor from entering into bankruptcy proceedings. <i>Further promoting the link between execution and bankruptcy proceedings:</i> During the execution procedure, if the court finds that the debtor meets the bankruptcy criteria due to the spreading of the epidemic but has potential rescue value, the court shall ask the creditors to open bankruptcy proceedings, according to the "Converting from Execution to Bankruptcy" policy. <i>Extending the reorganization period from maximum of 9 months by another 6 months:</i> Due to the negative impact of the epidemic prevention and control measures, if the eligible body such as the DIP or the administrator according to EBL 2006 could not submit the draft re-organization plan on time within the maximum nine months' time-frame (six months plus three months extending) according to EBL 2006, Art 79, the court could permit extension by another maximum six months based on the application of debtor in DIP or the administrator, by considering the actual impact of the epidemic situation or epidemic prevention and control measures on the reorganization procedure.</p>

1 Coronavirus (COVID-19) Singapore insolvency reforms COVID-19 (Temporary Measures) Bill. URL: <https://www.insol-europe.org/technical-content/covid19national-reports>. 14.04. 2020

Countries	Changes in the bankruptcy law
Sweden	<p><i>Some government subsidies are available;</i> financial distress is a prerequisite for various types of subsidies, however companies that are the subject of insolvency proceedings or otherwise insolvent are excluded from several types of subsidies aimed at alleviating the economic impact of coronavirus, including the new rules regarding short-time working allowance and rent-discount subsidies.</p> <p><i>Tax deferral:</i> The Swedish parliament has (as a reaction to the ongoing pandemic) introduced legislation that allows the Swedish Tax Agency to grant deferral of payment of taxes that fall due between January and September 2020, for example, value added tax. A deferral period may be granted for a maximum of one year. The directors and shareholders of companies which have been granted a deferment will not be personally liable to pay the companies' tax debts, so far as the taxes that are the subject of a deferment decision are paid before the deferment period ends or measures have been taken to settle the company's debts at the latest of the new due date, after the deferment period.</p>
Australia	<p>Australia's Federal Government has ordered <i>a relaxation of insolvent trading laws</i> for six months. During this time, directors will be relieved from their duty to prevent a company from trading while insolvent with respect to debts incurred in the ordinary course of carrying on its business. This relief only relates to debts incurred in the ordinary course of business and not where dishonesty and fraud are involved.</p> <p><i>Temporary Increase In Thresholds and Time to Comply:</i> Statutory demand threshold is increasing from \$2,000 to \$20,000. The time period within which to comply is going from 21 days to six months. Threshold amount for a Bankruptcy Notice to be issued is also increasing, this time from the current amount of \$5,000 to \$20,000. The government is also increasing the time within which to comply with a Bankruptcy Notice from the existing 21 days to six months. Also, where a debtor declares an intention to present a debtors' petition, the moratorium is extended from 21 days to six months.</p> <p><i>ATO Enforcement May Be Suspended:</i> Businesses may also seek tailored reductions in, or deferrals of, payments owing to the Australian Tax office (ATO).</p> <p><i>Power To The Treasurer Under The Corporations Act:</i> The Treasurer is being given temporary instrument power in the Corporations Act 2001 <i>to amend provisions of it to provide relief or modify obligations</i> to enable a company to comply with requirements during this time. This power will apply for six months and any instrument made by the Treasurer will apply for six months from the date it is made.</p> <p><i>New virtual meeting and electronic signing provisions:</i> The Corporations Act 2001 (Act), the Corporations Regulations 2001 (Regulations) and the Insolvency Practice Rules (IPR) are modified to allow virtual meetings (such as meetings of shareholders, creditors and those relating to managed investment schemes) and electronic execution of documents by a company for the purpose of s 127 of the Act and 'split executions' where more than one officer is signing for six months from 6 May 2020.</p>
Japan¹	<p>As of 16 April, the number of listed companies that had disclosed the impact of COVID-19-related events on their performance stood at 1,389, or 36.7% of all listed companies, and the downward revisions to these companies' performance totaled \$1,801.3bn in sales and \$1,048.2bn in final profit.</p> <p>In view of the approaching deadline for many listed companies to announce their financial results for the financial year ending March 2020, the Tokyo Stock Exchange expressed the view that risk information should be proactively disclosed, that financial results may be disclosed once finalized, and that 'delay' in meeting the disclosure deadline only need to be disclosed if the delay is significant. Further, companies may state their earnings forecasts as 'unfixed', and provide updates appropriately once finalized. In addition, the Finance Services Agency, Japan's financial regulator, has indicated that the deadline for the disclosure of securities reports on companies' financial results ending March will be extended to the end of September this year, approximately 3 months later than usual, even if no application is made for the extension.</p>

¹ Henceforward: Coronavirus (COVID-19) – Tweaks to ground operations for bankruptcy proceedings in Japan in light of COVID-19 24/04/2020. URL: <https://www.insol-europe.org/technical-content/covid19national-reports>

Countries	Changes in the bankruptcy law
Japan	<p>As of April 17, 2020, the number of companies that had become insolvent as a result of COVID-19-related events stood at 66 nationwide (41 were bankrupt and 25 in the process of preparing for bankruptcy), most of which are in the manufacturing, personal consumption-related retail and service industries. In March alone, there were 740 bankruptcies, an increase of approximately 11.7% compared to the same month a year ago. Total debt was \$105.49bn in March, up approximately 9.0% year-on-year. In view of these circumstances, notwithstanding no change in the law, the Tokyo District Court has decided to postpone all bankruptcy creditors' meetings that have been scheduled between April 8, 2020 and May 8, 2020 until a date 12 weeks later.</p> <p>In addition, in civil rehabilitation proceedings, rehabilitation debtors and their lawyers, and supervisors are not required to appear at creditors' meetings. Although the court has scaled back its operations, it continues to respond to filings of new petitions, and hold meetings and consultations that are urgent.</p> <p>Regarding out-of-court workouts, the Japanese Association of Turnaround Professionals is accepting general inquiries in relation to a scheme called "Turnaround ADR" by e-mail, and continues to handle applications for advance consultation by phone, email, and even face-to-face.</p> <p>The government has also prepared the following financial support measures for not only small and medium-sized enterprises (SMEs) but also large businesses—<i>safety-net loans and special guarantee schemes for SMEs, public grants for employment, and protection of borrowers who are unable to pay rent</i>. However, with the expansion of the Declaration of Emergency on 16 April, it is expected that companies' business performance will deteriorate more sharply due to closures and reduced operating hours.</p> <p>«Declaration of Emergency for Covid-19» (the Declaration of Emergency) on 16 April 2020.</p>

6.3. Platform companies: features of the business model and corporate governance¹

Digitalization of corporate activities in Russia and the world was of great importance, and until 2020 companies seeking to be competitive in hypercompetitive markets with rapidly changing customer needs, where possible, transferred their business to digital format in different volumes and speed. The rapid transmission of COVID-19 in 2020 gave an additional impetus to digitalize the economy in the wake of the forced social distancing and isolation. Technology companies and other companies that have been able to move their businesses online have stayed afloat, though often not without significant losses. Platform companies, thanks to their inherent speed and flexibility, have come to terms more easily than traditional corporations with the conditions of the pandemic. For example, Sber and Yandex, taking advantage of the current situation, expanded their digital ecosystems, but suffered some profit losses. Wildberries and Mail.ru on the contrary have significantly increased their incomes during the crisis. This viability of the platform business in extreme conditions makes it relevant to consider this mod in more detail.

6.3.1. Digital economy. Platforms as a manifestation of digitalization in the activities of companies

The concept of the digital economy, based on the transition of a human being in his economic activity to the processing of electronic bits (digital interaction), was defined at the end of the XX century. Its advantages are based on the

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virtuality of economic relations, reduced demand for raw materials and transport infrastructure, rapid global movements, etc.¹ It is believed that the transition to the digital economy will result from the forthcoming fourth industrial revolution, or “Industry 4.0”.²

The third industrial revolution of the mid-60s of the XX century is characterized by the emergence of semiconductors, personal computers, and the Internet. Along with it, the centralized and hierarchical business models inherent in the first and second industrial revolutions must be replaced by horizontal interaction. The fourth revolution will go further. It is distinguished by the global reach of the mobile Internet, the robotization of industry and the service sector (including artificial intelligence and the Internet of Things), the interpenetration of technologies in the physical, biological, and digital spheres. The proliferation of information technology should lead to the organization of a new society with complex network structures.³

In accordance with the official definition adopted in Russia, the digital economy is an economic activity where data in digital form is the key factor of production.⁴ It is also defined as an economy where economic activity is carried out using electronic or digital technologies, with an emphasis on goods, services and services implemented through e-business, e-commerce,⁵ as an economy multiplied by new technological capabilities, primarily the capability to collect, store and transmit huge data array.⁶

Experts note that today the post-industrial economy is arduously changing and is divided into the exponential economy of the physical world and the digital economy of the virtual world (hybrid reality). One of the reasons for this phenomenon is the issue of shortage of material resources amidst the continuous growth of the population, which can be resolved by shifting part of consumption to the “digit”. In the digital economy, there are processes of dematerialization of things, democratization and demonetization of products. Speed and flexibility

1 *Negroponce N.* Being Digital. New York: Alfred A. Knopf. 1995. 243 p.

2 See: *Apevalova E., Polezhaeva N., Radygin A.* The standards and practices of corporate governance: relevant current trends // Russian Economy in 2019. Trends and Outlooks. (Issue 41) / [V. Mau et al.; Scientific editing by: Doctor of Economic Sciences, Kudrin A.L., Doctor of Economic Sciences, Radygin A.D., and Doctor of Economic Sciences, Sinelnikov-Murylev S.G.]. Moscow. Gaidar Institute. 2020. pp. 486–496.

3 *Vaipan V.* Legal regulation of the digital economy: history, theory, practice // Legal regulation of economic relations in present-day conditions of the digital economy development: monograph / Edited by: Belitskoi A.V., Belykh V.S., Beliaeva O.F., Egorova M.A. et.al. Publishing editor Vaipan V.A. Moscow. Yustitsform, 2019. 376 p.; Molotnikov A.E. Fourth industrial revolution and modern understanding of the corporate form of doing business // Business law. 2017. No. 2, pp. 3–16.

4 Resolution of RF Government of July 28, 2017 No. 1632-r “On Approval of Program ‘Digital Economy of the Russian Federation’” // SZ RF, August 7, 2017. No. 32 Art. 5138 (it is no longer valid owing to succession of the new national program of the same name – Resolution of RF Government of February 12, 2019 No. 195-r // SZ RF, February 25, 2019, No. 8, Art. 803). Datasheet of the National Program “Digital Economy of the Russian Federation. URL: https://digital.gov.ru/uploaded/files/natsionalnaya-programma-tsifrovaya-ekonomika-rossijskoj-federatsii_NcN2nOO.pdf

5 *Vaipan V.* Fundamentals of legal regulation of the digital economy // Law and Economy. 2017. No. 11, pp. 5–18.

6 *Aliev V.* Political and legal aspects of transition to the digital economy in Russia // Rossiiskiy sledovatel. 2018. No. 9, pp. 48–52.

are becoming key in the digital world. As a result, large companies with a rigid corporate vertical and an authoritarian centralized decision-making center do not keep up with changes.¹

Already today, digitalization is penetrating the activities of corporations. The proliferation of platform companies is a manifestation of this process. The platform economy is characterized by a significant “reforming force that can reshape the landscape of modern market relations, change traditional and form completely new markets, industries and innovative business models, change the perception of methods and instruments for managing organizations, competitive relations, creating and distributing innovations, as well as influence certain aspects of economic and social life of a person, his freedom and independence.”²

6.3.2. Platform companies and traditional corporations

Originally, corporations were organized as closed centralized hierarchical structures characterized by (1) a highly centralized source of power, (2) a clear boundary between the corporation and the outside world; (3) a strong and formal hierarchy with functionally differentiated roles; (4) standardized operating systems and procedures dictated by centralized authority. Such a highly bureaucratic model makes sense when the company’s main goal is to minimize transaction costs and information asymmetry and to provide static products or services on a stable national market.³

However, today, working in hyper-competitive global markets against the backdrop of digital change (i.e., exponential technological growth and rapidly changing consumer needs) requires constant development, which is mainly due to innovations in products and services, technologies, and more recently, thanks to innovations based on digital platforms.

In legislation and science, there is no single concept of a platform. For example, platforms are defined as “integrated assets that allow a company to extract additional value through various effects.”⁴ A number of authors understand digital platforms in a broad sense as “hybrid structures (organizations, systems, technologies) focused on creating value by providing and facilitating direct interaction and exchange between two or more groups of external users within a single digital ecosystem⁵ of algorithm-driven relationships”.⁶ The platform is also considered as “a business based on the implementation of value-creating

1 *Ferents V. Minin A.* (“Deloitte”): Key in digital – speed and flexibility [Interview with A. Minin] // *Bankovskoe obozrenie*. 2019. No. 4, pp. 42–45.

2 *Osipov Yu., Yudina T., Geliskhanova I.* Digital platform as an institution of technological breakthrough // *Economic strategies*. 2018. No. 5 (155), pp. 22–29.

3 Here and hereinafter: *Fenwick M., McCahery J., Vermeulen E.P.M.* The End of ‘Corporate’ Governance: Hello ‘Platform’ Governance (August 16, 2018). Lex Research Topics in Corporate Law & Economics Working Paper No. 2018-5; European Corporate Governance Institute (ECGI) – Law Working Paper No. 430/2018. URL: <https://ssrn.com/abstract=3232663>

4 *Markova V.* Platform business models / *Voprosy Ekonomiki*. 2018. No. 10, pp. 127–135.

5 By analogy with a natural ecosystem, which is a functional unity of living organisms and their habitat, an economic ecosystem brings together the platform and its participants, as well as the resources they invest.

6 *Osipov Yu., Yudina T., Geliskhanov I.* Digital platform as an institution of technological breakthrough // *Economic strategies*. 2018. No. 5 (155), pp. 22–29.

interactions between external producers and consumers”¹. The first economic ecosystem is sometimes called the telephone network, which appeared in the XIX century on the platform of an analog communicator of telephone channels, to which the telephone network was locked.

Compared to traditional platform companies, they are more competitive, grow fast, and spread across a variety of markets. These new economic entities develop original business development strategies, new sources of competitive advantages and added value, ensure the transition from value chains to partner networks, and create an environment for the joint evolution of companies and markets. Eight out of ten companies in the top ten by market capitalization in the world have a platform at their core (*Table 8*).

Table 8

Top 10 companies by market capitalization in the world as of July 2020

No	Company	Platform	Country	Sector	Market capitalization (USD bn)
1	Saudi Arabian Oil	×	Saudi Arabia	Oil and gas	1741
2	Apple	✓	USA	Technologies	1568
3	Microsoft	✓	USA	Technologies	1505
4	Amazon	✓	USA	Consumer services	1337
5	Alphabet	✓	USA	Technologies	953
6	Facebook	✓	USA	Technologies	629
7	Tencent	✓	China	Technologies	599
8	Alibaba	✓	China	Consumer services	577
9	Berkshire Hathaway	×	USA	Finance	430
10	Visa Inc-Class A	✓	USA	Finance	372

Source: PwC. Global Top 100 companies by market capitalisation (July 2020). P. 11. URL: <https://www.pwc.com/gx/en/audit-services/publications/assets/global-top-100-companies-june-2020-update.pdf>.

A traditional company creates value for the consumer in a linear (conveyor) way (value chain). Simplified, it looks like this. Suppliers provide the producer with raw materials that undergo some processing on the part of the manufacturer and turn into a product (service) purchased by the consumer. The finished product has a higher value than the raw material. The manufacturer aims to reduce the price of raw materials and processing and increase the value of the finished product.²

Unlike a traditional corporation, a platform company does not create tangible goods and creates almost no value. Its “products” can be called:

- a platform that has little value in itself;
- the policy of the company (i.e., the platform owner) to establish rules for the interaction of other platform participants (suppliers, developers,

1 Novozhilov K., Golubev D., Entin N. The phenomenon of digital platforms and analysis of the architecture of digital platforms // Colloquium-journal. 2019. № 15 (39).

2 See here and hereinafter: Konopatov S.N., Salienco N.V. Platform-based business model analysis // Scientific journal NRU ITMO. Series Economy and ecological management. 2018. No. 1, pp. 21–32.

partners, and consumers) and the use of its resources (applications, information, products, etc.).

The platform and policy do not require the provision of raw materials for conversion into their products, and are not purchased by the consumer. Thus, the main assets of a platform company are the platform participants and the external resources they invest. Unlike a traditional platform company, it does not own these assets, but only coordinates them through its policies.

The value of the platform for participants is determined by its size. Platforms with a large number of participants attract new participants, becoming even larger and, consequently, more valuable, and thereby attracting even more new participants. Continuous improvements to the platform from vendors and developers increase the value of the platform by attracting new consumers. The growth in the number of consumers, in turn, attracts new suppliers and developers (network effect). Due to this, the growth of the platform business does not require significant material costs, in contrast to the growth of the linear business.

The superiority of external resources over internal ones is well demonstrated by the example of Nokia and Waze. In 2007, Nokia acquired Navteq, the company that owns the world's largest network of traffic sensors, for \$8.1 bn, which was supposed to give the company a dominant position in the market of digital maps, mobile and online traffic information. Created at the same time, Waze did not invest in a system of traffic sensors, but used the capabilities of smartphones with GPS sensors, collecting information about the location of their users and, consequently, about road traffic. After 4 years, the number of Waze sources (participants) exceeded the number of Navteq road sensors by 10-fold. At the same time, adding a new source for Waze cost almost nothing, while updating the Navteq system cost a lot of money.

In 2013, Waze, with about 50 million sources (participants), was acquired by Google for \$1.1 bn, with almost no infrastructure or a large staff.

Thus, Waze's platform approach proved to be much more effective than Nokia's traditional business model, which is slow and based on the ownership of costly tangible assets.

Platform companies Uber, Airbnb, Alibaba, not owning a single tangible asset, whether it is a taxi, housing or goods, force out traditional companies (car-hailing service, hotels, and supermarkets) from their respective markets.

It should be noted that with the development of the Internet of things, various things – from machine tools to refrigerators - become new components of the platform ecosystem in addition to the platform, its participants and the resources they invest. Combining information and things together with a network effect provides a platform business with rapid growth, which is not available with the traditional linear way of organizing business.

So, platform companies organize their internal activities in a flatter and more inclusive way, increasing opportunities for continuous innovation. We can say that it is the role of an algorithm-driven intermediary that provides and facilitates direct interaction and exchange using tools for accumulating and processing big data, complex algorithms for selecting combinations of subjects, accurate

pricing, etc., together with an organization aimed at innovation, that distinguishes platform companies from traditional ones.

Platforms use network technologies to mediate economic exchange, transfer information, or bring people together. By facilitating the interaction between creators and recipients of value, platform companies make a profit.

In addition to using new technologies for transactional mediation, information exchange, or to bring people together, it is also common for platform companies to organize their internal activities to facilitate multi-stakeholder collaboration to ensure continuous innovation in the platform's functions and related products and services (interactive annual reports; the ability for employees to participate in projects that are personally significant for them, not just for the company, etc.). Stakeholders include managers, employees, investors, consumers, developers, content creators, and other companies, etc. This is how platform companies differ from the centralized hierarchical and closed structure of a traditional company.

The platform company uses the input of stakeholders and feedback to improve the experience and interaction of participants with the platform. Platform companies undermine and decentralize existing business models by removing traditional intermediaries. These companies facilitate more direct, peer-to-peer transactions.

The development of the platforms coincided with a significant reduction in information costs, which transforms the traditional balance between the advantages of the internal (company's market) and external markets. In this sense, information technology contributes to the blurring of the line between the company and the market.

In the best and most successful companies, management is no longer about hierarchy, control, or a clear boundary between the company and the world. Instead, the focus is on creating a flat, open, and inclusive organizational environment that harnesses the talents of all stakeholders in that company's network. Thus, the platforms are built on the idea of ensuring continuous innovation through an open and inclusive collaborative process. The innovation-driven organization of platforms separates them from the well-defined, fixed hierarchies, static roles, and authorized procedures of traditional companies.

Thus, the platforms are an adaptation to the realities of rapidly developing technologies and hyper-competitive global markets.

6.3.3. Benefits of the platform participants.

A platform company creates a value proposition not only for consumers, but also for other participants – suppliers and developers. The benefits to suppliers, developers, and consumers are clear. The first two groups get access to a large market with all its users. In addition, the developer can create their own platform based on their application, making the ecosystem multi-layered. For example, the Instagram app, originally developed on the IOS software platform, is itself a social platform. In turn, the consumer saves effort and time by performing many functions on a single platform (for example, the Sber digital ecosystem combines banking and manifold non-banking elements).

A platform company does not sell products and services, but offers a certain technology that allows you to create value for all participants of the platform. Therefore, an important issue is monetization – extracting part of the additional value created by the platform by the platform owner - without destroying the network effect of the platform. Today, there are several main ways of monetization in the form of payment:

- access to the platform and the data generated by it, subscriptions (Netflix, partly YouTube);
- комиссии (Delivery Club, Yandex.Taxi);
- advertising space (VKontakte, Google, Alibaba);
- transactions (Visa);
- applications programming interface (eBay);
- franchising (BlaBlaCar);
- different ways.

6.3.4. Platform types

The platform business is primarily associated with technology companies that manage:

- social platform (VKontakte, Odnoklassniki, Facebook, Instagram);
- platform for exchange (services platform) (Avito, Amazon, Airbnb, Uber);
- information platform (content platform) (RuTube, YouTube, Medium, Netflix);
- software platform (Apple iOS, Google Android);
- blockchain platform (smart-contract platform) (Ethereum, EOS).

However, the platform business model is also used, for example, by companies engaged in retail sales. Platforms have also begun to penetrate the financial services industry.

According to the number of groups of platform participants, one can distinguish:¹

- Two-sided integrated platforms (or transaction platforms);
- Multi-stakeholder platforms (or innovation platforms).

Two-sided integrated platforms (transaction platforms) (Yandex.Taxi, Avito, Aviasales, Airbnb) combine 3 groups of participants, matching supply and demand in a particular market:

- platform owner (attracts, brings together and encourages users of the platform);
- suppliers of goods and services;
- consumers.

Such platforms offer innovative solutions to some issues: they facilitate access for consumers (educational platforms *Степик Смотри.Учись*, etc.), get rid of unnecessary intermediaries (Yandex.Taxi, online stores *Wildberries*, *Ozon*, etc.), and help in finding tickets, accommodation, etc. (*Skyscanner*, *Tutu*, *Booking*, *Ticketland*, and many other).

1 See hereinafter: *Markova V. Platform business models // Voprosy Ekonomiki. 2018. No. 10, pp. 127–135.*

The popularity of the integrated platform depends on the number of its users, since its main result is the network effect enhanced by digital technologies. The development of digital technologies contributes to the emergence of more complex integrated platforms.

Fundamentally, integrated platform itself is an intermediary, since it only brings together suppliers through a centralized closed platform and resells their goods and services using available technical means (smartphones, GPS systems, and complex payment systems). In this regard, it is interesting to suggest the rejection of this type of platform with the development of blockchain technology, which will allow suppliers to directly interact with consumers.¹

Multi-stakeholder platforms (innovation platforms) (Yandex, Telegram, iPhone, payment systems) thrive on mass cooperation, organized on the principles of openness, information exchange, and global activities.

Multi-stakeholder platform brings together at least four groups of participants:

- platform owner;
- independent developers;
- partners in sales, promotion, and service delivery (suppliers, sellers, consultants, etc.);
- consumers.

Independent developers create additional products and services, contributing to the development of the platform and the formation of an ecosystem based on it.

In addition to the network effect, the assets of independent developers (knowledge, resources, time) intended to create additional value, which allows us to talk about the economy of participation or shared consumption (sharing), as well as joint innovations produced by the platform big data, new partnership and competition mechanisms aimed at the development of the platform, are important sources of the development of multi-stakeholder platforms.

Accordingly, the considered type of platform forms an economic ecosystem is a new business model that brings together participants and resources to create and distribute value to consumers.

They also sometimes separate a *“digital twin” platform - a complex product or project* (Boeing, BMW), which is a digital workspace in the production sphere. This network structure replaces the traditional model of manufacturing outsourcing within the supply chain.

The platform brings together two groups of participants:

- platform owner;
- suppliers as partners and developers.

Today, the development and introduction of new complex physical objects to the market requires working with a wide ecosystem of partners. In this regard, the platform owner focuses more on managing both the distributed partner base and the design and development received from partners and developers. At the same time, the owner relinquishes part of their production competencies.

¹ Tapscott A., Tapscott D. Blockchain technology. Moscow. Eksmo, 2017. p. 42, 43.

For example, the Boeing collaboration platform, which is open to partners, allows them to view and change drawings and models, and check their components for compatibility. Despite the possibility of information leakage, this approach contributes to the development of cooperation and specialization of participants. The platform owner increases the efficacy and flexibility of the business, and its partners by taking over part of the development eventually increase their share of revenue in the final product.

As a result of the gradual opening of access of independent developers to platforms, companies are increasingly moving from internal platforms and integration platforms to multi-stakeholder platforms. For example, Amazon invited independent companies, including competitors, to its trading platform.

It should be noted that depending on unit analysis in addition to the economic platform ecosystem, there are also a business ecosystem focused on the company and its environment, and an innovation ecosystem that is built around a particular innovation or new economic value and a set of supporting actors.¹

Platforms can be open or closed, depending on whether non – platform owners can view and change the platform.

Open platforms include the Boeing collaboration platform, which allows as already mentioned partners of the platform owner and developers to view and change the content of the platform, check for compatibility of components.

One of the most striking examples of an open platform is Android, a mobile operating system owned by Google. In December 2019, Android's share of the mobile operating systems' market totaled 74.13%.²

Android allows any independent developer not only to provide their application to 2 billion users of this operating system through the online store Google Play, but also to work on the platform itself, i.e. the first and main set of programs, to improve it. The owner reviews the proposed changes, implements them if they are relevant, and sends updates to the platform users. With this approach, the potential of the entire outside world is open to Android.

Unlike Android, Apple's iOS mobile operating system is a closed platform. In order for an independent developer's product (app) to gain access to the iOS market (the online App Store), it must meet the strict requirements set by the platform owner. Developers cannot make changes to the platform itself. Also, unlike Android, iOS is sold only together with Apple products (iPhone, iPad, Apple TV, etc.).

Nevertheless, iOS is quite popular, occupying the 2nd place in the mobile operating system market after Android with a share of 24.79% (in December 2019). Apple's iPhone smartphones, thanks to the built-in iOS software platform, which brings together independent developers and consumers through the App Store, have seriously challenged manufacturers such as LG, Motorola, Nokia, Samsung, and Sony Ericsson.

1 См.: Jacobides M., Cennamo C., Gawer A. Towards a theory of ecosystems (March 2018). Strategic Management Journal, Vol. 39: 2255–2276, 2018. URL: <https://ssrn.com/abstract=3218233>

2 Statista. Mobile operating systems' market share worldwide from January 2012 to December 2019 (9.05.2020). URL: <https://www.statista.com/statistics/272698/global-market-share-held-by-mobile-operating-systems-since-2009/>

An example of a partially closed platform is Microsoft's Windows computer operating system. Independent developers are free to develop applications, but cannot make changes to the platform itself. Due to limited access, the content of the platform is not developing fast enough. However, the huge market share of computer operating systems represents an almost insurmountable barrier to entry into the market of other systems, even if they are of higher quality, but do not have a comparable number of users. In 2016, Microsoft has returned to the mobile operating system market with Windows-10. It seems that, for example, Android, which already has a sufficient number of participants, could compete with Windows in the market of computer operating systems.

Table 9

Distinctive features of the three types of platforms

	Platforms		
	Integration platform	Multi-stakeholder platform	Digital twin platform of complex product or project
Aim	Facilitating the interaction of participants in a particular market	Ecosystem development	Development and production of a complex product or project
Position on the market	Intermediary	Platform ecosystem	Value creation network
Participants	<ul style="list-style-type: none"> – Platform owner; – Suppliers of goods and services; – Consumers 	<ul style="list-style-type: none"> – Platform owner; – Independent developers; – Distribution, promotion and services provision partners; – Consumers 	<ul style="list-style-type: none"> – Platform owner; – Suppliers as partners and developers
Owner's role	<ul style="list-style-type: none"> – Data collection; – Organization of participants interaction 	<ul style="list-style-type: none"> – Determining the architecture and the degree of openness of the platform; – Management and development of the platform; – Organization of participants interaction 	<ul style="list-style-type: none"> – Coordination; – Design and development management
Degree of openness for partners	Closed	Different degree of openness	Open
Examples	Яндекс.Такси, Avito, Aviasales, Airbnb	Яндекс, Telegram, iPhone, payment systems	Boeing, BMW

Source: Markova V. Platform business models / Voprosy Ekonomiki. 2018. No. 10, pp. 127–135.

Platforms differ in ownership and management models, which also reflect the degree of openness of the platform-from the most closed to the most open model.¹

- proprietary platform model (Mac, iOS, Monster.com) – owned by *one* company, managed by *one* company;

¹ *Yablonsky S. Multi-stakeholder platforms and markets: main approaches, concepts and practice // Russian Journal of management. 2013. No. 4, pp. 57–78.*

- license platform model (Google Android, Microsoft Windows) – owned by *one* company, managed by *several* companies;
- joint platform model (Orbitz.com, CareerBuilder.com) – owned by *several* companies, managed by *one* company;
- sharing platform model (Linux, AOSP) – owned by *several* companies, managed by *several* companies.

6.3.5. Platform companies and traditional corporate governance: the problem of inconsistency

Corporations, as we know them, are characterized by centralized power and a clear hierarchy. The state provides them with an appropriate political and legal environment that helps corporations to operate efficiently. Corporate law and governance were designed to support businesses organized in this way. The problem with centralized organizations, however, is the slow, cumbersome, and expensive decision-making process in a rapidly changing consumer-driven economy.¹

Traditionally, the main goal of corporate governance is to protect the interests of shareholders (investors) - the real, legal, and moral owners of the company. Corporate structures and procedures ensure (a) the descent of authority, responsibility and control from shareholders through the board of directors to management and employees, and (b) the ascent of accountability. Thus, corporate governance is designed for closed, centralized, and hierarchical organizations with well-defined roles, mainly for large corporations. This approach is relevant when large corporations are the main engine of economic growth.²

Shareholder primacy implies that other members of the company act as if they were shareholders, and the company's performance, as measured by the value of the shares, is improved, benefiting all stakeholders, including the public, who receive the goods and services of a successful company.

In practice, the model of shareholder primacy is associated with corporate scandals, and the corporate governance reforms of recent decades are aimed at reducing the risks of these scandals, in other words, at minimizing the risks of improper management behavior (any actions to the detriment of the interests of the shareholders-owners) and at maximizing shareholder value. Having said that, executives, managers and other employees of the company are considered as self-serving, ignoring the negative fallout of their actions for shareholders and

1 Hereinafter: *Apevalova E., Polezhaeva N., Radygin A.* The standards and practices of corporate governance: relevant current trends // Russian Economy in 2019. Trends and Outlooks. (Issue 41) / V. Mau et al.; Scientific editing by: Doctor of Economic Sciences Kudrin A.L., Doctor of Economic Sciences Radygin A.D., Doctor of Economic Sciences Sinelnikov-Murylev S.G. Moscow. Gaidar Institute Publishers. 2020. pp. 486–496.

2 Hereinafter: *Fenwick M., Vermeulen E.* The End of the Corporation (October 20, 2019). Lex Research Topics in Corporate Law & Economics Working Paper no. 2019-7; European Corporate Governance Institute - Law Working Paper No. 482/2019. URL: <https://ssrn.com/abstract=3472601>; *Fenwick M., McCahery J., Vermeulen E.* The End of 'Corporate' Governance: Hello 'Platform' Governance (August 16, 2018). Lex Research Topics in Corporate Law & Economics Working Paper No. 2018-5; European Corporate Governance Institute (ECGI) – Law Working Paper No. 430/2018. URL: <https://ssrn.com/abstract=3232663>

society. Consequently, increasing shareholder control over other members of the company becomes the main objective of the reforms.

A credible corporate governance structure is considered to be based on: (1) an accountable board of directors overseeing governance; (2) a set of internal control and monitoring processes; (3) transparent disclosure of information about the company's financial performance and (4) measures aimed at protecting the interests of minority shareholders. The main result is the shareholder value maximization.

However, shareholder value maximization is not always the best way to ensure a company's success, as this emphasis creates a corporate environment where conservative decision-making, short-term benefits, and formal compliance with the rules are prioritized. Betting on the stock price can lead to a focus on following a business model based on existing and successful products or services, which hinders innovation, identifying strategies that help the company stay relevant in the medium and long run.

Also, the focus on maximizing the value of shareholders can lead to practices that run counter to the interests of employees who work directly with clients, which can be destructive to the corporate culture, since only an interested, engaged employee can attract a client, become the key to innovation and long-term commercial success of the company.

Some measures are being taken to mitigate such unintended effects of traditional corporate governance.

Firstly, national codes of good governance (investment) (steward ship code) are being implemented, aimed at creating more engaged and responsible shareholders. Shareholders, especially institutional investors, should be treated as management companies.

Secondly, initiatives are being taken to encourage companies to adopt a more responsible and sustainable approach to their activities. Most often, we are talking about disclosure and transparency of information. Also, some companies are changing the way they distribute their profits, for example, investing it in environmental research and development.

However, in both cases, more dynamic and innovative company behavior may become their secondary effect, but it is not the main objective, whereas in the digital age, constant innovation is a necessity.

Accordingly, today there is a mismatch between traditional corporate governance that supports centralized hierarchical organizations, and the needs of platform companies, which bring together and promote cooperation between several stakeholders, seeking to increase engagement. It is necessary to reconsider the attitude to corporate governance that traditionally emphasizes shareholder primacy.

New technologies are undermining the "old world". Changing the practice and thinking of modern society, they lead to the emergence of more "flat" decentralized organizations that attract by speed and ease of use.

All the most successful companies of the digital age strive to create an open corporate culture without intermediaries, based on technology, data and

algorithms. A technology-driven business culture helps companies stay relevant in the digital network marketplace, which means developing and redesigning products and services that continuously deliver customer satisfaction. This culture gives companies a competitive advantage in attracting talent, capital, suitable partners, and in maintaining relevance in hyper-competitive global markets. Leading companies understand that it is necessary to introduce new technologies in every aspect of the organization and management of the company.

On August 19, 2019, An Association of Chief Executive Officers of America's Leading Companies, Business Roundtable (BR), stated that "chief executive officers endeavor every day to create value for all our stakeholders, whose long-term interests are inseparable."¹ The focus on all stakeholders is important because it reflects the growing trend that companies are not static hierarchies with a focus on shareholder primacy, but complex, dynamic ecosystems that include diverse, interacting elements in hyper-competitive global markets. Leading companies understand that it is necessary to introduce new technologies in every aspect of the organization and management of the company.

In order to engage with all stakeholders and remain relevant and competitive, companies must keep up with the latest technological innovations and encourage an open and inclusive dialogue with stakeholders. For example, Philips has made its annual report interactive for a wider range of stakeholders, using a variety of strategies and online platforms. Microsoft has appointed a Chief Storyteller to help stakeholders, including the public, better understand the company. Air Asia has appointed an influencer to the board of directors (a person who has an impact on the audience in a particular area) to make the board more receptive to a new generation of stakeholders. Yandex holds a large technology conference "Yet Another Conference" every year, discussing technologies and some aspects of the company's activities (in 2020, due to the pandemic, the film "Yet Another Conversation" was prepared instead of the traditional conference). Companies use social media as a communication tool in the interests of business that somewhat transforms the value of transparency.

Consumers, made more aware by digital technologies, no longer value mass production and expect that data and data analysis will provide them with more sophisticated services that consumer feedback and social media will allow them to express their opinions and learn about the activities of companies. The same can be said about the employee. He doesn't want to be an extra in a corporation anymore. Employees endeavor to increase their potential by doing things that really matter to them, and stay in the ecosystem if it gives them the opportunity to participate in projects that matter to employees because of their work for the system. Digital technologies expand the opportunities of investors (artificial intelligence instruments, blockchain technology, etc.).

However, it should be noted that with the transformation of some technology companies into the largest enterprises in history (the so-called "super-platforms"), they (Amazon, Google, Facebook and a number of others) have become more

¹ Business Roundtable. Our Commitment. URL: <https://opportunity.businessroundtable.org/ourcommitment>

controversial and are now considered as problematic.¹ With the proliferation of platforms, especially globally, their owner companies have come to rely on corporate hierarchical organizational structures. In addition, in order to maintain their growth, many platform companies have become public and at the same time vulnerable to short-term (quarterly) financial pressures. The problem is that such a hierarchical organization can lead to the bureaucratization of the platform, to its closeness and, accordingly, to the problems inherent in traditional corporations.

Consequently, a platform (ecosystem) company should combine the following features:

1. *Leverage the unique capabilities of new digital technologies (software, big data, cloud databases, the Internet, social networks, etc.) to deliver meaningful experiences to end-users.*

The technology-driven platform company's business model is marked by economies of scale and network effects resulting from prioritizing software across all of its operations. This allows you to collect user data on a continuous and systematic basis, improving the productivity and experience of end-users. It follows that in an ecosystem, the end-user is vital. The main strategic goal of a technology platform company is to retain the users needed to generate revenue by providing them with a meaningful experience. To do this, the company's employees must directly contact the end-users, which means moving from mass production to personalization through interaction and interactivity. In the digital age, the combination of user ratings and reviews has become more important than brand loyalty in establishing trust and shaping consumer choice. An additional advantage of this approach is that it reduces the need for traditional advertising and marketing.

New technologies (artificial intelligence, sensors, and blockchain technology) are increasingly facilitating the organization of ecosystems. Platform companies should be constantly on high alert for technological changes.

2. *Adopt a flatter, more flexible and inclusive style of organization, involving collaboration with different partners, built around a network of individual high-performance teams focused on collaborative creativity.*

In the ecosystem, the boundaries between the internal and external aspects of the business are blurred, the traditional separation of the corporation and the market is erased. In a platform company, the boundaries between internal vertical divisions and horizontal levels are blurred – between the production department, marketing department, legal department, between different levels of managers, employees, etc. Within such a company, traditional roles are broken.

With such a flat and flexible organizational structure, it is crucial to maintain a network of individual, highly effective, entrepreneurial teams focused on collaboration and collaborative creativity. Technology-driven innovation is the foundation of this style of organization. A complex innovation system is hard to develop from the top down.

1 Galloway S. *The Four: The Hidden DNA of Amazon, Apple, Facebook & Google* / Random House Large Print, 2017. 448 p.

3. Have a more open and transparent approach to the transfer and management of information.

The best platform companies understand that the transfer of information should not be a one-sided disclosure of information, but also an open dialogue with the involvement of stakeholders. Digital technologies provide new instruments for such a dialogue – social networks, blogs, annual letters, making communication even more personalized, open and effective.

4. Apply a new style of digital leadership focused on creating an environment that promotes creativity.

In a platform company, the role of the board of directors should be more complex. In addition to the classic functions, additional responsibilities should be provided to help create a suitable environment for key figures in the ecosystem to make better strategic decisions. Also, the board of directors should become more experimental, and its members should have more diverse experience related to technology, millennials, influencers, disruptors (disruptive startups), storytellers, etc. Leaders of platform companies must be visionary, enterprising, ready to innovate, and understand the dynamics of the platform.

6.3.6. The place of platform companies in the modern Russian economy

The rapid spread of the COVID-19 virus in 2020 led to extremely negative fallout for a large number of companies and the economy as a whole. Nevertheless, the forced social distancing has become an incentive for even more active development of the Russian digital platform business that has displayed stable growth in the past few years. Platform companies, whose operation is based on new technologies, were able not only to continue to operate in isolation, but also to expand their activities, now meeting the more “digital” needs of consumers and filling in empty niches of traditional companies that could not adapt to the current conditions in time.

Consequently, an obvious trend for Russian companies, especially large ones, in 2020 was the transition to a platform business model and the increased development of existing digital platforms and ecosystems with business diversification.

Against the backdrop of the total volume of the global platform economy and in comparison with such giants as Google or Amazon, the share of Russian platform companies is very small. However, in Russia itself, which is one of the world leaders in Internet access, national digital platforms have become relatively widespread. However, in contrast to the world (*Table 8*), in Russia, the top ten largest companies by capitalization in 2020¹ comprised only one digital ecosystem that one of Sber, which is rated 2nd on the rating list. The remaining places are taken by traditional companies in the fields of oil and gas production, oil refining and metallurgy (Gazprom, Rosneft, LUKOIL, NOVATEK, etc.). The next Yandex ecosystem is in 11th place.

¹ RIA rating (31.01.2020). URL: <https://riarating.ru/infografika/20200131/630152195.html>

In 2020, in the wake of the pandemic, Sberbank accelerated its transformation into a full-fledged technology company, shortening its name to “Sber” and including in its digital ecosystem many new non-bank services in various areas (food, goods, transport, entertainment, health, etc.), each offers several platforms (Scooter, SberMarket, Yudrive, Okko, Sberapteka, etc.). Sber expands its ecosystem through partnerships (for example, with Mail.ru and City Mobile) or by purchasing a competitor’s share (Sberbank acquired 46.5% of Rambler). As a result, the consumer has access to financial and non-financial services through a single mobile application. However, we should not forget about the issues that the bank may have in connection with the assumption of business risks associated with non-banking areas.

Other banks are also aiming to merge with technology companies, but so far they can’t compete with the Sber on the same level. For example, Gazprombank ceased to be a co-owner of Megafon in 2019. Tinkoff Bank made public its refusal to merge with Yandex in 2020.¹

There are *several main aspects that limit the development of the platform business in Russia*, as well as a number of other issues that Russian platform companies face.

Firstly, the issue of legal regulation of the platform companies’ activities. Although platform companies play an important role (in 2018, the revenue of digital platforms exceeded \$17 bn and amounted to around 1% of Russia’s GDP), Russian legislation does not consider them as a separate type of company and, therefore, does not apply special regulations for them. Nevertheless, the business model of these companies and their needs in the field of corporate governance have pronounced features, and therefore the extension of the rules originally developed for a traditional corporation to platform companies may hinder their development. At the same time, regulatory gaps can lead to abuse by the platform companies themselves.

It should be noted that owing to the specifics of its activities (it does not create material goods, does not own assets, etc.), a platform company can choose any country as the place of registration. If Russia wants to have a competitive advantage in attracting new promising companies, it must be proactive in creating a favorable legal environment for the development of platform business. However, stemming from the increasing speed and complexity of technological progress and the length of rule-making procedures, it is difficult for the legislator to calculate in advance possible directions of digitalization with associated risks. He has to constantly catch up with this process, while trying not to interfere excessively until it is more fully understood. It is necessary to find a balance between ensuring the interests of all platform participants and supporting the development of the platform business as one of the key elements of the digital economy of Russia.

¹ Сидоров М. «Сбер» меняет банк на экосистему (25.09.2020). URL: <https://www.vedomosti.ru/finance/articles/2020/09/24/841151-sber-menyaet>; Kozlovsky S., Rynda A., Shamina O. The struggle of ecosystems. How Sber will compete with Yandex and Tinkoff. (24.09.2020). URL: <https://www.bbc.com/russian/features-54270603>

It seems that in the modern world, where speed and flexibility come to the fore, laws alone will not be enough. We need a more flexible approach to the regulation and control of platform business – the principle of “observe or explain”, which is already familiar in Russia under the Corporate Governance Code, or a completely new approach developed specifically for digital companies, based on new technologies, openness and active involvement of stakeholders (co-regulation).

Secondly, the problem of competition with foreign platform companies in the domestic markets and worldwide. For some countries, including a number of countries of the European Union, the dominance of foreign (global) platform companies that absorb and drive national competitors from domestic markets has become a problem.

In Russia, foreign platform companies prevail mainly in the field of mobile applications (for example, WhatsApp messenger has considerably more participants than similar Russian instant text messaging systems, for example Mail.ru Agent) and operating systems for personal computers and lag behind national companies in terms of share and coverage in other markets (their share in the total market volume of digital platforms in Russia is around 30% by revenue). So, the number of participants in VKontakte is twice as large as in Facebook. Yandex partakes a dominant position with the Google web search engine and is constantly expanding its digital ecosystem with other platform services in various areas. In the 4 years preceding the coronavirus crisis, Yandex’s revenue doubled. The company’s revenue for Q3 2020 gained 30% compared to the same period last year and amounted to Rb58.4 bn.¹ Mail.ru also exhibits stable growth in various economic indicators.²

Despite the success of the platform business in the country, there are only a few Russian companies that have achieved the international level. For example, the Equid company that owns a platform for creating online stores for small and medium-sized businesses, has more than 1.5 million users in 175 countries around the world.³

Today, competition with foreign platforms encourages Russian companies to further develop and innovate in order to raise the number of participants and market capitalization growth. Nevertheless, in some important sectors of the economy, platform companies are either not represented at all, or are not developing fast enough. Such a state of affairs without state support can lead to the loss of a national company in the relevant area in case of arrival, where possible, of a foreign platform company.

Thirdly, the limited number of areas where platform companies are developing, and the lack of prominent government support for the growth of the platform business. In Russia, platform companies thrive mainly in the supply of goods and

1 *Batrov T.* Yandex increased revenue in the third quarter by 30% (28.10.2020) // URL: <https://www.forbes.ru/newsroom/tehnologii/412401-yandeks-uvelichil-vyruchku-v-tretem-kvartale-na-30>.

2 *Eferin Ya., Rossotto K., Khokhlov Yu.* Digital platforms in Russia: competition between national and multi-stakeholder platforms promote economic growth and innovations // Information society. 2019, No. 1–2. p. 31, 32.

3 Briefly about Ecwid // URL: <https://www.ecwid.ru/intro>

services.¹ However, in such key areas of the economy as oil and gas production, oil refining and metallurgy, agriculture, construction and public health, the platform business is underdeveloped or almost absent. Some traditional companies are starting to put in place their own platforms to improve their internal operations and consolidated supply chains. For example, Gazprom Neft is developing the EvOil digital platform for continuous production management throughout the entire chain. The proliferation of platform companies in these industries can help accelerate economic growth, expand employment opportunities, and improve the quality of services. For example, in France, there is a network of platform companies in the agricultural industry, operating as virtual trading platforms where retailers, wholesalers, farmers and consumers interact with each other (Agriconomie, WeFarmUp).

Active government policies can promote the development of platform business in these important industries. For example, the emergence of China's leading platform companies has been supported by notable government intervention, including protection from foreign competition. The rise of Chinese platform giant Alibaba has been driven in part by government restrictions on foreign investment in e-commerce, which were lifted more recently. Today, China and the United States account for 90% of the market capitalization value of the world's 70 largest digital technology companies.²

Fourthly, the risks of establishing monopolies posed by large platform companies. Platform companies are able not only to create, but also to destroy, to be both a source of competitive advantages, and to drive out competition, to stifle small and medium-sized enterprises.

The network effect may sooner or later lead to the situation where there will be not enough participants in the initial sphere of operation of the platform company for further business growth, and the company will begin to expand its activities to other sectors of the economy. The expansion will be faster as traditional industries become increasingly digitized. It is easier for a leading platform company with a stable consumer base to seize new markets (for example, non-bank services of Sberbank).

To develop new areas of the market, large platform companies can get possession of existing competitors there. So, Yandex, using its stronger position in the field of web search and e-commerce, teamed up with Uber in the field of car-hailing service. If a competitor refuses to merge, the strategy of a larger company with a larger number of participants may be to duplicate the functions of the competitor, which will lead to a reduction in its users and, consequently, to losses.

1 Web-search (Yandex, Mail.ru), e-commerce (Wildberries, Ozon), financial services (Sber, Banki.ru), entertainment (Kudago, Vashdosug), education (Stepik, Smotri.Uchis), medical services (Docdoc), car-hailing service (Yandex.taxi), etc.

2 *Ivanov A., Shustova I.* Research on digital ecosystems as a fundamental element of the digital economy // *Creative economy*. 2020. Vol. 14. No. 5, pp. 655–670; *Eferin Ya., Rossotto K., Khokhlov Yu.* Digital platforms in Russia: competition between national and foreign multi-stakeholder platforms promote economic growth and innovations // *Information society*. 2019. No. 1–2, pp. 20, 23, 29, 30.

Platform companies resort to other methods on the fringes of the law in order to eliminate competitors. For example, in 2020, Ivi, Avito, CYAN, Profi.url and a number of other companies have filed a complaint with the Federal Antimonopoly Service about the abuse of Yandex's dominant position, accusing it of hiding competitors from its web search results.¹ In 2019, one of the most high-profile scandals was the case of patent raiding – a criminal case on the application of Rambler against the developers of the NGINX web server for copyright infringement.²

Platform companies can extract, monitor, and analyze huge amounts of data, thereby reducing costs, satisfying consumers, and improving products, giving them a competitive advantage over traditional corporations. The ability of the owner of a digital ecosystem to unilaterally control a huge amount of data about its participants can lead to information asymmetry and manipulation. Other participants in the ecosystem do not have this information and are not able to estimate such volumes.³

Platform companies can create some “attachment”. For example, 1C company is a leader in the development of software products for the automation of business processes in companies of all sizes and directions, specifically the system of programs “1C: Enterprise”. Paid software products, although it is possible to rent programs with a monthly subscription fee through cloud storage. The funds invested in the acquisition of the software system, the complexity of setting up basic configurations for the tasks of a particular company, and the lack of compatibility of 1C: Enterprise system with similar software products of competitors force companies to use 1C: Enterprise.

As a reminder that with the proliferation of platforms, their owner companies may begin to rely on corporate hierarchical organizational structures, which can lead to issues inherent in traditional corporations.

Today, the development of the platform business is one of the key components in the making of the Russian digital economy. For the implementation of the national program “Digital Economy of the Russian Federation”, the Government of the Russian Federation has been assigned the task until 2024 to ensure: (1) through the introduction of digital technologies and platform solutions, transformation of priority sectors of the economy and social sphere (health, education, industry, agriculture, construction, energy infrastructure, financial services, etc.); (2) creation of a comprehensive system for financing projects for the development and implementation of digital technologies and platform solutions.⁴ The development of digital platforms and ecosystems within the framework of the digital transformation of economic sectors and cross-industry transformation

1 *Shestoperov D., Lebedeva V.* They will make Yandex responsible for the answers. Online services complained about the search engine // *Kommersant daily*. No. 140 of August 7, 2020 p. 7.

2 Case Rambler against NGINX: criminal risks of digitalization – round table discussion May 16, (15.05.2020) // URL: <https://habr.com/ru/company/analogbytes/blog/502156/>

3 *Ivanov A., Shustova I.* Study of digital ecosystems as a fundamental element of the digital economy // *Creative economy*. 2020. Vol. 14. No. 5, pp. 655–670.

4 Executive Order of the RF President of May 7, 2018 No. 204 “On National Goals and Strategic Objectives of Development of the Russian Federation for a period until 2024” // *RG*, No. 97c, 09.05.2018.

is one of the main directions of the implementation of the Digital Agenda of the Eurasian Economic Union until 2025.¹

Russian platform companies are developing steadily at the country level, but in a limited number of industries. This is partly due to the peculiarities of the economy, including the continued dependence on hydrocarbons and centralized power and property. For traditional areas where digitalization is slower, active government support for platformization is especially important.

The state's policy directions for expanding the platform business can be divided into legal and applied ones.

In the first case, the goal is to create a legal environment that encourages the positive and reduces the negative effects of digital platforms. In general, it is necessary to adjust the legislation, including tax and labor legislation, in order to establish a balance between the interests of all stakeholders, including society and the state. In particular, among other things, it is necessary to develop and implement effective mechanisms for arbitration and dispute resolution, mechanisms for ensuring the security of big data management and transactions.

At the application level, it is necessary to support Russian production in the area of new technologies in every possible way, and to develop the infrastructure of broadband access networks. National transportation and logistics capacities need to be improved in order to significantly increase the use of digital e-commerce platforms and improve the quality of services provided.

* * *

The proliferation of platform companies is directly linked to the digitalization of the economy. In recent years, it is precisely innovations based on digital platforms that increasingly provide companies with the continuous development necessary to maintain competitiveness in hyper-competitive global markets.

Today, traditional corporations continue to prevail, and it is unlikely that this situation will change in the near future. Nevertheless, practice demonstrates that when a platform company appears on the same market as a traditional corporation, the former, as a rule, begins to lead. Therefore, it is important for traditional corporations to master the platform business. At the same time, there is no need to reject traditional forms of production.

Platform companies are not without their drawbacks. The level of trust in the platform giants is being reduced due to the concentration of power, finance and information. However, such companies are rapidly expanding, and obviously their even greater proliferation in the future makes us talk about the need to use new technologies (artificial intelligence, blockchain technology, etc.) to minimize these issues, for a truly more decentralized organization.

The regulatory environment should facilitate the creation and promotion of platforms, establish corporate governance rules that meet the specific needs of

1 UEC. The Digital Agenda of the EAEU 2025: prospects and recommendations // URL: http://www.eurasiancommission.org/ru/act/dmi/Pages/digital_agenda.aspx

platform companies. Due to the close connection of the platform business with rapidly changing technologies, the new regulation must be sensitive to constant changes, prompt and flexible. The most active jurisdictions in this area will have a competitive advantage in attracting new promising companies.

In Russia, the development of platform companies is one of the main components in the making of the digital economy at least in the medium term. An additional impetus to the growth of the platform business, which has been gaining momentum in recent years, was the COVID-19 pandemic. Thus, in 2020, platformization has become a more pronounced trend in the Russian corporate sector.

At the global level, the share of Russian digital platforms is insignificant, however in the national highly digitized areas, domestic platform companies occupy firm positions (web search, e-commerce, entertainment, etc.). In key sectors of the economy (oil and gas production, agriculture, etc.), platformization is slow and requires state support.

It is particularly necessary to point out several problematic aspects that limit the development of platform companies in Russia, which are addressed by the state policy on the expansion of platform business:

- legal regulation of the platform companies' activities;
- competition with foreign platform companies in domestic markets and at the global level;
- a limited number of areas where platform companies are developing, and the lack of clear support for the growth of the platform business from the state;
- risks of establishing monopolies by large platform companies.

6.4. Transnational corporations' participation in the Russian economy and foreign investments regulatory policies¹

Foreign companies' declining interest in the Russian economy in the 2010s was accompanied by rather cautious activities of foreign investors which had already entered the Russian market. Sluggishness of foreign companies' activities in Russia can be substantiated not only by slowdown of economic growth rates, but also a lack of progress in liberalization of foreign direct investments regulation. To rekindle investment activities in the Russian economy again, it is necessary to revise investment policies, switch over to the single nondiscriminatory policy in respect of foreign and Russian investors and combine the policy aimed at underpinning mid-sized projects with the one aimed at supporting investments in strategically important sectors, including fast-growing industries and short-term cycle sectors.

Transnational corporations (TNC) are the sources of not only financial resources, but also technologies and managerial know-how facilitating the

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integration of national economies into global value chains.¹ It is customary to assess the participation of transnational companies in host economies in terms of inflows of foreign direct investments (FDI). The advantage of such an approach consists primarily in the fact that the data on them are more available and easier to verify. The downside of the approach is that the FDI data do not show the scale of economic activities of companies with FDI in a host economy.²

In the international and Russian scientific literature, there is a large number of papers assessing spillovers from foreign direct investments on companies' activities in a host economy on the basis of macroeconomic data. So, they identified negative spillovers from FDI for Russian companies in 1990s,³ positive horizontal spillovers,⁴ negative vertical spillovers⁵, as well as nonlinear horizontal and vertical spillovers.⁶ In addition, some papers point to spillover effects from FDI on technological modernization of Russian manufacturing industries and the expansion of Russian non-oil and gas exports.⁷

The variety of the received results can be probably explained by the findings based on the meta-analysis which reveals weak sustainability of the observed spillover effects; this can be related in particular to a “publication shift”, that is, expectations of reviews and authors' determination to stick to the previous results.⁸ This suggests that spillover effects from transnational corporations are

- 1 World Bank Group; IDE-JETRO; OECD; UIBE; World Trade Organization, 2017; Global Value Chain Development Report 2017: Measuring and Analyzing the Impact of GVCs on Economic Development. Washington, DC; World Bank; *Simachev Yu., Fedyunina A., Kuzyk M., Daniltsev A., Glazatova M. and Averyanova Yu.* Russia in Global Production // The 21st April International Scientific Conference on Challenges Facing the Economic and Social Development. Moscow: The NRU HSE Publishers, 2020. 1–147; World Investment report 2013. Global Value Chains: Investment and Trade for Development. UN, 2013.
- 2 Also, the volumes of investments from abroad also reflect a portion of the overall borrowed capital in capital assets, thus making it infeasible to measure the real contribution by foreign-owned companies in the host economy. The utilization of the data on FDI contribution across sectors fails to approximate the assessment of foreign-owned companies' contribution in these sectors.
- 3 *Sabirianova K., Svejnar J., Terrell K.* Distance to the efficiency frontier and foreign direct investment spillovers // Journal of the European Economic Association, 3(2–3), p. 576–586. 2005.
- 4 *Kadochnikov S., Fedyunina A.* Spillover of Companies with Foreign Investments on Export Activities of Russian Firms in 2014–2016: the Size Matters // The Voprosy Ekonomiki. 2017. Issue No.12. pp. 96–119; *Fedorova E., Korkmazova B., Muratov M.* Spillover effects of the Russian economy: Regional specificity. Economy of region, 1(1), 139–149. 2016; *Yudaeva K., Kozlov K., Melentieva N., Ponomareva N.* Does foreign ownership matter? The Russian experience // Economic soft transition, 11(3), 383–409. 2003.
- 5 *Drapkin I., Lukyanov S.* External Spillover Effects from Foreign Direct Investments in the Russian Economy: The Outputs of the Empirical Analysis // The Voprosy Ekonomiki, (2), 97–113. 2019; *Yudaeva K., Kozlov K., Melentieva N., Ponomareva N.* Does foreign ownership matter? // The Russian experience. Economic soft transition, 11(3), 383–409. 2003.
- 6 *Drapkin I., Lukyanov S.* External Spillover Effects from Foreign Direct Investments in the Russian Economy: The Outputs of Empirical Analysis // The Voprosy Ekonomiki, (2), 97–113. 2019.
- 7 *Fedudina A., Simachev Yu., Kuzyk M., Averyanova Yu.* The Sectoral Specifics of Integration of the Russian Economy in Global Value Chains and Effects on the Structural Policy. The Journal of the New Economic Association, 47 (3), 106127. 2020; *Simachev Yu., Fedyunina A., Kuzyk M., Daniltsev A., Glazatova M., Averyanova Yu.* Russia in Global Production // The 21st April International Scientific Conference on Challenges Facing the Economic and Social Development. Moscow: The NRU HSE Publishers. pp. 1–147. 2020.
- 8 *Demena B., and P.A.G. Van Bergeijk.* A meta-analysis of FDI and productivity spillovers in developing countries // Journal of Economic Surveys, 31(2): 2017, 546–571; *Smeets R., & de Vaal, A.* Intellectual property rights and the productivity effects of MNE affiliates on host-country firms //

specific not only to the sector and host economy as a whole, but arise only in case of certain regulation and “adjustment” of the industrial policy.

The authors of this section do not set the objective of discussing and specifying spillovers from transnational corporations in the Russian economy. The goal of this study is to look at the role of TNC in a new way, assess the views of TNC and the government on regulation and outline the vectors of changes in government regulation of TNC in response to global trends and demands of foreign companies. The novelty of the approach to the analysis of TNC participation in the Russian economy consists in the fact that along with the utilization of the data on FDI inflows we follow the methodology¹ and use the AMNE OECD database on TNC participation in global output and creation of value added in national economies.²

6.4.1. The global distribution of FDI and TNC and Russia’s position in attraction thereof

In the past two decades, foreign direct investment flows in the global economy were characterized by high-profile periodization and country orientation. So, FDI flows to developed countries were more volatile and depended more on the macroeconomic situation than investment flows to developing countries (*Fig. 1*). It was particularly explicit in 2006–2010 with a slump during the global financial crisis of 2008–2009. A dramatic drop in the FDI flow to developed countries was justified by a sharp decrease in the number of mega-deals on mergers and acquisitions (worth over \$1 bn) which used to be actively transacted in the 2000s.

Overall, in transition economies FDI inflows depend the least on the global market situation, but Russia is an exception. In 1995–2002 when the Russian economy experienced a severe transformation shock, the volumes of inflow and outflow of investments were insignificant. Later on, amid high economic growth rates till the crisis of 2008–2009 the volume of investment flows increased a great deal (primarily because of the fuel and energy sector’s attractiveness to foreign investors). After the crisis, amid unsustainable and lower GDP growth rates as compared with the pre-crisis period, the volumes of investment flows failed to recover and fluctuated sharply depending on growth rates of the economy as a whole (*Fig. 2*).

International Business Review, 25, 2016, 419–434; Meyer K., & Sinani E. When and where does foreign direct investment generate positive spillovers? A meta-analysis. // Journal of International Business Studies, 40, 2009. 1075–1094; Havranek T., & Irsova Z. Estimating vertical spillovers from FDI: Why results vary and what the true effect is // Journal of International Economics, 85(2), 2011. 234–244; Irsova Z., & Havranek T. Determinants of horizontal spillovers from FDI: Evidence from a large meta-analysis // World Development, 42, 2013. 1–15.

- 1 OECD. Multinational enterprises in the global economy. Heavily debated but hardly measured. OECD Publishing, Paris, 2018.
- 2 In accordance with this approach, a transnational enterprise is determined as a company where 50% +1 equity belong to a foreign investor. The data on the activities of transnational corporations are based on economic transactions (sales volumes, added value) and reflect the performance of companies with foreign investments regardless of the fact whether they were financed additionally by a foreign investor at a certain period of time.
Deemed as TNC output in host economies is gross output of companies whose ownership belongs to transnational companies and which are located beyond the borders of the home country where the transnational corporation is based.

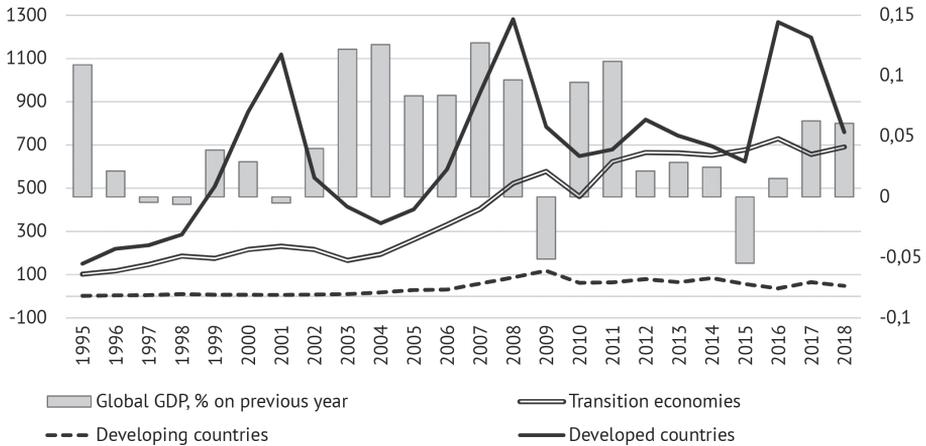


Fig. 1. FDI flow by the type of economies (billion US Dollars) and global GDP dynamic (right-hand axis)

Source: own calculations, UNCTAD data.

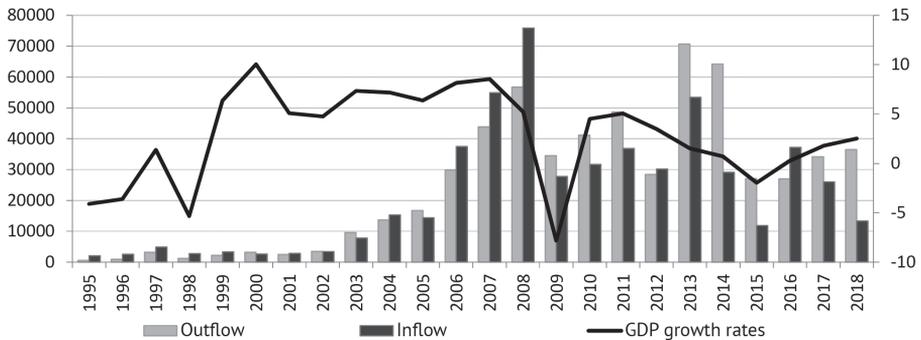


Fig. 2. FDI dynamic (million US Dollars) and GDP in Russia (growth on the previous year, %)

Source: own calculations, the data of UNCTAD and the Rosstat.

For Russia it is typical that the FDI outflow volume prevails over the FDI inflow volume as economic growth rates dynamic gets worse; it became explicitly clear in periods shortly after the global crisis 2008–2009. This points indirectly to the probable orientation of a larger volume of FDI in the Russian Federation to the needs of the domestic market whose potential demand was contracting during economic growth slowdown. At the same time, the upward trend of Russian capital flight abroad consolidated because domestic market investment opportunities were shrinking. The dynamics of FDI inflow and outflow were formed most probably under the impact of investment demand fluctuations and domestic

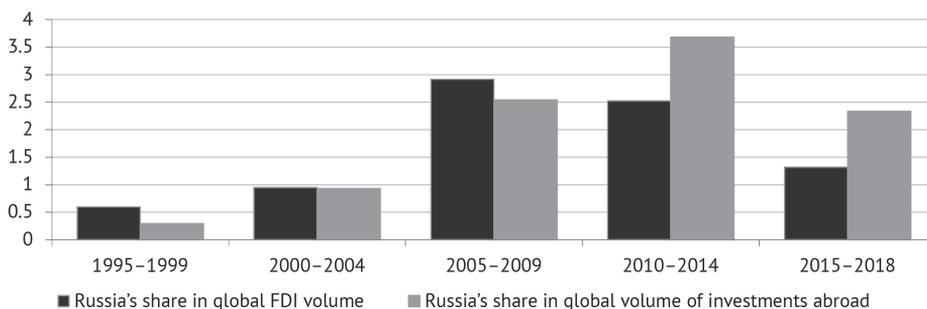


Fig. 3. Russia's share in global FDI, %

Source: own calculations, the data of UNCTAD and the Rosstat.

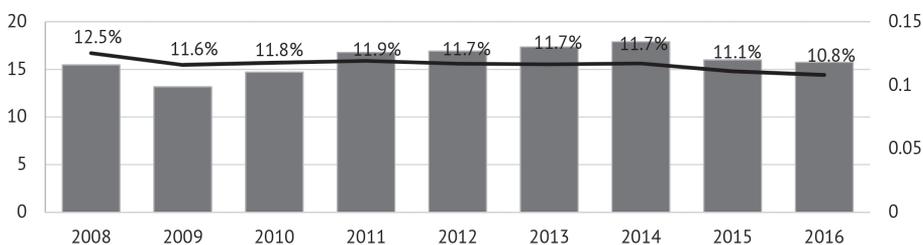


Fig. 4. TNC contribution to host economies' gross output, 2008-2016, trillion US Dollars and % of global output

Source: own calculations, OECDAMNE data.

market opportunities, rather than considerations regarding the development of international production.

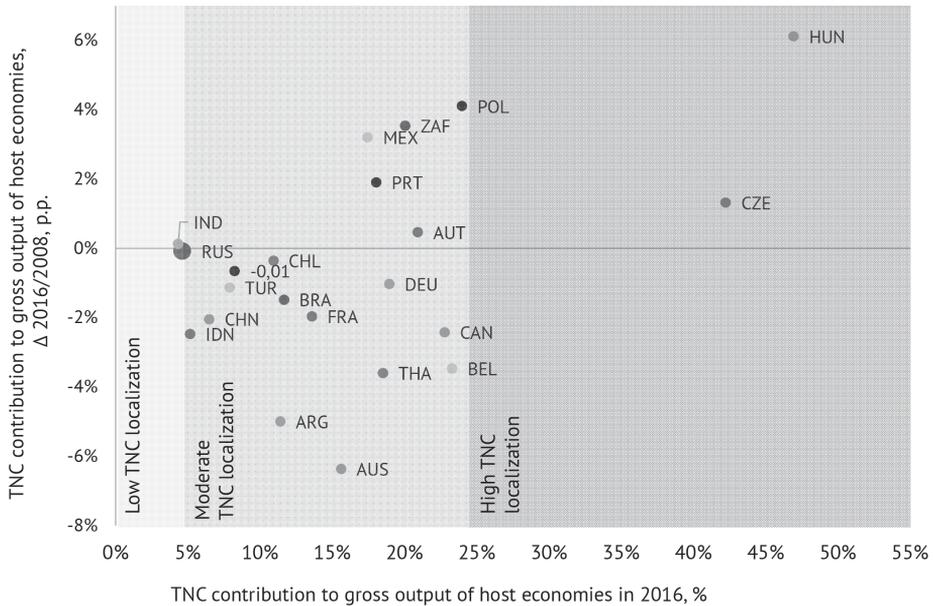
In terms of Russia's participation in the global market of foreign direct investments, it can be stated that the share of Russia as a FDI recipient increased before the crisis of 2008-2009 and surpassed the share of Russia as an investor-country on the FDI market. After the global financial crisis, the situation changed: the FDI inflow to Russia shrank and Russia's share in attraction of FDI decreased considerably, while the investment outflow increased; this is related sooner to capital flight. Importantly, after 2010-2014 the share of Russia as the exporter of capital in terms of FDI was growing in the world amid the reduction both in the FDI inflow and overall volume of investments in capital assets in Russia (*Fig. 3*).

By estimates, in the 1970s there were about 7,000 transnational corporations, while by the year 2000 their number was equal to 38,000 and by the end of the 2000s the number of non-financial transnational corporations amounted to 82,000 with over 200,000 international subsidiaries.¹ Despite exponential growth in the number of transnational corporations, they still make a modest contribution

¹ OECD. Multinational enterprises in the global economy. Heavily debated but hardly measured. OECD Publishing, Paris. 2018.

to global output: in 2016 host economies produce only 11% of global gross output (Fig. 4). In 2000–2016, growth in TNC gross output had the specifics of its own. In 2000–2008, host economies saw a higher expansion of TNC output as compared with the national one. In that period, TNC gross output increased from \$7 trillion to \$16 trillion, while the share of TNC in gross output rose from 11% to 14%. The global financial crisis affected considerably the contraction of TNC output in absolute and relative terms and slowed down considerably TNC future growth rates so that the same level of output was achieved only by 2011–2012, while TNC output growth rates amounted to the mere 2% in 2008–2016. For reference, in the same period global output of national companies which were not transnational corporations was growing faster and was equal to 20% in 2008–2016.

The OECD countries are the main host economies for TNC. In 2016, transnational corporations which entered the OECD countries' markets produced about 70% of TNC global output. A slight decrease in contribution of TNC in OECD countries to gross output of these companies from 77% to 70% in 2008–2016 was justified by redistribution of TNC interest to BRIC countries. Early in the 2000s and 2008, the BRIC countries accounted for less than 10% and 11% of TNC output in host economies, respectively, while in 2018, for 6%.



Note. Low localization – up to 5%, moderate localization – from 5% to 25%, high localization – from 25%.

Fig. 5. TNC contribution to gross output of host economies by the country in 2008 and 2016

Source: own calculations, OECDAMNE data.

Amid slowdown of growth rates of TNC output, there are a few countries in the world which can be called attraction points for transnational corporations. For instance, Hungary and the Czech Republic stand out prominently in terms of TNC concentration in the economies. Both the economies are actively integrated in global value chains and are a kind of production bases for EU countries. In term of TNC concentration, Hungary and the Czech Republic are followed closely by Poland, another Post-Soviet economy with mostly similar structural specifics and level of economic, scientific and technological development.

Among other countries which increased TNC contribution to gross output was Mexico, the country which had served for long a number of North American markets; South Africa, the only BRIC country with a positive contribution to TNC output, as well as Portugal and Austria.

Russia and India had a very low TNC concentration (slightly below 5% as per the data of 2016) and demonstrated virtually zero growth in TNC contribution in 2008–2016 (Fig. 5).

Without analyzing the dynamic of the past few years which was obviously weak, it can be stated that high TNC localization (a relatively high TNC contribution to gross output) is typical of mid-tech and high-tech industries, that is, manufacturing of computers, electronic and optical goods, motor vehicles, chemicals and chemical products, including pharmaceuticals. Most manufacturing industries and services sector industries can be attributed to the category of moderate TNC localization.

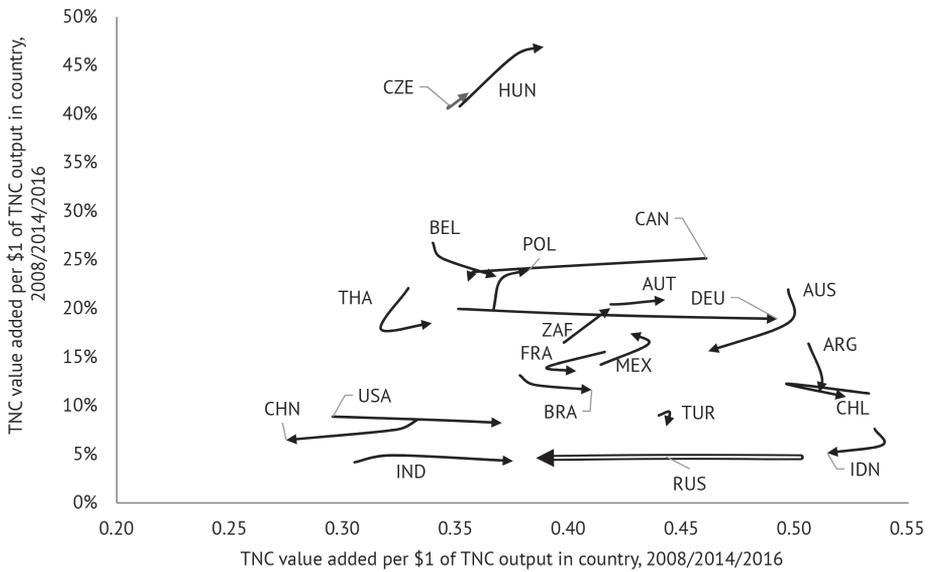


Fig. 6. TNC participation in host economies and TNC unit value added by the country, 2008–2016

Source: own calculations, OECDAMNE data.

Industries with low TNC localization in global production include the agriculture, the textile industry and the building industry. There are only three industries which increased TNC contribution to global output in 2008–2016: the furniture industry, manufacturing of computers, electronic and optical goods and motor vehicles. All these industries have different research-intensity levels, however, the past decade saw a substantial advance in complexity of manufacturing processes and value chain extension. The largest decrease in TNC contribution to gross output took place in the financial and insurance sectors. It is probably related largely to investors' cautiousness and the implications of the global financial and economic crisis.

Even with relatively weak structural changes in output brought about by a change in TNC contribution, TNC activities in the territory of host economies change considerably value-added which situation is typical both of developed and developing economies. A special horizontal shift (a constant level of TNC contribution to gross output and growth in value-added) in 2008–2016 turned out to be specific to Germany, the US and India (*Fig. 6*).

TNC contribution and value-added increased in Hungary, the Czech Republic, Poland, South Africa and Mexico and fell in China, Russia, Canada and Australia; specifically, in Australia the decrease was also driven by a substantial contraction of TNC contribution to the economy, while in Canada, by modification of the structural pattern of TNC presence (a decrease in TNC contribution to manufacturing industries and a two-fold increase in TNC contribution to the agriculture). In China, the observed effect is related to the squeezing out of foreign TNC and the policy of cultivation of own companies with an aggressive internationalization strategy, but this is not typical of Russia. A number of sectors saw growth in TNC contribution to the economy (including the automotive industry, the food industry and the chemical industry), however, no substantial value-added growth was evident in any sector.

6.4.2. The specifics of TNC participation in the Russian economy

In 2008–2016, Russia saw the contraction of gross output of foreign TNC situated in the territory of the country and a simultaneous reduction in output of Russian TNC abroad. On one side, Russia is not an exception. A decrease in output of ingoing and outgoing TNC turned out to be specific to most developed economies of the EU (including France, Belgium, Switzerland, Finland, Italy, Hungary, Austria, the Netherlands and the UK), as well as Canada. On the other side, the Russian economy, the only one among the BRIC countries, saw the contraction of output of its own TNC in the global economy in 2008–2016 (*Fig. 7*).

The contraction of output of Russian TNC abroad is determined by contraction of the amount of business in the real-estate operations sector (a drop of 95% in 2008–2016), manufacturing of computers and electronics (a drop of 93%) and production of charred coal and petrochemicals (37%).

A gross decrease in foreign TNC contribution to output in the Russian economy in 2008–2016 can be explained for two-thirds by the shrinking of TNC amount of business in the services sector, including the financial and insurance sectors



Fig. 7. Change in TNC output volumes by domestic and host economies

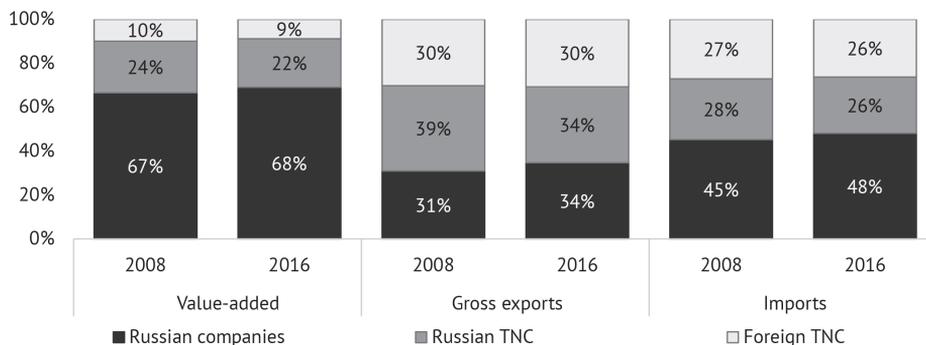
Source: own calculations, OECDAMNE data.

(a 45% drop in TNC amount of business in nominal prices in 2008–2016), retail and wholesale trade (15%) and business services sector (36%). In addition, about 25% of the overall drop can be justified by a decrease in TNC revenues in production of oil and petrochemicals (a 47% decrease in revenues). Most manufacturing industries did not see any growth and actually stagnated, while other sectors were growing, for example, the food industry (revenue growth of 28.7% in 2008–2016) and the automotive industry (29.8%).

At the same time, a decrease in output of TNC situated in Russia was partially related to growth in Russian companies' contribution to the economy in 2008–2016: the share of Russian companies increased as regards value-added (from 67% to 68%), gross exports (from 31% to 34%) and imports of semi-finished products (from 45% to 48%) (*Fig. 8*).

As transnational corporations are normally viewed as the source of technologies, managerial/organizational practices and expertise, the analysis of the sectorial pattern of TNC situated in Russia may supplement the analysis of the pattern of imports of goods in terms of Russian industries' dependence on imports. Also, the sectorial pattern of ingoing TNC, except for sectors depending directly on imports, reflects foreign companies' interest in the Russian economy (*Fig. 9*).

The pattern of TNC gross output in Russia illustrates primarily foreign companies' interest in the Russian fuel and energy sector, however, sanctions



Note. Only imports of semi-finished products are taken into account.

Fig. 8. The pattern of gross value-added, gross exports and imports to Russia by the form of companies' ownership, 2008 and 2016

Source: own calculations, OECDAMNE data.

imposed in 2014 determined the partial exit of foreign companies from the sector; on the back of it TNC share in TNC gross output of the sector fell from 18.1% to 10.4% in 2008–2016.

Comparable shares in the patterns of gross imports of goods and TNC output in Russia can be found in the sectors of Russia's traditional and relative advantage which do not depend a great deal on imports, that is, the metallurgy, including the manufacturing of finished metal products (5.6% in imports and 6.0% in gross output in 2016), the chemical industry, including the manufacturing of rubber and plastic articles (16.5% and 21.3%), as well as the manufacturing of transport vehicles and equipment (12.2% and 18.0%), that is, industries where along with the high level of dependence on imports the domestic production in numerous sub-industries in the period under review was also determined by anchor foreign investors (in the automotive industry: Hyundai, Ford and Toyota, while in the railway machinery: Siemens) (*Fig. 9*).

Let us single out two industries with the largest difference in shares in gross imports and TNC gross output, that is, the food industry and the manufacturing of machinery and equipment. The food industry's share in gross imports was equal to 4.4%, while the industry's TNC contribution to TNC gross output amounted to 18.2% in 2016. This is an example of transnational corporations' orientation on the Russian domestic market and substitution of real imports for foreign companies' production in Russia. In the 2000s, Russia's growing domestic market and the prospect of potential exports to neighboring countries attracted to Russia the world's largest food producers, such as PepsiCo, Nestle, Mars, Coca-Cola, Danone, Unilever and others.

As per the breakdown by country, the US is the largest player on the Russian market (22% of foreign TNC overall output in Russia): US-owned TNC make the largest contribution to output of chemicals and chemical products, pharmaceuticals,

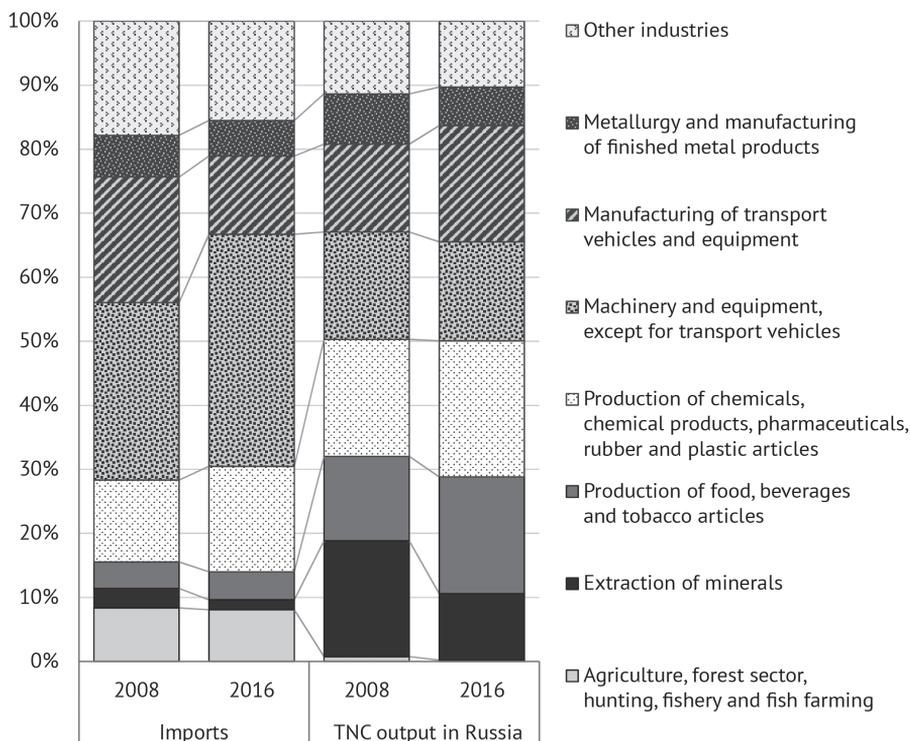


Fig. 9. TNC output sectorial pattern and the pattern of tradable sectors' imports, 2008 and 2016.

Source: own calculations, data of OECDAMNE and COMTRADE.

retail and wholesale trade and extraction of mineral resources. The second largest country in terms of output in Russia is Germany: German companies produce 17% of foreign TNC overall output in Russia. German TNC sectorial pattern is as follows: wholesale and retail trade, manufacturing of motor vehicles, trailers, semi-trailers, chemicals, chemical products and pharmaceuticals. The top-3 includes France, as well (11% of foreign TNC overall output in Russia). French TNC operate in Russia in such sectors as retail and wholesale trade, production of chemicals, chemical products and pharmaceuticals and manufacturing of motor vehicles, trailers and semi-trailers. As regards TNC output volumes, China is rated the 6th (4% of foreign TNC overall output in Russia). Chinese corporations in Russia operate mainly in the services sector: professional, scientific and technical activities, as well as transportation and storage.

In the territory of Russia, there are a few foreign manufacturers producing machinery and equipment; their contribution to TNC gross output in Russia is equal to 15.5%, while the share of the industry in gross imports amounts to 36.3%. On one side, this difference can be explained by the fact that machinery

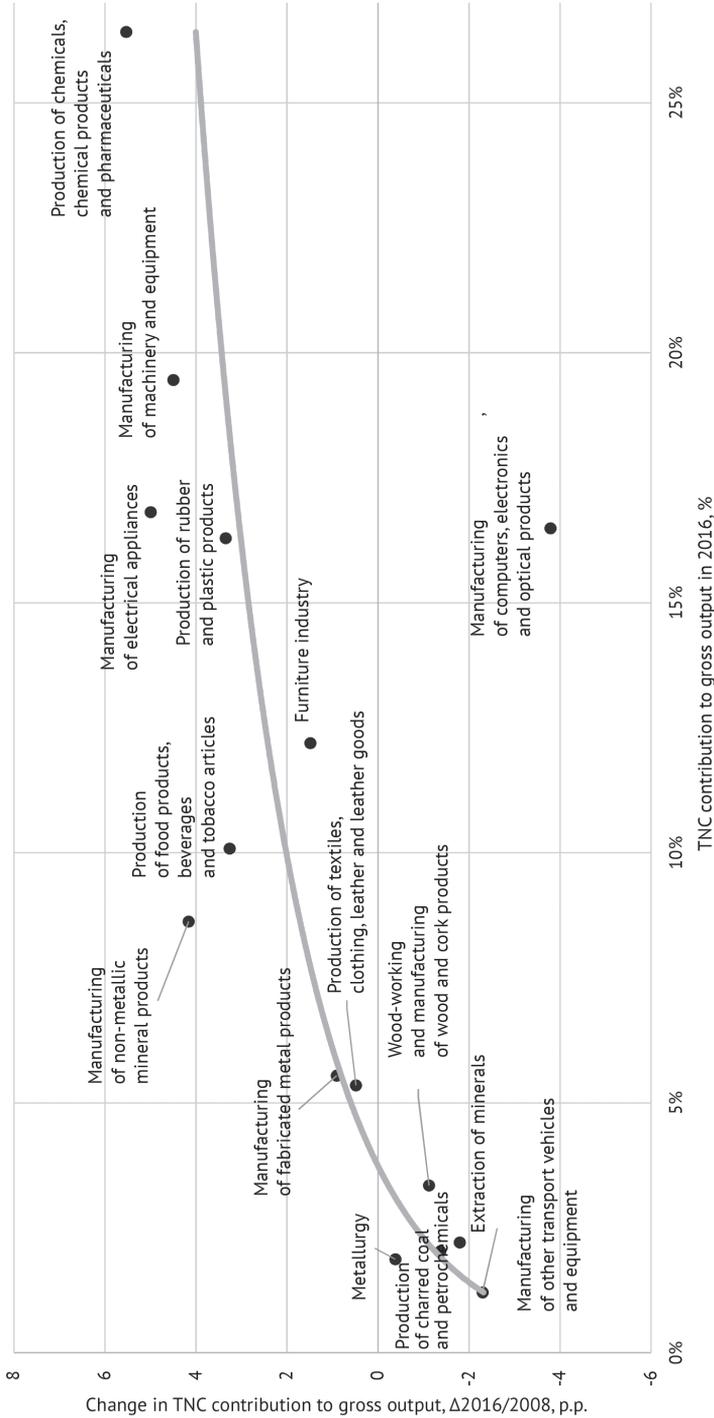


Fig. 10. TNC contribution to industries' gross output in Russia in 2016 (%) and its change relative to 2008 (p.p.)

Source: own calculations, OECDAMNE data.

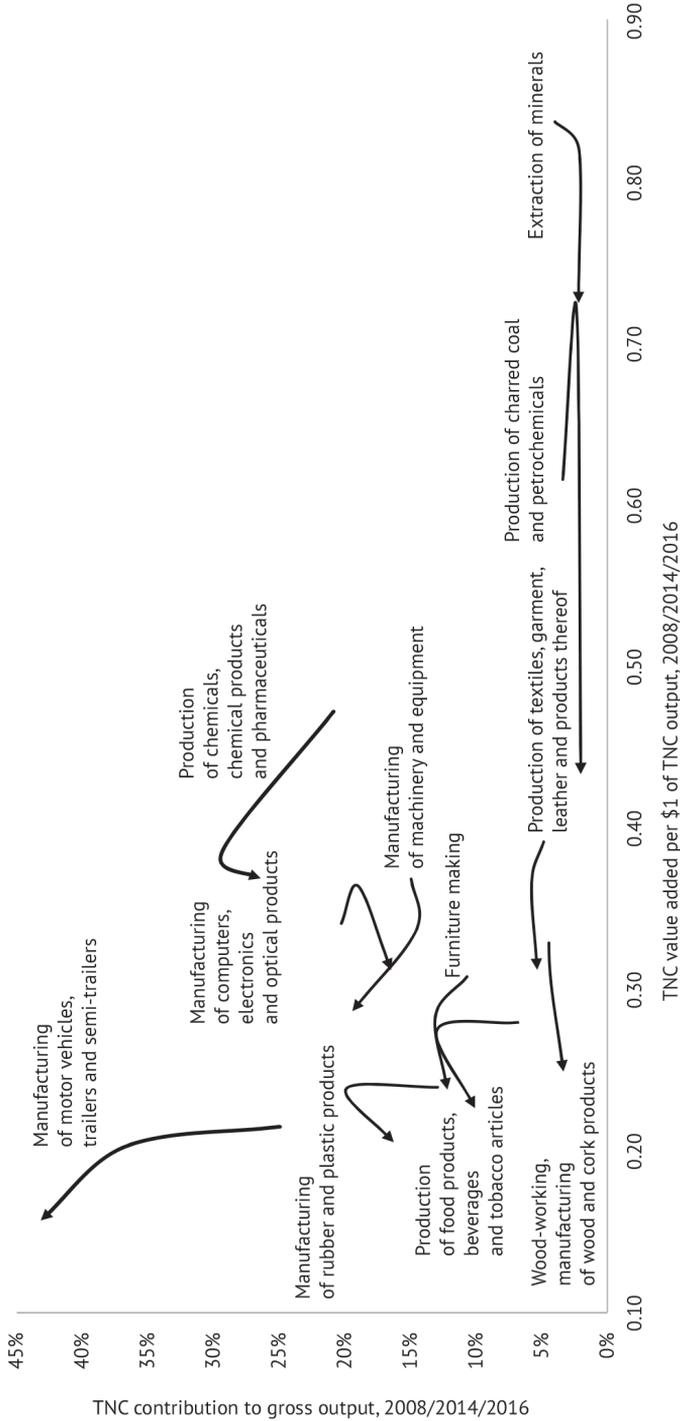


Fig. 11. TNC contribution to gross output and TNC unit value added in the Russian economy, 2008–2016

Source: own calculations, OECDAMNE data.

and equipment manufacturing is normally strongly involved in global value chains, which factor can determine a high share of imports of semi-products and components used in the national economy. On the other side, it is known that a high share of imports of ready for service machinery and equipment is specific to Russia. So, the industry is an example of the situation where the economy is not that competitive for foreign manufacturing location and a substantial share of the industry's products is represented by imported ready for service products.

As was stated above, the overall negative dynamic of TNC output in the manufacturing sector was driven by the exit of TNC from extractive industries and production of charred coal and petrochemicals. At the same time, *TNC contribution to gross output of the sectors with a relative TNC concentration in Russia increased somewhat in 2008–2016*. It concerns primarily the automotive industry, as well as the chemical industry, manufacturing of rubber and plastic products and machinery and equipment, including electrical appliances (*Fig. 10*).

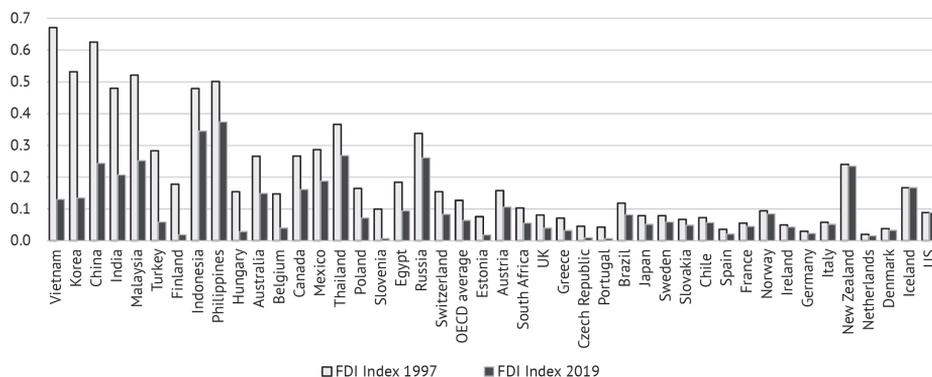
In 2008–2016, a pickup in TNC contribution to most Russian industries was accompanied by contraction of unit value added produced by TNC. An exception is the manufacturing of other transport vehicles and equipment (*Fig. 11*).

At first sight, a decrease in TNC unit value added in the Russian economy can be interpreted as a negative signal. However, in reality it is not true. On the back of building up the localization of manufacturing, transnational corporations increased their contribution to industries' gross output, however, a certain decrease in unit value added is related specifically to localization. To a large extent, this is typical of the automotive industry and the chemical industry.

6.4.3. Regulation of foreign companies in Russia: as seen by the government and business

Based on the results of 2019, Russia is rated the 7th economy in the list of 85 economies in the world as regards restrictiveness of FDI regulation in accordance with the FDI Restrictiveness Index. The more restrictive FDI regulations can be found only in Libya, Algeria, Palestine, the Philippines, Indonesia and Thailand. Though Russia has succeeded in advancing towards easing of foreign investments regulation (in the 1997 rating Russia was rated the 9th with a smaller number of countries reviewed), a number of fast-growing economies was ahead of Russia in terms of the pace of liberalization. So, Vietnam, Korea, China, India and Malaysia used to have tougher FDI restrictions than Russia in 1997, but they caught up with Russia and even surpassed it in terms of liberalization by the end of the 2000s (*Fig. 12*).

The liberalization of regulation of inflowing FDI is directly related to countries' progress in FDI accumulation in the period under review (*Fig. 13*). Korea's breakthrough dates back to early 1990s, so it is less explicit in the reviewed period of 1997–2018. The progress of Malaysia and Vietnam is more evident: Malaysia's FDI regulatory restrictiveness index fell by two-fold. Of all the reviewed economies, Vietnam used to have the highest barriers for FDI in 1997, but moved 24 positions upwards by 2018. No progress in upgrading of the FDI regulation in



Note. 0 – no restrictions, 1 – maximum restrictions. The countries are ranked in accordance with the progress in liberalization in 1997–2019. The index takes into account 4 types of FDI restrictions: restrictions on the share of ownership, screening, restrictions in respect of the key personnel (CEO), other restrictions (repatriation of capital, land tenure and other). Based on assessment, each restriction is assigned the weight; the overall country index is the weighted average of sectors' indices.

Fig. 12. The FDI regulatory restrictiveness index by the country, 1997 and 2019

Source: own analysis, the data of the OECD FDI Regulatory Restrictiveness Index.

Russia from 2010 till 2017 can probably be regarded as an important factor which determined the lack of positive shifts in FDI accumulation in the 2010s.¹

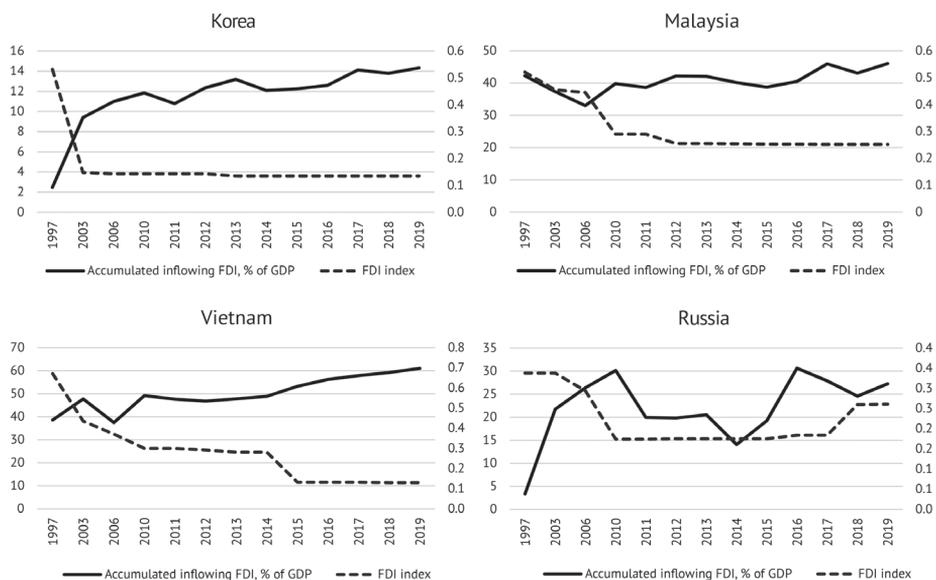
As stated in a number of studies, though institutional factors are generally crucial to countries' attractiveness in terms of FDI, some institutional factors are more important than others.² It is common practice to discuss the importance of such institutions as a level of tax burden, corrupt practices and uncertainty related to red-tape and political instability.³ However, it seems that under conditions in which Russia found itself in the 2010s (low economic growth rates, lack of progress in liberalization of the FDI regulation and complication of foreign policy relations with the West since 2014) the factor related to the nature of relations between the government and the business became increasingly important.⁴ If in the 1990s, there were two diametrically-opposed types of cooperation between

1 It is difficult to say whether it is the key factor determining the lack of FDI accumulation in Russia after 2010. It seems that an equally important factor is a sudden decrease in Russian economic growth rates as compared with the 2000s, as well as chilling relations between Russia and western countries since 2014 and the introduction of sanctions and countersanctions.

2 *Daude C., & Stein E.* The quality of institutions and foreign direct investment // *Economics & Politics*, 19(3), 2007. P. 317–344.

3 *Mauro P.* Corruption and growth // *Quarterly Journal of Economics* 110, 681–712. 1995; *Wei S.* Why is corruption so much more taxing than tax? // *Arbitrarinesskills*. NBER Working Paper 6255. 1997; *Wei S.J.* How taxing is corruption on international investors? // *Review of economics and statistics*, 82(1), 1–11. 2000.

4 This is in line in particular with the outputs of the "Determinants of FDI in transition economies: The case of CIS countries" study by *Shukurov S.* (*Journal of International and Global Economic Studies*, 9(1), 75–94. 2016), where it is underlined that the size of the market and access to mineral resources were the key determinants of the FDI influx to CIS countries in 1995–2010, while the negative macroenvironment (the rate of inflation and high tax burden) reduced their investment attractiveness.



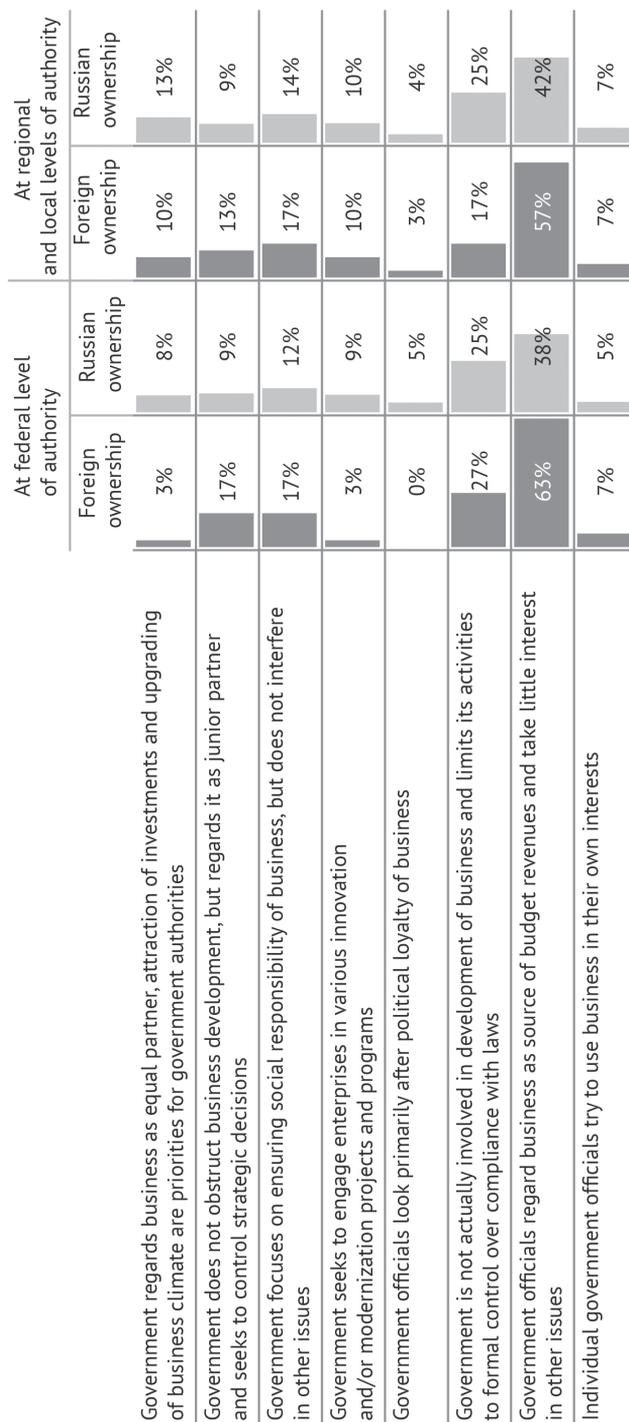
Note. The index takes into account 4 types of FDI restrictions: restrictions on the share of ownership, screening, restrictions in respect of the key personnel (CEO), other restrictions (repatriation of capital, land tenure and other). Based on assessment, each restriction is assigned the weight; the overall country index is the weighted average of sectors' indices.

Fig. 13. The accumulated volume of inflowing FDI, % of GDP (left-hand axis) and the FDI Regulatory Restrictiveness Index (right-hand axis) in picked up countries, 1997–2019

Source: own analysis, data of the OECD FDI Regulatory Restrictiveness Index.

the government and business: that is, distancing from the state, on one side, and, on the contrary, close cooperation with the state, on the other side, in the 2000s these relations promoted to a new level where they became more open and the role of business amalgamations as mediators of the relations between the business and the government increased.

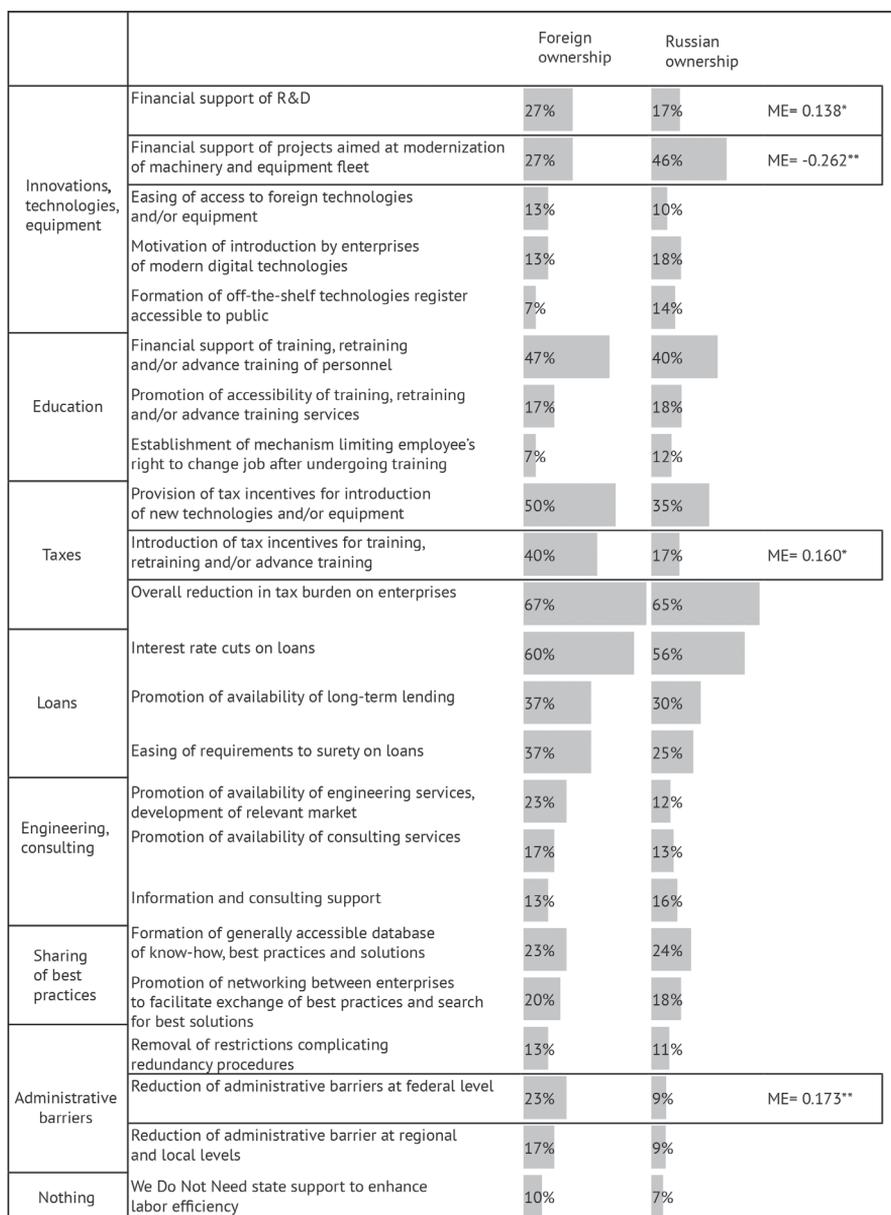
At first sight, the nature of cooperation of foreign and Russian companies with the government at the federal, regional and local levels does not differ considerably (*Fig. 14*). According to the outputs of the “Factors and Obstacles Preventing Growth in Labor Efficiency at Russian Enterprises of the Main Non-Oil and Gas Industries” study prepared by the NRU HSE in 2019, in manufacturing industries both Russian and foreign companies referred most frequently in their answers to the model where government officials regarded business as a source of budget revenues and had less interest in other issues. The other most frequently referred to model in answers of Russian and foreign companies was the one where the government did not actually interfere in business development having limited its activities to formal control over compliance of the business with the laws.



Note. The sample includes the manufacturing sector's enterprises, N=342.

Fig. 14. Distribution of the manufacturing sector's companies with foreign and Russian ownership by the type of relations with the government at the federal, regional and local levels of authority

Source: own calculations, data of the "Factors and Obstacles Preventing Growth in Labor Efficiency at Russian Enterprises in Main Non-Oil and Gas Industries" NRU HSE project, 2019.



Note. ME is the marginal effect based on probit regression results; the sample includes manufacturing industry enterprises, N=342.

Fig. 15. Requests by companies with foreign and Russian ownership for government support

Source: own calculations, data of the “Factors and Obstacles Preventing Growth in Labor Efficiency at Russian Enterprises in Main Non-Oil and Gas Industries” NRU HSE project, 2019.

However, the outputs of econometric modeling¹ show that the only statistically significant difference in the shares of Russian and foreign companies which entered in relations with the government is true for the model where the government regards business only as a source of budget revenues: this model is referred to 20.5% more often by foreign companies than Russian ones.

It appears that the outputs suggesting the government's "indifference" to foreign investments and perception thereof as a source of tax revenues make it feasible to determine on the top of that the inertia of foreign companies' activities in Russia in the 2010s. As per the previous outputs, a predictable FDI policy was the main attractive institutional factor out of all institutions, while the government's perception of foreign business as a "milk cow" did not contribute to the formation of a favorable FDI environment.

There are much more differences between foreign and Russian companies in Russia's manufacturing industries as regards their request for government functions (*Fig. 15*).

The outputs of econometric modeling² show that all other things being equal companies with FDI make 26.2% less requests for financing modernization of the machinery and equipment fleet as compared with Russian companies, but make more requests for R&D support (13.8% more), tax incentives for advance training of personnel (16%) and reduction of administrative barriers at the federal level (17.3%). Such outputs underline time and again a higher orientation of companies with foreign capital on innovations and their greater request for human resources as compared with Russian companies.

6.4.4. Expected trajectories of changes in government regulation of foreign direct investments in Russia

It seems that if the country has a receptive and growing market and/or mineral resources (as it was in Russia in the 2000s), foreign investors will come themselves and care less than in any other case about whether the FDI regulation is going to be eased. However, if attractive market factors lose their appeal (as it was in Russia in the 2010s) and no easing of the FDI regulation takes place, foreign investors will be less interested to come to the country. The role of chemistry between the business and the government, as well as privileges and incentives which the government can offer foreign investors is on the rise. It makes sense with taking into account negative effects on investment attractiveness of the Russian economy after the "Ukrainian crisis" and subsequent spate of sanctions and countersanctions which affected investment attractiveness not only of individual sectors against which the sanctions were introduced, but also the Russian economy as a whole.

1 Probit regression-based evaluation where a dependent variable is the relationship model, explaining variables are the form of business ownership, categorical variables are the age and size of business and dummy variables indicate companies' sectorial and regional affiliation.

2 Probit regression-based evaluation where a dependent variable is a company's request for government functions, explaining variables are the form of business ownership, categorical variables are the age and size of business and dummy variables indicate companies' sectorial and regional affiliation.

As seen from the experience of attracting FDI and TNC to Russia in the 2000s, they both can become the source of new technologies, competences and best practices for host economies. In the past 20 years, the examples of transformation of Russian industries, such as the woodworking industry, the food industry and the chemical industry are evidence of positive effects of foreign investments¹; specifically, the government adopted a technocratic approach and supported largely business initiatives.²

However, all examples of the 2000s were related to technological catch-up. Foreign investments are an important channel for receiving modern technologies, but as applied to industries close to technological frontiers, foreign investments are characterized by a more limited potential. However, the potential of foreign capital's positive effect on the Russian economy is far from being exhausted. In particular, it corresponds to the specifics of request of companies with foreign capital for government support. At present, the interests of TNC in the Russian economy do not fit their model of networking with the government. TNC are interested in building up intangible assets, that is, investments in R&D and training of the personnel.

The state motivation of international companies to come to Russia should be aimed primarily at the world's technological leaders and this goal can be achieved to a great extent through the development of technological regulation. For expansion of positive spillover effects from TNC activities in the Russian economy, it is also important to form the regulation in such a way that it will reduce the risks of TNC opportunistic (rent-seeking) behavior by means of the system of formal and informal institutions.

As businesses' investment activities are still rather low in Russia, there is evident stagnation in the innovation sector; efforts to make up for a lack of FDI by means of Russian investments and create own chains without reference to science and technology progress cannot reproduce completely advantages from the presence of foreign investors, that is, access to advanced technologies, more flexible terms of integration into global value chains and training opportunities. So, it is important to take further measures and use new forms for attracting foreign investors, both to emerging high-potential sectors of the Russian economy and technologically backward industries oriented not only on the domestic market, but also exports. For this reason, the Russian policy of attracting FDI and regulating TNC activities should ensure a switchover:

- from individual policies of motivation of foreign and Russian investments to a single nondiscriminatory policy which does not suggest any choice between Russian and foreign companies;

1 A positive spillover effect from foreign investments became visible in higher value-added, new product line output, introduction of modern technologies and expansion of exports geography.

2 *Simachev Yu., Fedyunina A., Kuzyk M., Daniltsev A., Glazatova M., Averyanova Yu.* Russia in Global Production // The 21st April International Scientific Conference on Challenges Facing the Economic and Social Development. Moscow: The NRU HSE Publishers, 2020. pp. 1-147; *Fedyunina A., Simachev Yu., Kuzyk M., Averyanova Yu.* The Sectorial Specifics of the Integration of the Russian Economy in Global Value Chains and Effects of the Structural Policy, 2020, 47 (3). pp. 106-127.

- from the policy of regulation of individual fields of TNC activities in Russia to formation of strategically important sectors with special conditions for foreign investors (retail frontage, expansion of regional integration, digitalization of production, cultivation of digital skills, R&D) and motivation of strategically-oriented foreign investments (against FDI oriented at market growth and mineral resources) amid growing competition between countries for FDI;
- from support of TNC large priority projects in manufacturing industries to support of mid-sized projects of multi-site operations, including liberalization of FDI entry into dynamically growing industries and short-term cycle sectors;
- from the policy of attracting TNC capital assets to that of attracting intangible assets, that is, platforms, R&D and the services sector supporting TNC activities.

6.5. The reform of control and oversight activities in 2020¹

Until recently, in various types of control and oversight activities there were systemic problems related to the conflict between mandatory requirements (primarily between different types of control and oversight activities) entailing an additional burden on entities and supervised facilities in view of the need to carry out scheduled audits while there was no evidence of the risk of violation and/or high damage and also because of a lack of transparency of audit due to ambiguity of interpretation of the substance of mandatory requirements or subjectivity of the audit thereof. As a result, auditees and supervised facilities incurred substantial financial and time costs related to such audits and preparation for them. Started in 2019, the reform of control and oversight activities is meant to solve these issues within the framework of the Plan of Actions (“Road Map”) on Implementation of the Mechanism of “Regulatory Guillotine” (approved by Resolution No.4714p-P36 of May 29, 2019 of the Government of the Russian Federation, hereinafter the “Road Map” on implementation of the “regulatory guillotine” mechanism).

The year 2020 was symbolic in terms of the reform of control and oversight activities and implementation of the “regulatory guillotine” mechanism: on July 31, 2020 the President of the Russian Federation signed two key laws:

- Federal Law No.247-FZ of July 31, 2020 “On Mandatory Requirements in the Russian Federation” (hereinafter – the Law on Mandatory Requirements). This law came into effect on November 1, 2020, except for individual provisions which become effective from February 1, 2021 and March 1, 2021;
- Federal Law No.248-FZ of July 31, 2020 “On State Control (Oversight) and Municipal Control in the Russian Federation” (hereinafter – the Law on

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State Control (Oversight)). This law will become effective from July 1, 2021, while its individual provisions, from January 1, 2022 and January 1, 2023.

These laws regulate the oversight activity's both aspects: substantive (mandatory requirements) and procedural (procedures, types and forms of control (oversight)).

The above specified laws define the overall legal foundations of the upgraded model of oversight activities based on the risk-oriented approach. The existence of risk of damage to law-protected values is a prerequisite for the establishment of mandatory requirements. Specifically, such requirements should be aimed at minimizing and eliminating risks. To manage risks, the supervising authority attributes monitored entities to one of the risk categories (the law envisages six risk categories, while the supervising authority has the right within its competence to choose at least three risk categories): extremely high, high, substantial, moderate, minor and low. The attribution of a monitored entity to the specific risk category determines the type and rate of frequency of scheduled control (oversight) audits in respect of that entity. The indicators of the risk of violation of mandatory requirements give rise to random control (oversight) audits and determine the type thereof.

The Law on Mandatory Requirements establishes for all state authorities the unified rules and procedure for introducing mandatory requirements, the effective period of mandatory requirements, the order of auditee's actions if conflicting mandatory requirements have been found out, mandatory assessment of the regulatory and actual impacts, obligation of supervising (oversight) authorities to provide official explanations in respect of introduced mandatory requirements.

Mandatory requirements to be introduced must be in harmony with the principles of legality, justifiability, legal certainty and consistency, transparency and predictability, as well as enforceability.

In developing the legislative act which introduces mandatory requirements, the supervising (oversight) authority has to assess the regulatory impact. After such a legislative act has become effective, the supervising (oversight) authority assesses the actual impact to analyze whether the introduced established mandatory requirements were justified, define and estimate the actual consequences of establishment thereof and identify unreasonable conditions, limitations, bans and liabilities.

Also, the new legislation provides for the mechanism of practical removal of conflicting mandatory requirements. In case of such conflicts, the supervised entity has to comply either with the mandatory requirement of the legislative act of a higher legal force or one of the conflicting mandatory requirements if such mandatory requirements are provided for in acts of equal legal force.

For classifying mandatory requirements and informing interested persons, the mandatory requirements register is established; it includes the list of mandatory requirements, information on legislative acts which introduced them and the period of their validity.

The law has established the unified date on which mandatory requirements come into effect: from March 1 or September 1 of the relevant year, but not

earlier than 90 days after the official publication of the relevant legislative act. In introducing mandatory requirements, the Government of the Russian Federation, federal executive authorities and other authorized agencies have to envisage mandatory requirements' effective period which cannot exceed six years. Based on the results of assessment of mandatory requirements in practice, a decision can be taken to extend the effective period thereof, but no more than for six years.

The Law on Mandatory Requirements provides for the obligation of the Government of the Russian Federation to cancel until January 1, 2021 the RF Government's and federal executive authorities' laws and regulations, as well as RSFSR and USSR executive and regulatory authorities' statutory acts that include mandatory requirements the compliance with which is assessed in carrying out of state control (oversight) audits.

So, in 2020 the Government of the Russian Federation passed a number of resolutions¹ which canceled and recognized null and void over 6,000 statutory acts and individual provisions approved by the USSR, RSFSR and RF state authorities in respect of mandatory requirements. A portion of those statutory acts has become void right after the official publication of the RF Government's resolutions, while the other one becomes ineffective from January 1, 2021 or July 2021.

It is particularly emphasized in the Law on Mandatory Requirements that regardless of whether the abovementioned statutory acts were recognized null and void, from January 1, 2021 in carrying out state control (oversight) the assessment of compliance with mandatory requirements provided for in the specified statutory acts, if they came into effect before January 1, 2020, is inadmissible equally as the imposition of administrative sanctions for violation of mandatory requirements.

The assessment of compliance with mandatory requirements is to be carried out in conformity with the Law on State Control (Oversight). This law secures such principles of state control (oversight) as validity and justification, motivation of scrupulous compliance with mandatory requirements, proportionality of interference in auditees' activities, protection of rights and legitimate interests, respect to human dignity and auditees' business repute, prohibition of abuse of law, maintenance of law-protected confidentiality, transparency and availability of information on the entity and state control (oversight), as well as efficiency in carrying out state control (oversight).

The law on state control (oversight) includes a number of novelties: the inspector's legal status, preventive measures mechanism, independent appraisal of compliance with mandatory requirements, new types of control (oversight), online networking with supervising authorities and mandatory pre-action procedure for filing an appeal against supervising (oversight) authorities' decisions.

¹ See, in particular, RF Government Resolution No.7 of January 13, 2020, Resolution No.80 of February 3, 2020, Resolution No.296 of March 18, 2020, Resolution No.841 of June 09, 2020, Resolution No.851 of June 11, 2020, Resolution No.857 of June 13, 2020, Resolution No.897 of June 20, 2020, Resolution No.1136 of July 29, 2020, Resolution No.1168 of August 3, 2020, Resolution No. 1169 of August 04, 2020, Resolution No.1181 of August 04, 2020, Resolution No.1290 of August 26, 2020 № 1290 and Resolution No.1496 of September 18, 2020.

The law introduces the notion of the “inspector” which is deemed to be the supervising (control) authority’s official carrying out state or municipal control (oversight) functions. Also, the law sets overall eligibility requirements for substitution of the post of inspector, as well as the scope of the inspector’s rights and obligations.

The preventive measures mechanism is introduced to mitigate risks of damage to law-protected values and has priority over conventional audits carried out by supervising (control) authorities. Preventive measures are carried out in compliance with risk mitigation programs which are to be approved annually by supervising (oversight) authorities. Preventive measures include: provision of information, aggregation of compliance practice, measures of motivation of scrupulous compliance, issuing of warnings, advising, self-examination and a preventive visit. As a general rule, preventive measures are carried out without networking with auditees, but if such networking is required, it is conducted only by auditees’ consent or initiative.

Independent appraisal of compliance by auditees with mandatory requirements is carried out by agencies which are independent from the supervising (oversight) authority and the auditee and accredited in the national accreditation system as an inspection agency. Such independent inspection agencies issue to auditees a certificate on compliance with mandatory requirements with the list of appraised mandatory requirements specified. Laws on the type of control may establish the maximum validity period of compliance certificates issued by independent inspection agencies; within this validity period scheduled supervising (oversight) audits are not carried out.

The law on state control (oversight) has systemized supervising (oversight) activities which are carried out by inspectors. The list of supervising (oversight) activities has been supplemented by new types of activities, such as monitoring of procurement, random checks, inspection-purpose visits and on-site inspection.

Auditees will be able to network online with supervising (oversight) authorities by means of the latter’s information systems, as well as the pre-action appeal information system. For the purpose of state control (oversight) information provision, the law provides for the establishment of the unified register of the types of supervision, the unified register of supervising (oversight) activities and the register of certificates of compliance with mandatory requirements. At the same time, it is inadmissible to carry out supervising (oversight) activities in case of a lack of information on them in the register of supervising (oversight) activities.

The auditees who believe that their rights and legitimate interests were directly infringed upon within the framework of state control (oversight) may appeal against decisions of supervising (oversight) authorities, as well as officials’ action (inaction). The law has introduced a mandatory pre-trial grievance procedure which is carried out by way of sending complaints in an electronic format to the single website or regional websites of state and municipal services.

The principal novelty of the Law on State Control (Oversight) is the introduction of the risk-oriented approach: audits should be carried out pro rata the likelihood of and (or) damage from unfavorable developments related to a failure to comply

with one or more mandatory requirements. A switchover to risk-oriented regulation will facilitate a reduction in the burden on supervising and oversight primarily owing to the departure from the practice of audits in respect of entities which are highly unlikely to commit violation. The evidence from practice suggests that in individual types of supervising and oversight, for example, customs and tax control, the shift to risk-oriented regulation has facilitated a reduction of on average 15%-20% in the burden on auditees.¹

The scope of work on abolishment and approval of the new legislation which defines the list of mandatory requirements and formulates the new pattern of regulation for each social relation domain or type of control (oversight) was carried out by 43 working groups. In accordance with new principles approved by the legislation, the new system of legislation is to become effective from January 1, 2021; specifically, as per Clause 3-5 of the “Road Map” on implementation of the mechanism of “regulatory guillotine” 477 laws and regulations on new mandatory requirements should have been approved by now, however only 247 were actually passed and 3013 legislative acts should have been cancelled (all have been cancelled by now, indeed).

Apart from substantial amendments introduced into the federal legislation, in 2020 the moratorium was introduced on audits of legal entities and private entrepreneurs within the framework of activities to prevent the spread of the coronavirus infection.² By Resolution No.438 of April 3, 2020 (revised on September 14, 2020) “On the Specifics of Carrying Out State Control (Oversight) and Municipal Control in 2020 and Amendment of Clause 7 of the Rules of Preparation by State Supervising (Oversight) Authorities and Municipal Supervising Authorities of Annual Plans of Scheduled Audits of Legal Entities and Private Entrepreneurs”, monitored entities were divided into two groups: the first group included legal entities entered in the register of SME whose average staff number did not exceed 200 persons in 2019, while the other group included other legal entities and private entrepreneurs.

The RF Government passed a decision on random audits of entities from the established list and individual scheduled audits of legal entities from the first group and scheduled audits of monitored entities from the second group to be carried out if their activities and (or) production facilities are attributed to the

1 In accordance with the final evaluation reports on the outcomes and main guidelines for the RF Federal Customs Service's activities in 2018-2019, the overall number of customs audits decreased by 16%-43%; it is noteworthy that owing to automation the time of audit decreased by 3%-10% (also, the share of such audits was growing by 57% and 76% in case of imports and exports, respectively).

Based on the data of the final evaluation reports on the outcomes of the RF Federal Customs Service's activities in 2017-2019, tax control saw a reduction of 30%-34% and 4%-30% in the number of on-site tax audits and foreign-exchange control audits. Specifically, such a reduction was accompanied by simultaneous growth of 40%-70% both in tax revenue volumes and efficiency of audits identifying violations (a pickup in tax revenue volume was facilitated by identification of violations).

2 Within the framework of state control (oversight) and municipal control envisaged by Federal Law No.294-FZ of December 26, 2008 (revised on July 13, 2020) “On protection of the Rights of Legal Entities and Private Entrepreneurs in Carrying Out State Control (Oversight) and municipal Control.”

category of high and extremely high risk. In carrying out state control of the quality and safety of medical activities, there are no scheduled audits. The moratorium is not applicable to audits which are held on the grounds of harm caused or the risk of harm to individuals' life and health and occurrence of man-made emergencies and natural disasters, as well as audits which are allowed by the Government of the Russian Federation. It is noteworthy that audits were to be carried out in 2020 with use of online networking, including audio- or videoconferencing. According to the findings of the analysis of monitoring and oversight activity dynamics in 2020, the overall number of audits decreased by 77.4% as compared with the year 2019, that is, from 1,347,677 in 2019 to 304,366 in 2020. There was a decrease in the number of audits carried out by supervising authorities, such as the Rospotrebnadzor (71.6%), the RF Federal Tax service (54.4%) and the RF Ministry of Internal Affairs (78.8%).

In November 2020, the RF Government's moratorium on audits of SME was extended till the end of 2021.¹ In addition, in 2021 it is planned to limit the period of scheduled audits of SME to 10 business days, while scheduled audits can be replaced by inspection visits.

Overall, it can be noted that in 2020 the new framework of supervising and oversight activities was formulated, particularly, such notions as mandatory requirements, state control (oversight), as well as the main principles of formation of the lists of mandatory requirements and carrying out of audits; also, utilization of the risk-oriented approach in supervising and oversight activities was legislatively established. The new upgraded model of supervising and oversight activities in the Russian Federation is meant to be consistent with to the modern level of development of science and technology in various areas of activities, the national economy and physical infrastructure. This model of supervising and oversight activities is aimed at relieving business entities' burden to comply with excessive and unreasonable mandatory requirements, motivate business entities to comply scrupulously and voluntarily with mandatory requirements and minimize potential benefits from violation thereof.

Despite a breakthrough in modifying the approach to audits, some issues still remain unsolved:

1) the need of systemizing and assessing the substance of a large number of mandatory requirements. Despite the substantial work done to reduce the number of outdated mandatory requirements, there is still the need of drawing line between oversight's different types of competences, removing the conflict between different requirements and making it illegal for experts to verify compliance with the requirements beyond their competence. This issue can be solved through introduction of big data analytics and artificial intelligence technologies for formation and analysis of the unified register of mandatory requirements;

¹ For more details, see Resolution No.1969 of November 30, 2020 of the Government of the Russian Federation "On the Specifics of Formation of Annual Plans of Carrying Out Scheduled Audits of Legal Entities and Private Entrepreneurs in 2021 and Audits in 2021 and Amendment of Clause 7 of the Rules of Development by State Control (Oversight) Authorities and Municipal Control Authorities of Annual Plans of Scheduled Audits of Legal Entities and Private Entrepreneurs."

2) duplication of audits of documents within the framework of different types of oversight. This issue can be solved through combination of individual types of audits in due course, as well as organization of inter-agency exchange of monitored entities' documents;

3) subjectivity of audit of individual mandatory requirements because of non-transparency of their substance and subjectivity of assessment; a broad scope of functions of experts and expert organizations. This issue can be solved by means of amendment of the approach to audits, particularly, through automation of a portion of audit procedures and development of guidelines for complying with mandatory requirements which experts believe are more often infringed upon;

4) carrying out of audits irrespective of the likelihood of violation, the scope of potential damage (losses) and lack of the risk category with auditees. This issue can be solved by switching over to the risk-oriented regulation based on the risk management system incorporating quantitative analysis and monitoring of supervised entities' data that indicate the level of risk;

5) failure to utilize the available data on the findings of previous audits. This issue can be solved by implementation of the abovementioned proposals on formation and utilization of the unified register of mandatory requirements, development and utilization of risk management systems and introduction of recommendation systems based on the modelling of the risk of violation to pick up monitored entities for audits.

Further changes in the supervising and oversight system should suggest practical implementation of the specified principles, particularly, the development and introduction of new audit rules with taking into account the presumption used in audit, risk indicators and criteria pointing to the need of audit.

6.6. Trends in regulating online platforms worldwide: international experience¹

Online platforms play a key role in digital economy. They make a significant contribution to increasing productivity and development of innovations, facilitate the easing of foreign economic activity, create environment for social development by supporting new forms of employment, involving small and medium-sized enterprises (SMEs) in the economy. The OECD member countries, as well as the Organization's partner countries (primarily China), strive to create conditions for the development of online platforms and ensure their competitiveness in global markets. Currently, the EU has adopted the most detailed regulation aimed, on the one hand, at creating conditions for developing digital platforms, and on the other, at protecting local consumers of goods and services provided by global digital platforms against misconduct. In order to improve the tools for protecting

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Russian users of the services provided by global online platforms, it is advisable to carefully analyze the EU experience in protecting the interests of consumers of digital platforms.

Digital platforms have significantly developed in different sectors in the EU countries. They cover a wide range of activities, i.e. online advertising platforms, marketplaces (e-commerce platforms for trading goods), search engines, social networks, app distribution platforms, sharing platforms (sharing economy platforms), including provision of professional and non-professional services through platforms (for example, taxi services, rental housing, freelance services, etc.). Digital platforms can contribute to developing new markets and digitalizing traditional ones, creating network effects, i.e. situations where various parties of the platform market are interdependent in so far as their decisions affect each other, even indirectly (for example, the number of vendors and goods affects the buyers' selection of the platform, as well as the number of buyers). There are direct network effects, for example, when an increase in the number of content providers makes the platform more valuable to content consumers, or indirect, when the platform provides better conditions for users, thereby making it more attractive to product or service providers and advertisers.

Digital platforms stimulate new forms of business, digitalize traditional businesses. For example, in 2018, every fifth EU enterprise (20%) began making electronic sales, while such sales accounted for 18% of their total annual turnover, whereas in 2009, electronic sales were made by 13% of all enterprises, i.e. growth over this period amounted to 5 p.p.¹

International trade platforms account for 56% of European cross-border online purchases. Amazon is the most popular international online trade platform in Luxembourg (72%) and Austria (64%), eBay plays a leading role in Cyprus (63%).

Back in 2016, the European Commission set the task to establish uniform rules for regulating platforms in every EU member state. In addition, it was critical to subject digital platforms, including foreign ones, to the existing EU rules in such areas as competition, protection of consumer and personal data, freedom of the single market.

Currently, the European Union plans to establish a Single Digital Market, aiming to contribute to economic growth, job growth, increased competition, investment and innovation growth in the EU in the amount of € 415 bn per year.

It is assumed that data economy will ensure growth of the GDP by 5.4% by 2025, equivalent to € 544 bn.² The Digital Single Market is based on 3 *basic principles*:³

1) *ensuring consumer and enterprise access to digital goods and services across Europe*. Thus, for instance, measures were taken to eliminate unjustified geo-blocking in cross-border trade in goods and services, preventing purchases on websites located in another EU member state, to strengthen consumer protection in e-commerce, to lower prices for cross-border parcel delivery services aimed at publishing price information, so that consumers could choose the cheapest

1 URL: https://ec.europa.eu/eurostat/statistics-explained/index.php/Digital_economy_and_society_statistics_-_enterprises#Enterprises_engaged_in_e-commerce

2 URL: https://ec.europa.eu/commission/presscorner/detail/en/IP_19_2749

3 URL: https://ec.europa.eu/commission/presscorner/detail/en/IP_19_2749

delivery methods (previously, international parcel delivery in the EU was 3-5 times higher on the average than prices for domestic delivery).

2) *establishing conditions for developing digital networks and innovation services.* This trend is intended for establishing digital skills, standards for using the artificial intelligence, cloud computing and blockchain for developing the 5G communication and Internet of things, cybersecurity, etc.

There are plans to introduce legislative measures in order to manage access and re-use of data, including personal data, to establish the exchange of data between business and government for the public benefit, to allow free reuse of data, and to invest € 2 bn in a European high-performance project to develop data processing infrastructure, data exchange tools, architecture and governance mechanisms for the successful exchange of data and the integration of energy efficient and reliable cloud infrastructures and related services. This area includes issues related to copyright infringement due to digitalization of content;

3) *the economy and society.* This trend is associated with digitalization of skills, as in the near future 90% of workforce will be demanded certain digital skills.¹

The European Union sets a number of requirements for the operation of global digital platforms (for example, Google, Facebook, Amazon, Netflix, Uber, etc.) in the European market, aimed on the one hand at protecting the interests of European consumers, and on the other, they turn into new barriers to international trade in digital services and goods

Among the key requirements (barriers) in the EU market, the following have to be highlighted: assessment of tax on digital services; regulation of network policy rules for handling personal data of EU residents; the need for online platforms to comply with consumer legislation; the option of applying labor law to individuals providing services or performing work using platforms (gig-workers); supervision of information intermediaries in terms of protection of intellectual property rights.

6.6.1. Taxation of digital services

Today, the income tax paid by the largest digital corporations in the market countries is disproportionately low relative to the profit, equivalent to the extent of their virtual presence in these countries through interaction with users of digital products, collection and analysis of their data.

It is the user data that is the required input for creating value. Instead, global profits end up in low-tax though highly competitive jurisdictions and offshores, locations of key intangible assets of such corporations.² In a pandemic, digital giants operate in antiphase to the crisis and receive additional profit from the forced transition of mankind to digital reality, thereby exacerbating the discussion about ways of more equitable taxation of their global profits.³

1 URL: <https://ec.europa.eu/digital-single-market/en/economy-society>

2 Corporate Taxation in the Global Economy. IMF Policy Paper, 2019. URL: <https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/03/08/Corporate-Taxation-in-the-Global-Economy-46650>

3 Leigh T. France to impose digital tax this year regardless of any new international levy // Technology news. 14 May 2020. URL: <https://www.reuters.com/article/us-france-digital-tax/france-to-impose-digital-tax-this-year-regardless-of-any-new-international-levy-idUSKBN22Q25B>

The EU initiated the revision of the actual corporate taxation rules at the international level, obsolete according to the EU and not reflecting the evolution of digital technologies and solutions that assist digital companies grow much faster than the economy as a whole.¹ Current regulations are no longer in compliance with the context that facilitates online commerce across borders without a physical presence, where businesses rely heavily on intangible assets that are difficult to value, and where user content and data collection have become core activities for creating digital business value. In the EU, about 500 mn users consume digital content of global companies. Back in 2018, the European Commission published a draft Directive related to general tax system on income derived from the provision of certain digital services.

Countries plan to continue working on an agreement defining uniform approaches to taxing digital services by mid-2021.² While this agreement has not yet been reached at the OECD level, the EU member states introduce taxes on digital services nationally. From January 1, 2020, Italy applies a digital services tax (DST) of 3%, replacing the “web tax” in force in 2019.³ DST applies to services such as advertising through a digital interface, provision of a digital multilateral interface allowing users to interact (also to facilitate the direct exchange of goods and services), transfer of data collected from users and created through a digital interface. DST thresholds have been set as follows: total revenues equal to or greater than € 750 mn, however, digital services revenues (originating in Italy) equal or exceed € 5.5 mn. A similar tax on digital services of 3% applies in France.

In Great Britain, DST is applied since April 1, 2020 and suggests a 2% tax from incomes received from digital services provided in this country and emerging due to business digital activity associated with British users.⁴ Digital Services Tax applies to social networking services, Internet search engines, online marketplace services. The following thresholds apply: the global revenue from related digital services exceeds £ 500 mn annually and more than £ 25 mn of these annual digital service revenues come from GB users.

According to OECD estimates, the global trade war engineered by unilateral taxes for digital services across the world and inability to reach agreement, can reduce the global GDP by more than 1% per annum.⁵

Russia, as a jurisdiction that often consumes digital services provided by non-resident companies (Google, Facebook, Netflix, etc.), has to participate in agreeing a unified approach to taxation in the digital economy at the OECD platform (an agreement on a unified approach should be reached in mid-2021). It is important for Russia to maintain an integrated approach to taxation in the context of digital economy, so that it is applied to all multinational companies (MNCs) meeting the requirements of the OECD unified approach rather than only to a limited number

1 URL: <http://www.oecd.org/tax/international-community-renews-commitment-to-address-tax-challenges-from-digitalisation-of-the-economy.htm>

2 Ibid.

3 URL: <https://www.gazzettaufficiale.it/eli/gu/2019/12/30/304/so/45/sg/pdf>.

4 URL: <https://www.legislation.gov.uk/ukpga/2020/14/section/46/enacted>

5 URL: <http://www.oecd.org/tax/international-community-renews-commitment-to-address-tax-challenges-from-digitalisation-of-the-economy.htm>

of companies participating according to the safe harbor principle. Implementing a unified safe harbor approach can create significant challenges to renegotiate regulations and increase uncertainty.

It should be emphasized that taking into account the current OECD proposals (approval of a threshold value for the annual income of MNCs to apply a new tax law in the amount of € 750 mn annually), the new tax rules will apply only to a very limited number of Russian digital companies. If for some reason a consensus is not reached at the OECD platform, Russia may consider the possibility of introducing nationally a tax on digital services based on the EU experience.

6.6.2. Regulating personal data

The European regulation related to protection of personal data (“General Data Protection Regulation”, GDPR) is intended to ensure the respect for rights of data subjects in the EU by domestic as well as foreign companies. Processing of the EU residents’ personal data by a controller or processor that is not established in the EU (for example, the American social network Facebook) is subject to the GDPR if:

- processing of personal data of data subjects in the EU is related to the offer of goods or services to data subjects in the EU, regardless of whether it is relevant to their payment or not. The use of language or currency commonly used in one or more member states with the possibility to order goods and services in this language is considered as a proof confirming the intention to offer goods or services to data subjects in the EU; making reference to consumers or users staying in the EU;
- processing of personal data of the EU data subjects is related to monitoring of actions or behavior of the data subjects in the EU since their actions are performed in the territory of the European Union. With a view to determine whether data processing activities evidence monitoring of actions of the data subject, it has to be proved whether individuals perform Internet activities, including potential opportunity for their consistent use of personal data processing technology, etc.

It should be emphasized that foreign technological or digital companies have been repeatedly referred to violations of the EU regime of the personal data protection. In January 2019, the Supreme Administrative Court of France found that the French division of Google was responsible for violating the GDPR provisions regarding the consent of personal data subjects and the requirement for transparency of data processing.¹ Google did not comply with the requirements for the consent form: this form should be informative, understandable, expressed in clear and simple language, while the consent form for data processing intended for users creating google accounts included 6 pages in very vague wording. Consequently, users were not properly informed about the purposes of data processing, period of their storage, procedure for data processing, making their consent invalid. The company was fined € 50 mn for these violations.

1 URL: <https://www.huntonprivacyblog.com/2020/06/23/french-highest-administrative-court-upholds-50-million-euro-fine-against-google-for-alleged-gdpr-violations/>

In June 2020, after years of the Schrems vs Facebook litigation, the EU Court ruled¹ that companies can transfer data from EU to other countries only if they ensure a level of data protection that meets the requirements of the EU law.

In 2013, Max Schrems, privacy activist, initiated the proceedings having contacted the Irish Commissioner for Personal Data Protection with a complaint that Facebook and other social networks cannot transfer his data to the United States, since the US legislation does not guarantee European users of social networks the same security clearance as GDPR, namely, protection from surveillance by US security authorities.

In 2015, the EU Court recognized the inconsistency of the so-called Safe Harbor Agreement between the EC and the USA (Safe Harbor Agreement) with the European data protection mode, where cloud providers could do without building centers for storing and processing personal data of the EU citizens in the EU countries. In 2016, the EU and the US have signed a new agreement on the principles of confidentiality of the EU citizens personal data processed by American companies, the so-called Privacy Shield Framework. According to this agreement, American companies handling data of the European users, should be certified and guarantee data confidentiality and exclude the possibility of their transfer to the US security authorities.²

Finally, in July 2020, The EU Court of Justice found that even this agreement does not make a sufficient tool for protecting personal data of the EU citizens, therefore, companies can now transfer data only if they comply to ensuring a level of protection which is equivalent to the European one. This means that foreign companies will have to bear the burden of providing technical guarantees for the safety of data, mechanisms and procedures for exercising the rights of the personal data subjects established by the GDPR, as well as effective means of legal protection.

Thus, the assessment of the protection conformity level takes place not only according to fulfillment of contractual clauses between the exporter and the recipient of data, but also according to the following criteria:

- conformity of the legal system of the data recipient country;
- access of the state services of the recipient country to the transferred data.

Experts note that such an approach to ensuring data protection on the one hand prevents the formal implementation of the clause related to the transfer of data under equal legal conditions, but on the other hand results in the data localization in the EU, thereby meaning that many more users will stay within the European digital market.³

Taking into account the EU experience, Russia needs to clearly define the feasibility of the extraterritorial application of the national legislation requirements on personal data towards foreign operators handling data of RF

1 URL: <https://www.cnn.com/2020/07/16/european-court-rules-on-facebook-vs-schrems-case.html>

2 URL: <https://legalitgroup.com/ru/sootnoshenie-eu-us-privacy-shield-i-gdpr/>

3 URL: <https://www.thestandard.com.hk/breaking-news/section/6/151087/EU-court-voids-US-data-sharing-pact-on-privacy-issues>

people (offering goods and services to Russians, monitoring their actions and behavior) and also provide additional guarantees and rights for data subjects to be observed by both national and foreign operators (the right to data portability, the right to be forgotten, the notification of violation, etc.).

In 2015, the Federal Law of July 21, 2014 No. 242-FZ “On Amendments to Certain Legislative Acts of the Russian Federation in Specifying the Procedure for Processing Personal Data in Information and Telecommunication Networks” came into force in Russia having approved the requirement for localization of personal data of the Russian people. Collecting, updating and changing personal data of Russians should be carried out using databases within the territory of Russia.

Personal data of Russian people initially entered into a database in the Russian territory (primary database), can subsequently be transferred abroad to the so-called secondary databases. The relevant requirements are an encumbrance for data operators, primarily foreign ones, however, they maintain the option for subsequent cross-border data transfer in accordance with the personal data legislation. The requirement to localize data in Russia becomes an obstacle for foreign companies to operate in the country and consequently for the import of services. The OECD countries (both the EU and the USA) do not apply the data localization requirement and regard it as a restriction on international trade of services.

The OECD countries are concerned that existing measures of data localization that are applied in some countries including Russia, have a significant impact on business activity. In particular, such requirements increase costs and limit the benefits of digital commerce.

6.6.3. The need for online platforms to comply with consumer laws

The aggregate value of e-commerce retail revenue in Europe amounted to \$ 393.8 bn in 2020.¹ The share of e-commerce users in the EU (i.e. the share of the population that made online purchases) was 53% in 2019.² The share of e-commerce sales in the retail sector increased. Thus, from 2014 to 2019, the share of retail e-commerce sales increased in Great Britain from 13.5 to 19.4%, from 10 to 15.9% in Germany, from 4.9 to 10.9% in France³. At the same time, the average annual per capita expenditure on e-commerce amounted in 2019 to € 921 in Great Britain, 784 in Germany, 746 in France, 668 in Italy, and 665 in Spain.

The largest number of users in e-commerce in 2020 was in Germany (62.4 mn), Great Britain (57.2 mn) and France (46.2 m), and the smallest was in Poland (24.6 mn).⁴ The most popular on-line purchases were associated with clothes and sports goods (65%), vacation vouchers and holidays (54%), housewares (46%), event tickets (41%) and books, magazines and newspapers (33%).⁵

1 URL: <https://www.statista.com/topics/3792/e-commerce-in-europe/>.

2 URL: <https://www.statista.com/topics/3792/e-commerce-in-europe/>; https://www.ecommerceeurope.eu/wp-content/uploads/2019/07/European_Ecommerce_report_2019_freeFinal-version.pdf

3 URL: <https://www.statista.com/statistics/281241/online-share-of-retail-trade-in-european-countries/>

4 URL: <https://www.statista.com/topics/3792/e-commerce-in-europe/>

5 URL: <https://ec.europa.eu/eurostat/statistics-explained/pdfscache/46776.pdf>

To protect consumers' rights on online platforms, including foreign ones, the EU has a Regulation on the "Promotion of Fairness and Transparency for Business Users of Online Intermediation Services" (2019).¹ Platforms to be used by vendors for offering goods or services to consumers, regardless of where these transactions are ultimately concluded, can provide online mediation services. The Regulation establishes a number of requirements related to provision of information, as well as a number of obligations for online platforms regarding rules of transparency for using platforms by operating merchandisers. In particular, the following obligations have been established:

- a fair rating of merchandisers of goods and services;
- warning merchandisers about changes in the rules for using platforms;
- creating mode for providing personal data to merchandisers;
- establishing systems for dispute resolution and handling complaints received from merchandisers using platforms.

The Regulation applies to online platforms operating in the EU to protect European merchant companies, in particular SMEs, from unfair actions by both European and foreign platforms.

It is worth noting that many countries are also strengthening NET consumer protection. Among the EU countries, France is pursuing a policy of regulating online trading platforms since 2016 with the adoption of Law No. 2016-1321 for the Digital Republic (Loi pour une République numérique). The law amends the Consumer Code and introduces the concept of an "operator of an online platform" ("opérateur de plateforme en ligne"). The operator is any individual or legal entity professionally involved for a fee or free of charge in providing people with online NET services based on computer algorithms to classify the content, goods or services, or on the use of links to content, goods or services proposed or posted online by third parties (for example, rating systems or collecting feedback on goods or services, or following a link of the marketplace to visit a merchandiser's website), or by bringing together many parties to sell goods, provide services or exchange (association for exchange is a form of C2C trade), or mutual use of content, goods or services.² Therewith, a special obligation has been included in the Consumer Code of the most visited platforms with a monthly number of more than 5 mn unique visitors to follow best practices in terms of clarity, transparency and loyalty to online consumers.³ Now, platforms have the following responsibilities: for example, to publish criteria for classifying the content and offers of goods and services, indicate information on agreements between the platform and the merchandiser when promoting goods or services, etc.

Further EU consumer protection policy aims to remove geo-blocking restrictions, i.e. prohibiting to restrict purchasing goods and services in the territory of individual states. Online stores, including foreign ones, based in the EU are obliged now to inform consumers whether they are buying from a professional

1 URL: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2019.186.01.0057.01.ENG&toc=OJ:L:2019:186:TOC

2 URL: <https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000035720908/>

3 URL: <https://www.legifrance.gouv.fr/jorf/id/JORFTEXT000035720925/>

merchandise or from an individual (non-professional vendor), so that consumers know about their rights if something goes wrong. Likewise, a 14-days rule was introduced when a consumer pays for a digital service and is entitled to refuse this service within 14 days.

Moreover, the EU applies safety requirements for products sold by online platforms set out in the EU technical and sanitary regulations. According to a study by the European Consumer Protection Organization, out of 250 verified consumer goods purchased on Amazon, AliExpress, eBay, and Wish, 66% were found to be ineligible to EU laws and technical standards.

The following goods were tested: inactive smoke and carbon monoxide detectors; children's clothing with long laces (constituting a suffocation hazard); toys containing chemicals with a hazard level 200 times higher than permissible; power supply that melted during testing.¹ Therefore, the EU operates a Safety Gate system for exchanging information between countries about unsafe goods to be taken into account by foreign electronic trading platforms in order to remove goods that do not meet EU technical requirements, sold to European consumers.

In 2018, a "Product Safety Pledge" between the EU and AliExpress, Amazon and eBay was concluded². Under this Pledge, the platforms have made commitments, whereby consumer non-food products placed online in the EU market must be safe. The Pledge establishes the platforms' obligation to track unsafe goods following the information published within the Safety Gate system. Besides, contact points should be established for the authorities of the EU member states to be used for notifying the platforms about dangerous products.

In order to strengthen consumer protection in Russia, the Ministry of Economic Development together with Rospotrebnadzor and other competent authorities, should develop Guidelines on consumer protection in e-commerce for electronic trading platforms, including foreign ones. A draft of such Guidelines was developed by the Club Russia - OECD RANEPА in 2018 for Rospotrebnadzor (to-date, the Guidelines have not been adopted). The Guidelines should reflect the recommendations of the electronic trading platform on ensuring the identification and verification of merchandisers, providing complete and reliable information about the merchandiser, use of merchandisers ratings, as well as measures to ensure that foreign electronic trading platforms sell goods taking into account Russian requirements for technical regulation and safety of goods.

Thus, in order to ensure a clear and transparent system for rating merchandisers and organize self-regulation in terms of transparency of users' opinions and comments, it is necessary to: 1) disclose information on commercial agreements with merchandisers; 2) calculate and remove falsified reviews from vendors; 3) inform that reviews for the product or the vendor were left by consumers in exchange for promising any incentive or reward; 4) refuse to delete or edit negative reviews due to a contractual relationship with the vendor.

1 URL: https://www.beuc.eu/publications/beuc-x-2020-068_beuc_and_anec_views_for_a_modern_regulatory_framework_on_product_safety.pdf

2 URL: https://ec.europa.eu/info/sites/info/files/voluntary_commitment_document_4signatures3-web.pdf

Among the tasks for developing digital trade in the EAEU is to ensure the safety of goods coming from foreign platforms. The introduction of a domestic ban on foreign Internet platforms to sell goods in the EAEU is being considered if the merchandiser cannot document compliance with the EAEU technical standards. The Ministry of Economic Development has initiated activities to simplify compliance assessment for small companies and self-employed to promote their goods in trade through online platforms. In parallel with measures aimed at simplifying compliance assessment procedures for vendors, the responsibility of online platforms should be defined for providing consumers with inaccurate or incomplete information about the compliance of goods with the requirements of technical regulations or other requirements for technical regulation established by the legislation of the Russian Federation and the EAEU.

6.6.4. Applying labor law to platform gig workers

According to the analysis of the European Commission's Joint Research Center, about 2% of the working-age population in the EU receives their main income through gig platforms (service delivery platforms) and up to 8% of workers (gig workers) use platforms to generate additional income.¹ However, foreign platforms such as Amazon, Deliveroo, Uber, operating in the EU, do not take measures to ensure labor rights and guarantees of gig workers. Gig platforms interact with gig workers without concluding an employment contract, similar to a civil law contract for provision of services. Accordingly, gig workers act as equal parties to civil law contracts with companies, although actually they are under control and do not receive counter labor guarantees, for example, the minimum wage, work schedule, payment of social insurance contributions.

While this position of gig workers is challenged from time to time in many countries only spontaneously (for example, by way of strikes), there is a legal framework being established in the EU providing legal remedies for protection of gig workers.

In the EU, measures are being taken to resolve the issue about the status of outsourcing workers (platform workers). Most often this is the self-employment status.² In the EU, both national and regional practice is developing for recognizing an individual as an employee in the absence of an employment contract. It should be noted that the absence of a formal employment contract does not negate the possibility of applying labor standards in regulating the relationship between the platform employee and the real platform or the customer. For example, the EU Directive on health and safety in fixed-term and temporary employment (91/383) may apply as well to temporary workers. This logically follows from considering temporary employment primarily as the establishment of employment relationship (fixed-duration employment relationship), while availability of an employment contract is a special case.

1 URL: <https://digitalforeurope.eu/the-gig-economy-a-tax-and-labour-challenge-for-the-eu>

2 OECD Employment Outlook 2019: The Future of Work, OECD Publishing, Paris, OECD, 2019. URL: <https://doi.org/10.1787/9ee00155-en>. P. 55

According to the request of the German Federal Labor Court to issue a preliminary ruling, the European Court should have determined the conditions for employment relationship in the absence of special legislation.¹ The European Court of Justice has determined that Directive 2008/104/EU on temporary work applies to cases when an employee without an employment contract performs tasks for a specific user for a pay, and this activity is the main source of income and is implemented under the guidance and control of the customer. Noteworthy is that the Directive applies to such cases regardless of the national regulation of the status of actual workers having no employment contract. This means that users of platforms in the EU, including foreign ones, are protected by the proper effect of the Directive.

In France, the Court of Cassation determining the status of a self-employed Uber driver, clarified in its decision No. 374² the differences between labor and civil contracts for formalizing the relationship between the online platform and employees. The Court has partially satisfied the driver's claims, recognizing him as an employee under the labor laws of France, although Uber insisted on the application of presumption of no employment, referred to individual entrepreneurs and self-employed.

In this case, the Court concluded that this presumption was inapplicable, motivating the decision by the presence of indicators of the driver's subordinate position. First, after signing a contract, the driver was forced to become a "partner" of Uber, which did not indicate the freedom to organize his working activities, search for customers or choose suppliers, since the driver used a system created and fully organized by Uber, where the driver could not independently choose the clientele, freely set prices or conditions for providing transport services, fully regulated by Uber. Second, with regard to freedom of linking and free choice of working hours, it was found that the way of choosing working days and hours may indicate the subordination to the employer, which is relevant to labor relations, because in any case, the driver accepted the terms of business offered by Uber regardless of when he began to cooperate. Third, with regard to tariffs: they are set on a contractual basis using the forecasting algorithms of the Uber platform that dictates a certain route to the driver, i.e. the driver does not have the freedom to choose the route, and if the driver deviates from this route, the tariff can be recalculated at a loss to the driver. Fourth, with regard to conditions for the provision of transport services, the Uber application controls orders, in particular, if the driver is offered trips several times (usually 3 times) and he refuses them, then the application can deactivate the account, which indicates lack of freedom of choice whether the ride fits the driver or not. Thus, the use of self-employed status for Uber employees is fictitious, since the company issued working orders (by offering orders, setting routes and prices), monitored fulfillment of an order (the company could recalculate the tariff when deviating from the route), could apply sanctions.

1 URL: <http://curia.europa.eu/juris/liste.jsf?language=en&num=C-216/15>

2 URL: https://www.courdecassation.fr/jurisprudence_2/chambre_sociale_576/374_4_44522.html

It was recognized that labor relations based on a subordinate position of the driver and lack of freedom to organize activities, search for customers, choose suppliers, set tariff, have been established. Thus, labor guarantees and rights enshrined in the EU acts can be applied in the EU to employees regardless of the employment contract. Hence, gig workers providing services on the online platforms (including foreign ones) in the EU countries enjoy labor guarantees and can assert their rights based on the European law, regardless of whether an employment contract has been concluded.

The self-employed differ from workers in the traditional sense not only because as a general rule they do not enjoy the rights and guarantees provided for by labor legislation, but also the regime of taxation of their profits is different. In the EU member states, special rules apply to the taxation of self-employed. For example, in Italy, the tax regime for self-employed provides for a flat tax rate of 15% instead of the usual progressive tax rates from 23 to 43%.

For reference: the tax on professional income for self-employed in Russia is 4% from incomes resulted from sale of goods and services to individuals, 6% from incomes received from sale of goods and services to legal entities and individual entrepreneurs (in contrast to personal income tax in the amount of 13% for residents and 30% for non-residents).

Moreover, it should be noted that tax treatment for taxing income from employment and doing business through digital platforms should not theoretically create distortions in favor of digital platforms, otherwise the further spread of such digital practices will erode the foundations of the fiscal system.

Digital platforms can also potentially act as tax agents, and therefore the use of tax incentives aimed at reducing the burden of tax compliance by small businesses is not always justified with regard to digital platforms. In this context, a number of EU countries (for example, Estonia, France)¹ are currently studying ways to improve tax regulation of digital platforms striving to increase their taxing role as participants in economic relations similar to labor relations or entrepreneurial activity, which entails a full range of tax obligations, including VAT, social contributions and personal income tax.

Today, Russia lacks special regulation for online platforms workers, including an obligation for online platforms to apply labor legislation. This creates risks of violation of labor safety, limits rights to have rest, to minimum wage, and results in a lack of social protection for platform workers. Therefore, Russia, in particular the Ministry of Labor, has to develop recommendations “Addressing the extension of certain labor guarantees to online platforms workers”, which will provide definitions of the basic concepts of the gig-economy, criteria for labor relations (platform control over the procedure for providing services, logistics support related to services, approving the operating mode, tariffs, clients, etc.), as well as draft recommendations for providing labor guarantees to gig-workers (workplace safety, a minimum wage not lower than the minimum statutory monthly pay, etc.),

¹ *Ogembo D., Lehdonvirta V. Taxing Earnings from the Platform Economy: An EU Digital Single Window for Income Data? // British Tax Review. 16 January 2020. URL: <https://ssrn.com/abstract=3576426>*

recommendations to platforms on taking measures of social support (salary funds, etc.), recommendations on the delineation of responsibility for providing services between the platform and the worker, on arranging online dispute resolution.

Russia, has to develop rules against the “mimicry” of labor relations for self-employment for the purpose of applying the preferential tax treatment (self-employment tax). Restrictions options are as follows: 1) absolute amount of income received, 2) share of income from one source in all incomes, 3) regularity of receiving income through platform. It is also advisable to expand obligations of digital platforms in relation to enterprises and individuals receiving orders through these platforms in proportion to the expanding role of digital platforms in the economy, including introducing the duties of tax agents with regard to digital platforms.

6.6.5. Regulation of information intermediaries regarding the protection of intellectual property rights

The information intermediaries are regulated in the EU by the 2000 EU Electronic Commerce Directive.¹ According to Articles 12-14 of this Directive, the information intermediary is an individual conducting a simple transfer, temporary as well as permanent placement of the material.

The Article 14 stipulates the following conditions for exemption from liability of information intermediaries: 1) the information intermediary did not know about the illegality of the content; 2) the information intermediary promptly deleted the illegal information or interrupted access upon receiving a notification about the illegal content.

European courts apply sanctions when information intermediaries fail taking measures to ensure the protection of intellectual property rights after the intermediary was informed about illegal content. In particular, if the information intermediary receives a notification about illegal content and does not delete the information after receipt, then the copyright holder can sue and then the court will assume the information intermediary's responsibility. In this regard, information intermediaries, including online platforms, post instructions for dealing with complaints of intellectual property violations on websites and take active steps to consider notifications upon their receipt.

However, information intermediaries are not obliged to take any action to identify the infringement of intellectual property rights before receiving a notification. Thus, in accordance with Article 15 of the Directives in the national legislation of the EU member states, it is unacceptable to impose the obligation of providers to monitor posted information in search of facts or circumstances indicating their illegality. In other words, the information intermediary is not obliged to take any action to monitor illegal content before receiving a notification of an infringement of intellectual property rights. However, if the information intermediary has not removed or restricted access to illegal content after receiving a warning, he will be liable.

¹ URL: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32000L0031>

Thus, the legislation makes it possible for information intermediaries to avoid responsibility for infringement of intellectual property rights if they fulfil a number of conditions.

The litigation *Lancôme vs eBay* is illustrative¹. *Lancôme*, a cosmetics and perfumery manufacturing company, discovered the sale of its counterfeit goods on eBay and filed a lawsuit against it. Hence, the Brussels Commercial Court ruled that eBay is only a platform offering information services on the sale of goods, and being an information intermediary, eBay is not obliged to track information published by its users or actively search for illegal counterfeit information. Consequently, eBay is not liable for counterfeit goods, as they were not aware of them and did not receive any relevant notification.

However, according to the EU Court of Justice, despite banning obligations to monitor the content, the EU member states are entitled to impose requirements on the information intermediary, aimed at preventing a future specific violation. In the case of *L'Oréal vs eBay*, the court ruled to take future actions “that not only help to stop violations of intellectual property rights, but also prevent further violations”.² Thus, the EU jurisprudence uses an extensive approach for defining the boundaries of responsibility of information intermediaries.

For example, in the case of *LVMH vs eBay*, the court ruled that eBay was liable for negligence resulted in infringing the plaintiff's exclusive rights and for failing to take effective action to prevent infringements.³ In this case, eBay was held accountable, as it was not just a “passive host”, but rather an “active broker” playing an important role in commercializing counterfeit products and making a profit from those sales.

Thus, EU legislation allows information intermediaries to avoid liability for infringing rights of intellectual property if they take prompt measures to remove illegal content after receiving a notification. Information intermediaries should not monitor in search for illegal content, however, they need to take measures to prevent future violations, for example, by creating a mechanism for prompt response to notifications.

To develop Russia's legislation, it is recommended to add the provision demonstrating lack of financial benefits as a ground for exemption of an information intermediary from liability to the list of conditions suggesting exemption from liability of an information intermediary (Article 1253.1 of the Civil Code of the Russian Federation). This aspect may reflect presence or absence of the intent of the information intermediary to violate the intellectual property rights of the copyright holder. Furthermore, it is possible to establish a list of required and sufficient measures to protect intellectual property under paragraph 3 of the Article 1253.1 of the Civil Code of the Russian Federation to be accepted by an information intermediary (for example, deleting, blocking, disabling links

1 URL: <http://www.unitalen.com/xhtmll/report/16124398-1.htm>

2 URL: <http://recent-ecl.blogspot.com/2011/07/cjeu-case-c-32409-loreal-v-ebay-end-of.html>

3 URL: https://www.americanbar.org/groups/intellectual_property_law/publications/landslide/2014-15/may-june/liability-e-commerce-platforms-copyright-trademark-infringement-world-tour/#6

to illegal material, as well implementing preventive measures in case of repeated downloads of the same illegal material).

The following measures have to be established as preventive: the information intermediary must have a special copyright protection policy suggesting deleting the account of users repeatedly downloading illegal content; there should be a dedicated contact person specializing in interaction with copyright holders; assistance in copyright protection.

Such measures will allow the platforms to prevent potential violations of intellectual property rights, and can also be used as a court evidence of taking sufficient measures to prevent violations of intellectual property rights.

6.7. Russia in key international institutions¹

The whole complex of pandemic, economic, and social crises has become a kind of a stress test for the system of multilateral cooperation as it is weakened by geopolitical conflicts, contradictions between the key members and growing mistrust due to stalled reforms of international organizations and their inability to cope with a host of global issues. Even prior to the pandemic outbreak, 2020 did not promise to be easy. Deepening inequality, deceleration of economic growth, acceleration of climate change, fiercer competition for digital technologies, and the fragmentation of cyberspace demanded joint efforts at the regional and global levels. The human toll, contraction of GDP by 5.2%,² a 13% drop in trade,³ a 60% plunge in oil prices,⁴ and a loss of an equivalent of 495 mn of full time jobs⁵ have aggravated long-term challenges by simultaneously casting aside cooperation to overcome them. In this context, it was paramount to balance the urgent agenda and long-term objectives.

6.7.1. The BRICS Chairmanship

Russia was making preparations to assume the BRICS chairmanship under the overall theme “BRICS Partnership for Global Stability, Shared Security, and Innovative Growth.” The program comprised more than one-and-a-half hundred evens on three “group of five” priorities: strengthen multilateralism, promote common interests in international organizations, intensify trade, economic and investment cooperation, expand people-to-people contacts and extend cooperation in humanitarian and cultural spheres. It is a success that, despite the new conditions, almost all the events were held, although in a virtual format, and all the planned documents were agreed upon. The fight against coronavirus

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2 The Global Economic Outlook During the COVID-19 Pandemic: A Changed World. URL: <https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world>

3 Trade shows signs of rebound from COVID-19, recovery still uncertain. URL: https://www.wto.org/english/news_e/pres20_e/pr862_e.htm

4 Oil Price Charts. URL: <https://oilprice.com/oil-price-charts/67>

5 ILO Monitor: COVID-19 and the world of work. Sixth edition. URL: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_755910.pdf

and cooperation to overcome the pandemic and its consequences have been on the agenda since the first event of the chairmanship - the February meeting of Sherpas.¹ The participants pledged to coordinate efforts aimed to combat the pandemic outbreak, including in the framework of WHO and expressed their support for the PRC and emphasized the unacceptability of discrimination and overreaction, bearing in mind the accusations of the US President that China is responsible for the spread of the pandemic. The expression of solidarity was important for China and the cohesion of the “group of five.”

All ministerial documents dealt with the collaboration in combating the pandemic. Participants of the extraordinary meeting of the BRICS Ministers of Foreign Affairs held in April 2020² discussed not only political issues but measures aimed at coordinated efforts to counter the COVID-19 pandemic including development of vaccine, coordination of fiscal and monetary policy, financial sustainability, and employment support.³ Different ministers present at the meeting adopted a special statement on the need to conduct a policy promoting early economic recovery. Ministers of economy and foreign trade highlighted the fact that any restrictive measures imposed to face COVID-19 should have targeted, proportionate, transparent, and temporary nature. Heads of tax agencies discussed actions aimed at easing tax burden and relief for business and people during the pandemic and recovery thereafter. Ministers of agriculture laid out measures on minimizing the impact of COVID-19 on supply chains of food products, stabilization of agricultural markets, protection of farmers’ incomes and achievement of sustainability and productivity of agricultural systems. It was obvious that joint efforts on resolution of issues aimed at protecting the health and wellbeing of humanity what was a priority and was institutionalized in 2012 focused on the containment of COVID-19. Russia proposed to set up a complex system of early warning of risks for the spread of mass infections within BRICS.

BRICS leaders confirmed the obligation to jointly work in such areas as risk management of new infections with pandemic potential, the most rapid implementation of 2019 decision regarding setting up of BRICS Center for research and development of vaccines. Russian can host such Center on the basis of one of the leading Russian institutes which could have contributed not only to a speedy development and deployment of new technologies but to promote them in partner countries. The New Development Bank (NDB) funds could be used for the creation of the Center, moreover Russia is the only BRICS member that did not take advantage of the NDB funds to combat the pandemic and its social and economic fallout.

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- 1 Meeting of Sherpa/sous-Sherpa of BRICS member states. URL: <https://brics-russia2020.ru/calendar/20200211/6974/Zasedanie-sherpsu-sherp-stran-BRIKS.html>
 - 2 Extraordinary meeting of the BRICS Ministers of Foreign Affairs in video conference format. URL: <https://brics-russia2020.ru/news/20200428/390145/O-vneocherednom-soveschani-glavneshnepoliticheskikh-vedomstv-gosudarstv-BRIKS-v-formate.html>.
 - 3 Statement and answer to media questions of Mr. Sergey Lavrov, Minister of Foreign Affairs of the Russian Federation at the press-conference on the outcome of the extraordinary meeting of the BRICS Ministers of Foreign Affairs, Moscow, April 28, 2020. URL: https://www.mid.ru/ru/foreign_policy/news/-/asset_publisher/cKNonkJE02Bw/content/id/4107702

Already in March 2020, the New Development bank approved a Program of urgent assistance aimed at providing crisis-related loans to the member-states to the tune of \$10 bn. From March till June the Bank approved loans to China, India, Brazil, and South Africa in the amount of \$1 bn each.¹ The Bank successfully issued two tranches of 3-year and 5-year COVID Response Bonds valued \$1.5 bn and \$2 bn, respectively on the international capital markets. The Bank continued financing previously approved projects. Over 2020, the Board of Directors approved financing of the new projects to the tune of \$3.6 bn of which around \$700 mn for projects in Russia. The NDB Eurasian regional center was launched whose objectives include search for and preparation of new projects, build-up of Russian projects portfolio. The decision on extension of the NDB shareholders and the kick start of negotiations with potential members should contribute to resource mobilization for financing the infrastructure and sustainable development projects. The results of the financial track performance also encompass the third testing of the pool mechanism of contingent currency reserves of the BRICS members, initiative on launching of special information channel on cyberattacks and cyber threats between the central banks of the BRICS members, the BRICS central banks working group research on potential architecture of cross-border payments and prospects for national bank cards systems integration.

Prepared in the framework of Russian Chairmanship, the Strategy for the BRICS economic partnership 2025 defines the trajectory of cooperation strengthening of the “group of five” in three priority areas: trade, investment, finance; digital economy; and sustainable development. In order to diversify trade within BRICS and ramp up trade turnover within the “group of five”, it is envisioned to implement measures aimed at reducing barriers on mutual trade of goods and services; promote cooperation in the sphere of technical regulation; standardization, metrology, conformity assessment and accreditation; strengthen customs cooperation. Improvement of transparency and enhancement of investment climate should contribute to attraction of mutual investments. In the field of finances, the following objective were set: to promote work to increase the share of national currencies in mutual payments, strengthen cooperation with regard to payments systems, develop domestic capital markets, continue cooperation on establishing the BRICS Local Currencies Bond Fund the implementation of which the BRICS members have not progressed since 2016 when it was first laid down during chairmanship of China.

Issues of digital economy and sustainable economy were missing in the first five-year Strategy adopted in 2015. A set of measures on digitalization is aimed at bridging digital divide primarily through the creation of digital infrastructure. That said, such aspects as security of important infrastructure and cooperation in the sphere of digital economy regulation have remained beyond the Strategy. Tasks of sustainable development in the sphere of climate change envisage creation of conditions for the development, adoption and production of technologies and practices that contribute to the reduction of greenhouse gas emissions in the

1 New Development Bank COVID-19 Response Programme. URL: <https://www.ndb.int/covid-19-response-programme/>

atmosphere; encourage the use of low-carbon technologies and the development of special instruments for stimulating such incentives. Regarding energy, the priorities focus to promote balanced energy mix of non-renewable and renewable sources, promote effectiveness and stability of energy markets, develop and deploy advanced clean energy technologies.

The Strategy prioritizes the shaping of external conditions of cooperation. The BRICS members have laid out their common position on reforming international financial architecture and commitment to promote enhancement of open, non-discriminative the WTO rules of multilateral trade system and the central role of the Organization in this system, refusal to introduce trade and investment protectionist measures and unilateral trade and investment restrictions incompatible with international obligations.

The implementation of the Strategy tasks can contribute to the achievement of the national objective of Russia's development for the period until 2030. However, the Strategy has no direct force. The development of sectoral programs and road maps for which the Strategy creates a frame work will be a mechanism for its implementation. The Strategy's implementation efficacy will depend on the continuity and quality of cooperation in concrete areas within further chairmanships.

6.7.2. Chairmanship in the Shanghai Cooperation Organization

The Shanghai Cooperation Organization (SCO) that has emerged from the informal mechanism of cooperation on regional security traditionally focuses on the issues of combating terrorism, extremism and drug trafficking. Historically Russia played the leading role regarding security issues and China – regarding the economic cooperation issues. Russia's chairmanship was not an exception. The tasks earmarked for 2020 encompassed intensification of geopolitical cooperation and enhancement of SCO's leading positions in terms of security support and stability. The economic block focused on such priorities as synergy of the national development strategies and multilateral integration projects as a basis for the formation of a wide and mutually beneficial cooperation in terms of security provision and sustainable development on the Eurasian space as well as expansion of economic cooperation first of all in transportation and logistics, infrastructure, scientific and technological and innovation spheres. Summarizing the results of Russia's chairmanship one can note that significantly more impressive results have been achieved in terms of regional security than in the economic sphere. The Russian initiative to create the Great Eurasian Partnership (GEP) with the participation of the Shanghai Cooperation organization members, the Eurasian Economic Union, the Association of South-East Asia states and other interested states and multilateral associations was noted by the partners however it did not get enough support. That said, all partners, except India, confirmed their support for the Chinese initiative One Belt, One Road (OBOR) and efforts aimed at coupling the Eurasian Economic Union with the OBOR. The competition between two initiatives and the lack of concrete projects and resources behind the GEP does not benefit the development of economic cooperation in the SCO.

Many leaders highlighted at the summit that the SCO had accumulated a significant economic and investment potential, had created the normative base including the Program of Multilateral Trade and Economic Cooperation (2019), the Plan of Actions on its implementation (2020), the Plan of Action for 2021-2025 for the implementation of the SCO Development Strategy until 2025 (2020), however in order to achieve success the Organization needs to transfer this potential into real projects. All the participants, except Xi Jinping¹ and Vladimir Putin,² spoke for the accelerated establishment of mechanisms for project financing, the SCO Bank and Development Fund. The idea has been in the works since 2004, the financial institutes could have been the accelerators of development of infrastructure in the region including in the field of transportation, logistics, energy, and digital, however due to the lack of support on the part of Russia the decision have been put off from one year to the next. As a result, the partners will look for a possibility to finance project through banks where China is the largest shareholder. According to the General Secretary, "it is long past time to tackle this issue from a new angle including by way of establishing the SCO's partnership with international financial institutions such as the Asian Infrastructure Investment Bank, the BRICS Bank, and Silk Road Fund in order to use their potential in the implementation of mutual transborder projects in the framework of our organization."³ For Russia, which seeks to contain China's economic influence in the region, such an approach will be counterproductive. Emomali Rahmon, the President of the Republic of Tajikistan, who will hold the chairmanship in 2021, stated that the establishment of specialized financial institutions will be one of the priorities in the course of the twentieth year of SCO cooperation. Russia's support will be of paramount importance although not exclusively for obtaining consensus regarding the establishment of institutions and determining their parameters but also for enhancing Russia's influence in the organization and in the region, strengthening relations with partners and financing of priority projects, for example, in the field of digital economy.⁴ As the BRICS NDB performance demonstrates, the SCO Bank can become a source of resources for financing anti-crisis programs.

Combatting the pandemic and its consequences affected the chairmanship's agenda and cooperation in the field of healthcare.⁵ The leaders expressed their commitment to expand cooperation in the field of public health, comprehensively coordinate emergency response in the field of health and epidemiology, and deepen scientific and technical cooperation in the development of drugs, vaccines and test systems.⁶ They adopted a Comprehensive Plan of Joint Actions of the SCO

1 The PRC is the initiator of its creation.

2 Russia does not support the creation of financial institutions considering they will promote strengthening the Chinese influence.

3 TASS: The SCO member states must speed up the establishment of financial institutions of the organization – general secretary. URL: <http://rus.sectSCO.org/news/20201201/696740.html>

4 A statements of the SCO Heads of State on cooperation in the field of digital economy (2020) highlights the importance of practical cooperation in this field.

5 Implemented in the framework of an Agreement between the SCO member states governments on cooperation in the field of healthcare as of 2011.

6 A statement of the Council of Heads of State of the SCO member states on a mutual combatting the novel coronavirus infection. URL: <https://SCO-russia2020.ru/images/108/43/1084305.pdf>

Member States to counter threats of epidemics in the region. Given the upcoming Tajikistan chairmanship, the development of the Plan of urgent practical measures for 2021-2022 was intended aimed at mitigating socio-economic, financial and food COVID-19-induced fallout in the region.

The SCO partners proactively promote cooperation between scientific and research and analytical centers of the member states on economic issues in order to determine promising fields for its further extension and deepening. Economic cooperation will become the same important field of cooperation within the SCO as the security. The containment strategy of its development can result in the loss of its importance. Active participation in determining the priorities for the future economic partnership, its filling with specific projects including through the initiative for establishing the SCO expert centers would have been a more productive approach to achieve the objective of sustainable development on the Eurasian space laid out by the Russian chairmanship.

6.7.3. The G20

Cooperation in the framework of the G20 remained a priority area in Russian foreign economic activity in 2020. The crisis demonstrated high demand for the leadership potential of the G20, although it is not always able to meet it. However, the G20 took on the role of a driving force and coordinator of the anti-crisis actions of international organizations.

Commitments of the urgent G20 Summit on support of the WHO efforts, strengthen its mandate, close the financing gap in the WHO Strategic Preparedness and Response Plan, provide immediate resources to the WHO's Solidarity Response Fund, development of urgent short-term actions to step up global efforts to fight the COVID-19 crisis have kick started the program of coordinated measures and allowed to mobilize new resources for public health purposes. The commitment to inject over \$5 trillion into the world economy, as part of targeted fiscal policy, economic measures, and guarantee schemes to counteract the social, economic and financial impacts of the pandemic was aimed at the support of economic resiliency and safeguard jobs. The commitment to counteract disruptions to the world supply chains should ensure the flow of vital medical supplies and other critically important goods and services across borders. Although these commitments have failed to avert the social and economic fallout of the pandemic, nevertheless they have promoted global cooperation in deployment of comprehensive financial measures taken by the IMF, the World Bank Group, and multilateral development banks to assist the most vulnerable countries.

In his address to the emergency Summit, the President of the Russian Federation outlined as an absolute priority of international cooperation joint efforts to the earliest development and provision of vaccines and medicines. In order to mobilize resources, Russia suggested setting up a special fund under the IMF aegis funded by the central banks – emitters of currencies in the IMF's currency basket with the view to provide any member of the IMF the right to borrow from this fund in proportion to its share in the world economy at zero rate for a long term. The President of Russia also emphasized the need to create "green corridors" for free

movement of supplies and technologies intended for the countries the hardest hit by the pandemic.¹ Unfortunately, Russian proposals regarding the fund and green corridors were not reflected in the summit commitments and later G20 documents. The enhanced cooperation and urgent financing of the development of drugs and vaccines was one of the priorities of the Plan of Actions to support the world economy due to COVID-19 adopted in April 2020 and the G20 subsequent decisions. Russia joined the Coordination Council on the Initiative to speed up access to the resources to combat COVID-19, support development of vaccines in the framework of the WHO, expressed its readiness to provide its vaccine for vaccination of the UNO employees. At the G20 Riyadh Summit, the President of Russia reiterated Russia's position that vaccines should be available to everyone and Russia is ready to provide its coronavirus vaccines Sputnik V and EpiVacCorona to the countries in need.

Russia has significantly contributed to the implementation of the emergency summit commitments in other fields: mitigation of the pandemic fallout, support of the economy, hardest hit industries and micro-, small and medium-sized enterprises (MSME), safeguard jobs and provision of social protection for vulnerable groups of population. Total volume of anti-crisis fiscal relief packages amounted to 4.5% of GDP. Of course, it is incomparable with the fiscal stimulus packages adopted by Japan (21.1% of GDP) or the USA (13% of GDP), but approximately comparable to the volume extended by the EU (4.3% of GDP).²

Russia has supported the G20 Debt Service Suspension Initiative despite the fact that the Initiative does not lead to a reduction in debt and solely suspends it and encompasses only 73 poorest countries of the world,³ and does not cover private debt, and so far applies to merely 3.65% of total cost of debt service of the developing countries in 2020⁴ and even after been extended for another 6 months will allow to suspend payments to the tune of \$11.7 bn.⁵ At G20 Riyadh Summit, the President of the Russian Federation Vladimir Putin suggested to think out additional measures to avoid deterioration of the situation and increase in economic and social inequality. It appears that such measures can include the issuance of special drawing right (SDR) to the tune of \$500 bn in support of efforts taken by the developing countries in combating the pandemic. The Trump Administration has blocked the corresponding proposal by the IMF Board of Governors, however, considering its importance and occurred changes in the US President administration, it is possible to return to discuss this idea. Moreover, the SDR issue can be implemented simultaneously with the agreement that the

1 G20 summit. URL: <http://kremlin.ru/events/president/news/63070>

2 Value of COVID-19 fiscal stimulus packages in G20 countries as of October 2020, as a share of GDP. URL: <https://www.statista.com/statistics/1107572/covid-19-value-g20-stimulus-packages-share-gdp>

3 COVID 19: Debt Service Suspension Initiative. URL: <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>

4 Shadow report on the limitations of the G20 Debt Service Suspension Initiative: Draining out the Titanic with a bucket? URL: https://www.eurodad.org/g20_dssi_shadow_report

5 The G20 "Common Framework for Debt Treatment beyond the DSSI": Is it bound to fail? Part 1. URL: https://www.eurodad.org/the_g20_common_framework_for_debt_treatments_beyond_the_dssi_is_it_bound_to_fail#:~:text=The%20G20%20recently%20announced%20the,of%20the%20Covid%2D19%20pandemic

rich countries that had no need for them could transfer some of their new SDRs to IMF or a special vehicle for the pandemic jointly overseen by IMF, the World Bank and/or regional development banks on condition of their subsequent use by corresponding institutions for issuing soft credits and debt relief of the poorest countries.¹

The G20 commitment to enhance cooperation on digitalization to overcome the pandemic fallout, counteract COVID-19, recover and ensure sustainable and inclusive growth are among the Russian priorities. In 2020, G20 defined cooperation priorities,² adopted Recommendations for national policy and international cooperation for reputable artificial intellect, approved fields of work on transborder data flows, adopted the Roadmap to a common measure of the digital economy (DE). The reorganization of the Digital Economy Task Force into the Digital Economy Working Group confirms increased attention of G20 to corresponding issues. Integration of the DE regulation issues into G20 opens up potential opportunities for raising Russia's influence on the formation of regulation which is especially important taking into account restrictions in OECD that is striving to strengthen its statutory leadership in DE and legitimate its instruments through the Group of Twenty. Consequently, we see it fit to plan and prepare proactive Russia's participation in the Working Group working out common approaches towards data management. Russia could have proposed for G20 agenda issues of digital platforms regulation and establishment of the Digital Stability Board. Establishment of such institution (by analogy with the Financial Stability Board) charged with the development, coordination and monitoring of digital economy regulation, will help to avert the crisis due to weaknesses of international regulatory system as it happened in 2008 simultaneously allowing countries with emerging economies and developing countries comprehensively participate in the formation of new mechanisms. Joint initiative of the Development Working Group and the Digital Economy Working Group on integration in current tasks and indicators of digitalization into the Sustainable Development Goals could have contributed the use of the digitalization advantages for sustainable development and be a concrete contribution of the G20 in the Agenda in the field of sustainable development for the period until 2030.

6.7.4. The International Monetary Fund

In 2020, Russia being a creditor of the International Monetary Fund (IMF) continued to participate in the facilities of the Fund, including New Arrangements to Borrow and Bilateral Borrowing Agreements. These facilities serve as a second and third line of defense ensuring temporary addition after its quota resources in

1 What You Really Need to Know about the SDR and How to Make it Work for Multilateral Financing of Developing Countries. URL: <https://www.tandfonline.com/doi/full/10.1080/05775132.2020.1802178>

2 Development of infrastructure and network interdependency; safe data exchange; research and development of digital technologies for health; application of digital technologies and solutions to secure economic activity in the wake of pandemic; ensure security and trustworthy online environment; support of MSME transition to the digital production system, e-commerce and digital business model.

case of need. Granted that the Bank of Russia extends funds to the IMF within the RF quota (from February 17, 216 at the period-end of the 14th general review of quotas it came to SDR 12,903.7 mn) on a constant basis and the IMF obligations to extend funds are timeless, the life term of these credit facilities are usually prolonged by Russia on proposed by the IMF terms.

Consequently, Russia has approved a doubling of the New Arrangements to Borrow approved by the IMF Executive Board on January 16, 2020.¹ According to this decision, Russia will participate in this facility until November 16, 2022 and potential RF obligations in their framework amounting to SDR 4,440.91 mn² will hit SDR 8,881.82 mn. The decision will become effective following the approval of corresponding procedures by all creditors at the national level (the targeted effectiveness date – January 1, 2021).³ Furthermore, the terms of Russia's national agreement in the Bilateral Borrowing Agreements were extended by an additional year until December 31, 2020 with potential obligations of Russia not exceeding \$10 bn.⁴ Russia's participation in the IMF credit facilities is important for increasing the Fund's resources the need for which has done up due to the COVID-19 pandemic but cannot be satisfied by raising quotas capital because the 15th general review of quotas has not been conducted and the current 16th general review has to be completed solely in 2023.

Russia is eligible for financial assistance via the IMF Rapid Financing Instrument. However, at present, there is no such need – Russia did not apply for financial assistance from IMF during the pandemic.⁵ At the same time, given cross-border crisis effects, it is important for Russia to participate in the IMF facilities as a donor with the aim to minimize the crisis fallout in other countries.

2020 saw continued consultations between the IMF and Russia with technical assistance been provided on the basis of those consultations. An International Monetary Fund mission conducted remotely the 2020 Article IV annual consultations with the Russian authorities from November 9 till 23, 2020. At the end of the discussion, the mission issued the concluding statement assessing the undertaken measures and providing recommendations related to the current Russian economic policy. The idea behind the recommendations concentrates on the need to sustain efforts to address structural factors that constrain potential growth coupled with the implementation of measures counteracting pandemic-induced crisis. The mission highlighted that the Russian economy had demonstrated healthy recovery owing to adopted by the government measures.

1 IMF Executive Board Approves Decisions to Implement a Package on Resources and Governance Reform. URL: <https://www.imf.org/en/News/Articles/2020/01/17/pr2010-nab-and-quota-imf-executive-board-approves-package-resources-governance-reform>

2 On credit agreements of the Bank of Russia with IMF. URL: <https://www.cbr.ru/StaticHtml/File/36568/NAB20170615.pdf>

3 IMF Executive Board Approves Decisions to Implement a Package on Resources and Governance Reform. URL: <https://www.imf.org/en/News/Articles/2020/01/17/pr2010-nab-and-quota-imf-executive-board-approves-package-resources-governance-reform>

4 2016 Bilateral Borrowing Agreements (about US\$ 433 billion): Terms Extended by an Additional Year to End-2020. URL: <https://www.imf.org/en/News/Articles/2019/11/05/pr19395-2016-bilateral-borrowing-agreements-about-us433bil-terms-extend-by-an-additional-yr-end2020>

5 Europe's COVID-19 Crisis and the Fund's Response. URL: <https://blogs.imf.org/2020/03/30/europes-covid-19-crisis-and-the-funds-response/>

At the year-end 2020, the IMF project the economy to contract by about 4% and to expand by 2.5% in 2021 assuming the COVID-19 situation gradually normalizes. The feasibility of a repeated imposition of tough restrictive measures coupled with persistent geopolitical tensions are among the main downside risks. In fiscal policy, the IMF recommends to continue policy aimed at combating the pandemic and to be ready to extend existing measures in case of deteriorated situation. The IMF experts also recommend “to consider reinstating the higher unemployment benefits while the crisis persists and until there is a meaningful recovery in employment, as the pre-crisis benefits are very low relative to the cost of living.”

Regarding monetary policy, with due regard for inflation projections to stay below the target level, further easing of the current policy measures is recommended. The IMF experts recommended the Bank of Russia to separate regular foreign currency purchases/sales under the fiscal rule earmarked at reducing disorderly market conditions. The banking sector noted the efficacy of measures to mitigate the consequences of the crisis, which are recommended to be gradually canceled against the background of normalization of the situation to preserve financial stability. It is paramount to focus on measures aimed to secure sustainable growth. In recent years, Russian GDP growth averaged barely 1.5%, stalling Russia’s convergence to advanced economy income levels. In view of this, still hold relevance previous IMF recommendations related to improvement of the business climate, raising competition within and across regions, and strengthen corporate governance of state enterprises. The national projects present opportunities to bolster potential growth in the economy should not be seen as a substitute for the important reforms, nor should they contribute to expanding the already large footprint of the state on the economy.¹

In the context of Russia’s proactive participation in the IMF activities as a donor country and deployment of the Fund’s expert support, there is no progress in the areas of its reform that are relevant for Russia, including raising the share of quotas and votes in the IMF of our country and other countries with emerging economies and developing nations, revising the formula for calculating quotas, extending the list of reserve currencies and adjusting the composition of the SDR currency basket.

6.7.5. The World Bank Group

In 2020, Russia prioritized cooperation with the World Bank Group (WBG) in the fields of information, scientific research and expert-analytical activities aimed at obtaining the WBG expertise for the improvement of financial regulation and introduction of world best practices.² Besides, as before the WBG institutes is providing a share of multilateral official assistance to Russian development.³

1 Russian Federation: Staff Concluding Statement of the 2020 Article Mission. URL: <https://www.imf.org/ru/News/Articles/2020/11/23/mcs112420-russia-staff-concluding-statement-of-the-2020-article-iv-mission>

2 The World bank Group. URL: <https://www.cbr.ru/today/ms/smo/wb/>

3 Russia and the World Bank: International Development Assistance. URL: <https://www.worldbank.org/en/country/russia/brief/international-development#3>

Long-term issues remain in relations between Russia and the World Bank Group. In particular, in 2020, the approval process for new IBRD projects on the territory of Russia is still frozen. According to the data for December, the implementation of 5 projects continued, which were approved before 2014, the St. Petersburg economic development project was completed in 2020.¹ Restrictions on the interaction of the Russian Federation with other institutions of the WBG also in force since 2014, have remained. As in the case of the IMF, there is no progress on further reform of the World Bank including the issues advocated by Russia of raising the share of countries with emerging economies and developing nations in equity capital, as well as improving democratic governance structure of the Bank. Given the low feasibility of resolving these issues in the coming years, other multilateral development banks, such as the New Development bank and the Asian Infrastructure Investment Bank (AIIB), are becoming the principal partners for financing projects on the territory of Russia.

As for the wide-scale measures in the area of financing the fight against the COVID-19 pandemic worth of \$160 bn for 15 months, they would have low relevance for Russia even in case of the resumption of the WBG new activity in our country, since those funds are principally earmarked at assisting developing countries. The participation of Russian providers in the WBG projects to finance coronavirus vaccination in developing countries may be of particular interest. Furthermore, with due regard for the need to develop effective measures aimed at managing socio-economic pandemic-induced fallout, cooperation should be strengthened to use the research and expert-analytical potential of the World Bank, which is actively developing appropriate tools.

6.7.6. The World Trade Organization

Over 2020, the Russian Federation proactively participated in the World Trade Organization (WTO) within the envisaged negotiation mechanisms including the Dispute Settlement Body. By December 2020, all in all Russia participated in 8 disputes as complainant, in 9 as respondent, and in 86 as third party.²

Russia continued participating in other negotiation formats. In 2020, Russia came out with a total of 97 statements and notifications (including collective ones) on the WTO negotiation platforms. Russian representatives were more active in coming out with statements within the informal working group on micro-, small and medium enterprises, agricultural committee, committee on sanitary and phytosanitary measures, and committee on technical barriers to trade. On February 7, 2020, Russia issued a statement within the initiative on Common statement on e-commerce. Notably, the contents of this statement are not to disclose.³

On March 24, 2020, the WTO Director-General Roberto Azevedo called on the WTO members to ensure publicity regarding trade measures put in place due to

1 Projects in Russian Federation. URL: https://projects.worldbank.org/en/projects-operations/projects-list?lang=en&searchTerm=&countrycode_exact=RU

2 WTO, Disputes by member. URL: https://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm

3 WTO Documents Database. URL: https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S006.aspx

the COVID-19 pandemic. In view of this, on March 25, 2020, the WTO launched a special information portal dedicated to trade aspects and pandemic fallout. Russia was among the first who submitted data on adopted trade measures. Over 2020, Russia submitted information on seven measures affecting trade in goods,¹ one – affecting trade in services,² and five – regarding trade-related intellectual property rights.³

Pursuant to Mr. Azevedo's call to ensure publicity of cross border flows of goods, services, and investments,⁴ the Russian Federation introduced urgent trade measures for a limited periods of time. For example, out of 7 measures affecting trade in goods about which Russia informed the WTO two measures were of protectionist nature: restrictions on export of medical goods and personal protective equipment. These measures were lifted on June 30 and September 30, 2020, respectively.⁵ However, the Russian Federation has failed to provide to the WTO information of relief measures for domestic producers imposed during the COVID-19 pandemic⁶ (only 34 members (21%) have shared this information with the WTO).⁷

Since the crisis outbreak, the RF Government adopted a number of resolutions regarding relief for businesses in various sectors of the economy: light,⁸ electronic,⁹ automobile¹⁰ industries, and agriculture.¹¹ Moreover, funds were extended for employment support including in small and medium-sized businesses.¹²

- 1 COVID-19: Measures affecting trade in goods. URL: https://www.wto.org/english/tratop_e/covid19_e/trade_related_goods_measure_e.htm
- 2 COVID-19: Measures affecting trade in services. URL: https://www.wto.org/english/tratop_e/covid19_e/trade_related_services_measure_e.htm
- 3 COVID-19: Measures regarding trade-related intellectual property rights. URL: https://www.wto.org/english/tratop_e/covid19_e/trade_related_ip_measure_e.htm
- 4 Azevedo sees sharp fall in trade, calls for global solutions to COVID-19 crisis. URL: https://www.wto.org/english/news_e/news20_e/dgra_25mar20_e.htm
- 5 COVID-19: Measures affecting trade in goods. URL: https://www.wto.org/english/tratop_e/covid19_e/trade_related_goods_measure_e.htm
- 6 COVID-19: Support measures. URL: https://www.wto.org/english/tratop_e/covid19_e/trade_related_support_measures_e.htm
- 7 Report on g20 Trade Measures (Mid-October 2019 to Mid-May 2020). URL: https://www.wto.org/english/news_e/news20_e/report_trdev_jun20_e.pdf
- 8 On approval of the Regulations for provision of the federal budget subsidies earmarked for reimbursement of part of costs incurred on credits service earmarked for raising volumes of products sale and strengthening competitiveness of Russian industrial goods. URL: <https://стопкоронавирус.рф/ai/doc/539/attach/wX3mTL3zasw3In86AHAaE2Pe8cX5ckaW.pdf>
- 9 On specifics of application in 2020 Rules for provision of the federal budget subsidies to Russian organizations financing part of costs incurred on the development of scientific and technical backlog in the development of basic technologies for production of priority electronic components in radio-electronic equipment. URL: <https://стопкоронавирус.рф/ai/doc/444/attach/KduExWbMNO06vZ0Z12gmt3jdohzZ8Hxw.pdf>
- 10 Order dated May 22, 2020 No. 1374-r. URL: https://стопкоронавирус.рф/ai/doc/300/attach/rasporyaxhenie_ot_22_maya_2020_goda_1374-r.pdf
- 11 On measures to ensure sustainable economic development. URL: <http://static.government.ru/media/files/kTj6vbMop2fN43iEZ16idfPSKriXYK5o.pdf>
- 12 On approval of Regulations for provision and distribution in 2020 of other intergovernmental fiscal transfers from the federal budget to budgets of the subjects of the Russian Federation, which are financed by the budget allocations from the reserve fund of the Government of the Russian Federation and aimed at co-financing expenditure obligations of the subjects of the Russian Federation emerging at the implementation of additional measures earmarked at the reduction of disruptions on the labor markets of the subjects of the Russian Federation. URL: <https://стопкоронавирус.рф/ai/doc/417/attach/dok.pdf>

In the wake of the pandemic, there are still problems associated not only with the effectiveness of the WTO as a productive institute that ensures the equitable participation of the Russian Federation in cross-border trade, but with a potential impact of the anti-crisis measures taken on the competitiveness of Russian enterprises in global markets.

The first block of problems reflects the institutional crisis of the Organization associated with the inability to deal with unilateral and protectionist trends demonstrated by its certain members. Both mounting contradictions between certain actors (the USA-China-the EU) and the lack of consensus between traditional groups of interests (advanced – developing countries) on the main issues of Doha round do not allow to achieve agreements able to ensure sustainability and integrity of regulatory regimes in the framework of multilateral trade system. Despite the fact that Russia repeatedly stated about its adherence to WTO central role in international trade, potential contribution of Russia in determining fundamental contradictions between the key participants of the system have not been significant.

The second block of problems is due to the objective impact of the pandemic on the growth rates of Russian economy and its foreign trade potential. Most likely, the imposed anti-crisis measures will not be enough to maintain an acceptable economic growth rates – the IMF projects a contraction of GDP by 4.1% by the end of 2020.¹ The decrease in economic activity in the country coupled with the unfavorable situation in the global energy markets, in turn, will lead to a reduction in the share of Russia in world trade. For example, according to the WTO data, in Q2 2020, Russian exports decreased by 37.5% and imports – by 52% which is the utmost decrease among all economies of the Group of Twenty regarding both indicators.²

6.7.7. The World Health Organization

From the start of the crisis induced by the outbreak and proliferation of COVID-19, the Russian Federation considered the position and recommendations given by the World Health Organization (WHO) related to combatting the disease and measures aimed at containing its transmissibility. At the same time, Russia stressed the central coordinate role played by WHO in global efforts to combat COVID-19. For example, Russia supported the resolution adopted by the UN General Assembly on April 20, 2020 “International Cooperation to Secure Global Access to Medicines, vaccines and medical Equipment to face COVID-19” which “reaffirms the fundamental role on the United Nations system in coordinating the global response to control and contain the spread of the coronavirus disease COVID-19”.³ The decision on extending additional funding for WHO was adopted on April 3, 2020. This resolution of the Government of the Russian Federation

1 Russian Federation, IMF. URL: <https://www.imf.org/en/Countries/RUS#countrydata>

2 Report on g20 Trade Measures (Mid-May 2019 to Mid-October 2020). URL: https://www.wto.org/english/news_e/news20_e/report_trdev_nov20_e.pdf

3 Resolution of the UN General Assembly “International Cooperation to Secure Global Access to Medicines, vaccines and medical Equipment to face COVID-19”. URL: <https://undocs.org/ru/A/RES/74/274>

envisaged “payment of a single additional voluntary contribution to the World Health Organization for the implementation of measures to combat the new coronavirus infection in the amount of \$1 mn.”¹

Besides that, Russia reiterated on the unacceptability of any attempts to politicize WHO activity. In the context of the US President Donald Trump to leave the World Health Organization, the Foreign Minister of the Russian Federation Sergey Lavrov highlighted the effectiveness of collective efforts and Russia’s intention to continue multilateral cooperation to combat the coronavirus infection in WHO format.²

At the end of the day, restrictive measures imposed by the Russian Federation to face the spread of the infection have corresponded WHO recommendations. For example, restrictions envisaged by the Executive Order of the President dated April 2, 2020 on the measures to ensure health security of the population due to the proliferation of the coronavirus infection³ correspond to WHO recommendations on the principles of adjustment of measures to protect the health of the population and social measures released on April 16, 2020⁴ (in particular, measures to minimize the movements of the citizens and consider halting of some types of activities associated with high risk of infection transmission when there is no chance to provide the necessary hygienic measures).

The recommendations issued by the Ministry of Health of the Russian Federation regarding prophylactics, diagnosis and treatment of COVID-19 also refer to the WHO materials, in particular, to Temporary Recommendations for the rational use of personal protective equipment and Clinical Recommendations for treating patients with severe acute respiratory infection.⁵

The decision to impose state border travel restrictions was adopted on March 27, 2020. That said, it should be noted that at the early stage of the pandemic WHO did not recommend any travel restrictions stressing low effectiveness of significant negative economic effect of total ban on cross border travel.⁶

The World Health Organization also commended Russia’s contribution to the global effects to combat COVID-19. At a meeting between WHO Regional

1 Resolution of the Government of the Russian Federation dated April 3, 2020 No. 863-r. URL: <http://publication.pravo.gov.ru/Document/View/0001202004060017>

2 Interview of the Foreign Minister of the Russian Federation S.V. Lavrov for Russian and foreign media in videoconference format on urgent issues of international agenda, Moscow, April 14, 2020. URL: https://www.mid.ru/vsemirnaa-organizacia-zdravoohranenia-voz-/-/asset_publisher/u11zRQA4uRzH/content/id/4099053

3 Executive Order of the President of the Russian Federation dated April 2, 2020 on measures to ensure health security of the population due to the spread of the coronavirus infection. URL: <https://stopкоронавирус.пф/ai/doc/87/attach/0001202004020025.pdf>

4 The WHO recommendations on the principles of adjusting measures aimed at protecting the health of the population and social measures. URL: <https://www.who.int/publications-detail/considerations-in-adjusting-public-health-and-social-measures-in-the-context-of-covid-19-interim-guidance>

5 Temporary methodological recommendations on prophylactics, diagnosis and treatment of the novel coronavirus infection. URL: https://stopкоронавирус.пф/ai/doc/332/attach/03062020_mR_COVID-19_v7.pdf

6 A Joint Statement on Tourism and COVID-19: UNWTO and WHO Call for Responsibility and Coordination. URL: <https://www.who.int/ru/news-room/detail/27-02-2020-a-joint-statement-on-tourism-and-covid-19---unwto-and-who-call-for-responsibility-and-coordination>

Director for Europe Hans Kluge and Russian Foreign Minister Sergey Lavrov held on September 22, 2020, Mr. Kluge commended Russia for provision to WHO information on the vaccine development and also highlighted an important role been plaid by Rospotrebnadzor in the activities of the Global Infection Prevention and Control Network and countermoves including combating COVID-19.¹

On October 2, 2020, Russia and WHO signed a memorandum of understanding for a contribution by the Russian Federation an amount of exceeding \$15 mn to support priority health actions including on implementation of the COVID-19 Strategic Preparedness and Response Plan.²

Consequently, Russia and WHO demonstrate a rather high level of mutual support in their efforts to combat COVID-19 both in terms of an official discussion and setting up effective cooperation. Exchange of information on development of vaccine becomes the principal area of collaboration to date. Russia provided WHO information within the Global Vaccine Safety Initiative. In late October 2020, the Russian Fund of Direct Investment (RFDI) submitted to WHO a request for the registration and requalification of COVID-19 vaccine Sputnik V.³ WHO confirmed the request receipt and started negotiations with RFDI and Gamalei Center behind the vaccine.⁴ On December 8, 2020, Russia submitted an entry to WHO on a second vaccine – EpiVacCorona developed by Novosibirsk research center Vector.⁵

6.7.8. The United Nations Organization

The central role played by the United Nations Organization (UNO) in the development and implementation of joint efforts to mitigate the consequences of the pandemic has determined a proactive participation of Russia in the coordination of plans to weather the current crisis on the platform of the Organization and their practical implementation.

In March 2020, Russia submitted for discussion at the UN General Assembly a draft resolution on international solidarity to combat coronavirus. The Russian draft confirmed the central role of WHO in global response to the pandemic as well as the need to surmount the conflict of interests in the field of world trade and rejection of economic sanctions as means of pressure in the interests of rapid recovery of countries hit by the pandemic.⁶ Proposed by Russia draft was rejected – the decision was blocked by delegations of Ukraine, Georgia, Great

1 Europe's regional director begins visit to the Russian Federation with commitment to global solidarity in fight against COVID-19. URL: <https://www.euro.who.int/ru/health-topics/health-emergencies/coronavirus-covid-19/news/news/2020/9/whoeuropes-regional-director-begins-visit-to-russian-federation-with-commitment-to-global-solidarity-in-fight-against-covid-19>

2 The Russian Federation steps up support to WHO for global health security and non-communicable diseases. URL: <https://www.who.int/ru/news/item/02-10-2020-the-russian-federation-steps-up-support-to-who-for-global-health-security-and-noncommunicable-diseases>

3 Russian request for WHO prequalification of Sputnik V vaccine was one of the first since the requests start date. URL: <https://rdif.ru/fullNews/5962>

4 WHO eyes granting emergency use listing for Sputnik V vaccine. URL: <https://news.ru/en/society/who-eyes-granting-emergency-use-listing-for-sputnik-v-vaccine>

5 WHO received Vaccine EpiVacCorona documents for review. URL: <https://tass.ru/obschestvo/10207795>

6 Russia proposed the UNO to adopt resolution to combat coronavirus. URL: <https://www.kommersant.ru/doc/4307688>

Britain, the USA, and the EU.¹ Discussion at the General Assembly platform resulted in the adoption of a draft resolution proposed by Ghana, Indonesia, Lichtenstein, Norway, Singapore, and Switzerland.²

Unlike the Russian draft resolution, the adopted resolution is limited to general calls for joint efforts of all relevant stakeholders to work together “at the national, regional and global levels” and acknowledging the crucial role played by the World Health Organization.” Central elements of the Russian draft – rejection of trade wars and unilateral sanctions with the corresponding decision of the UN Security Council, counteracting financial speculations with essential goods and reaffirm the need to disseminate reliable information about the coronavirus have not been considered.

Russia was among the first countries to back the call of the General Secretary Antonio Guterres to cease all internal and international conflicts to stabilize humanitarian situation in the wake of the spread of the COVID-19 pandemic.³ At the same time, our country declared in favor of the suspension of unilateral sanctions “that seriously limit the potential of the country to react to the challenges induced by the pandemic.”⁴ Despite comprehensive support for the call to ceasefire, it took three months to coordinate common position of the international community at the UN Security Council which was due to different views of the UN Security Council members on the issue of resolving a number of regional conflicts as well as on the activities of non-governmental paramilitary forces as well as terrorist groups. The final version of the resolution adopted by the Security Council included an important adjustment that declared durable humanitarian pause for at least 90 consecutive days does not apply to military operations against certain Council-designated terrorist groups,”⁵ which was favorably assessed by Russia. Nevertheless, provisions to suspend sanctions promoted by Russia were again taken out of the final version of the text.

In the interests to strengthen the fight against the spread of the pandemic and reconstruction of affected countries, the United Nations announced fundraising on the basis of several international programs. In this context, the Global Humanitarian Response Plan for COVID-19 with funding requirements of \$9.5 bn became the central UN program. As of December 2020, of the required sum contributions amounted to \$3.81 bn and contribution of the Russian Federation came to \$1mn.⁶ In 2020, Russia also transferred to the UN budget around \$74.1 mn according to the scale of regular country contributions.⁷

1 Russian draft of the UN GA resolution to combat pandemic has been blocked. URL: <https://www.interfax.ru/world/702322>

2 Global solidarity to fight the coronavirus disease 2019 (COVID-19). A/RES/74/270. Resolution adopted by the General Assembly on April 2, 2020. URL: <https://undocs.org/ru/A/RES/74/270>

3 UN chief called for global ceasefire to fight the common enemy – COVID-19 URL: <https://news.un.org/ru/story/2020/03/1374872>

4 Statement on motives for to vote on the draft resolution of UN SC to fight the coronavirus pandemic. URL: https://russiaun.ru/ru/news/eov_covid_010720

5 Resolution 2532 (2020), adopted by the Security Council on July 1, 2020. URL: [https://undocs.org/ru/S/RES/2532\(2020\)](https://undocs.org/ru/S/RES/2532(2020))

6 Russian Federation, Government of. URL: <https://fts.unocha.org/donors/3006/emergencies/2020>

7 Assessment of Member States' advances to the Working Capital Fund for 2020 and contributions to the United Nations regular budget for 2020. URL: <https://undocs.org/en/ST/ADM/SER.B/1008>

In 2020, Russia supported the UN system organizations activities on the territory of the Commonwealth of Independent States (SIC) to resolve humanitarian issues escalated in the wake of restrictions imposed due to COVID-19 pandemic. Russia transferred around \$8 mn to implement targeted relief program for households in need in Kirgizia through the UN World Food Program (WFP).¹ It was also announced that Russia will extend \$21.2 mn to implement the UNWFP project in Tajikistan aimed at providing meals for Tajik school children.²

Resolution on the humanitarian crisis in Syria was discussed in the UN along with the issue of combating the COVID-19 pandemic. From 2014 the flows of international humanitarian aid deliveries for the Syrian people went through the limited number of border crossings deployed along the borders with neighboring countries. In June 2020, Russia submitted a draft resolution envisaging liquidation of a number of current border crossings due to the extension of territory controlled by the government troops and directing supply chains through the controlled regions of the country to strengthen food security of the Syrian Arabic Republic. Along with the issue of termination of the current international border crossings mandates, the Russian draft envisaged revision of sanctions regime imposed on Syria. A draft resolution supported by four members of the Security Council was not adopted due to its failure to obtain the required number of votes and the strong stand of the Federal Republic of Germany in relation to sanctions.³ Earlier, Russia and China vetoed a draft resolution presented by Belgium and Germany which extended mandate of two current border crossings until one more year.⁴

In 2020, Russia consistently pursued the policy to jointly counter the global crisis. A number of Russian initiatives faced opposition by our foreign partner driven by political motives when proposing alternative occasionally impractical or not corresponding to changing terms and conditions of the projects. However, even in the context of existing constraints, Russia significantly contributed in the development of basic parameters of intergovernmental cooperation on fight against COVID-19 pandemic as well as in the implementation of coordinated multilateral practical steps.

6.7.9. The Organization of the Petroleum Exporting Countries

In 2020, the activities of the Organization of the Petroleum Exporting Countries (OPEC) significantly influenced the situation in the Russian economy due to its although gradually declining dependence on the export of raw materials and correspondingly on the oil prices fluctuations.

1 Russian Federation provides assistance to UNWFP to help poor families in Kyrgyzstan. URL: <https://ru.wfp.org/news/rossiyskaya-federaciya-pomogaet-vpp-oon-podderzhivat-bednye-semi-v-kyrgyzstane>

2 Russia will allocate over \$21 mn for the development of school meals system in Tajikistan. URL: <https://ru.wfp.org/news/rossiya-vydelit-bolee21-mln-dollarov-ssha-dlya-razvitiya-sistemy-shkolnogo-pitaniya-v>

3 FRG explained why voted against Russian resolution on Syria. URL: <https://ria.ru/20200709/1574088820.html?in=t>

4 UN SC did not support Russian resolution on Syria. URL: <https://ria.ru/20200709/1574086743.html>

In recent years, the situation in the oil market was relatively stable following the OPEC+ Declaration of Cooperation (DoC) to adjust downwards their overall crude oil production signed on December 10, 2016.¹ The deal has been rather successful in the span of three years, however against the backdrop of the conflicting positions of Russia and Saudi Arabia (Saudi Arabia insisted on a further reduction in their overall crude oil production by an additional 1.5 mb/d, and Russia opposed), restrictions on oil production were lifted on April 1, 2020, which led to a drop in price of crude oil by around 30% to the lowest levels seen in a span of 18 years. However, in the context of the spread of the coronavirus pandemic, which caused a sharp drop in demand and additional pressure on prices, the OPEC+ deal participants signed a new deal on price cut effective from May 1, 2020 until May 2022, after which prices stabilized. The deal provided for a gradual recovery of oil production, subject to the normalization of the market situation. Originally the deal went for a 9.7 mb/d cut in the oil production for three months through July. From August through December 2020, the OPEC+ producers committed to adjust downwards their overall crude oil production by 7.7 mb/d. It will be followed by a 5.8 mb/d adjustment for a period of 16 months, from January 1, 2021 to April 30, 2022.^{2,3}

However, against the backdrop of the repeated deterioration of the situation with the spread of COVID-19, the participants of the Declaration of Cooperation discussed a more gradual recovery of crude oil production from the next year. Finally, on December 3, the DoC participating countries committed to adjust downwards the overall crude oil production by only 0.5 mb/d from 7.7 mb/d to 7.2 mb/d against the originally planned downward adjustment by 1.9 mb/d. This decision was a compromise between Saudi Arabia proposing to put off the January reduction by 3-6 months and Russia whose crude oil producers favored a gradual (by 0.5 mb/d monthly reduction) achievement of the original plan of downward adjustments by 5.8 mb/d. The DoC participating countries agreed to hold monthly meetings to assess market conditions and decide on further production adjustments for the following month, with further monthly adjustments being no more than 0.5 mb/d.⁴

Reduced oil supply owing to the OPEC+ deal and projected oil price growth on the back of the mass COVID-19 vaccines rollout coupled with gradual easing of restrictions including in the field of transportation, should lead to the market stabilization and price growth on crude oil in the future. Such situation is acceptable for Russia, since the oil price of around \$42 bbl and over ensures budget receipts from oil export revenues to be at the planned level.⁵ In view of

1 OPEC and non-OPEC Ministerial Meeting. URL: https://www.opec.org/opec_web/en/press_room/3944.htm

2 The 9th (Extraordinary) OPEC and non-OPEC Ministerial Meeting concludes. URL: https://www.opec.org/opec_web/en/press_room/5882.htm

3 The 10th (Extraordinary) OPEC and non-OPEC Ministerial Meeting concludes. URL: https://www.opec.org/opec_web/en/press_room/5891.htm

4 The 12th OPEC and non-OPEC Ministerial Meeting concludes. URL: https://www.opec.org/opec_web/en/press_room/6257.htm

5 A meeting on the situation of global energy markets. URL: <http://kremlin.ru/events/president/news/63145>

this, Russia will continue to back up agreements on production cut within OPEC⁺, however the national oil sector will promote a gradual easing of restrictions to raise revenues. For Saudi Arabia, whose budget is balanced at \$80 bbl, i.e. twice as high as for Russia, on the contrary, it is advantageous to continue maintaining restrictions at the current level or even tighten them. The divergence of positions poses risks for cooperation between Russia and OPEC member states within the OPEC+ group, however, as the 2020 experience has demonstrated, the parties can achieve compromise solutions.

6.7.10. The European Union

There is a stand-off in the relationship between Russia and the European Union (EU) in 2020, and there was no tendency to improve and resume cooperation in important fields.

In March 2020, the President of the Russian Federation Vladimir Putin called for a moratorium on sanctions during the coronavirus pandemic. However, in July, the EU's personal and sectoral sanctions were extended yet against and it was noted that they do not affect the fight against the pandemic. Obviously, there was no progress in this area.

The EU approved a number of strategic documents that envisage the development and adoption of legal norms that directly affect the Russian interests. In early 2020, the European Commission unveiled the new European Digital Strategy. In contrast with the previous stage, that was tasked to total harmonization of internal market and remove remaining barriers in digital sphere, the new document openly states on the EU aspiration and intention to become a world leader in the development and regulation of digital economy. That said, certain planned normative documents demonstrate active polarization and securitization and digital environment. The European Democracy Action Plan in the field of democracy aimed to improve the resilience of democratic systems, support media pluralism and address the threats of external intervention in European elections is a key example of this process.² They do not hide in the EU that this document will principally protect Russian interference in the EU international affairs and their member states. The EU is on track to promote its norms and values on international platforms and through the inclusion of those values in partner agreements including within the European Neighborhood and Partnership Policy. With due regard for current contradictions, polarization of digital environment hampers cooperation between Russia and the EU as well as poses risks for adoption of unfavorable for Russia legal norms including on international level due to the EU's significant influence. The European Green Deal is the new growth strategy for Europe to become climate-neutral continent by 2050, which was announced in December 2019. A European Climate Law was legislatively proposed under the Green Deal implementation. This means

1 Telephone conversation with the Crown Prince Muhammed bin Salman bin Abdul-Aziz Al Saud. URL: <http://kremlin.ru/events/president/news/64239>

2 COM (2020) 67 final: Shaping Europe's digital future. URL: https://ec.europa.eu/info/sites/info/files/communication-shaping-europes-digital-future-feb2020_en_3.pdf

achieving net zero emissions for EU countries as a whole by 2050. By June 2021, proposal on required changes into instruments linked to climate legislation should be formulated including foreign policy tools. Moreover, adjustment of current EU Energy Taxation Directive has been envisaged “with focus on ecological aspects” that can include implementation of differentiated taxation depending on energy source “carbon trace.” The EU plans to put in place carbon border adjustment mechanism, which envisages taxation of carbon-intensive imports from countries without mandatory payments for emissions. The new regulation will affect trade and economic relations of Russia with the EU both directly and indirectly. The BCG experts have already estimated losses of Russian exporters to the tune between €2.8 and €6 bn per year.¹ This is fraught with the loss of a part of the oil market to Saudi Arabia whose production costs are lower as well as a serious impact on producers of fertilizers.

The implementation of the Nord Stream 2 project was recently an important area of cooperation between Russia and the EU. Despite the existing contradictions, calls from certain countries and the European Parliament to ditch the project coupled with the US active counteraction, which was expressed in the adoption of sanctions against all companies that participate in the project participation at any stage, the cooperation was not completely terminated. Imposed US sanctions angered the EU and its members and were perceived as a direct interference in internal affairs. Even the European Parliament that has adversely perceived the project, stressed that its future will be decided in Europe and not in Washington. The completion of work on the project and its launch are necessarily to increase from gas exports, as well as to maintain cooperation important both for Russia and the EU.

Taxation of digital economy is one of important areas that was on the table in 2020 and where the EU and Russian interests coincide. Both Russia and the EU can obtain additional benefits and revenues to the budget when taxation of significant digital presence is put in place. The EU proposal encompassing taxation of large companies coincide with the interest of Russia: raise budget revenues and not subject their companies to additional tax burden. That said, the EU influence in OECD which is the principal platform for developing the reform is markedly higher than Russia's. Accordingly, could have used notable EU influence to promote its interests.

Russia and the EU relations do not demonstrate positive dynamic for a while and 2020 was not an exception. Nevertheless, total termination of cooperation does not correspond to Russian interests. It is paramount to proceed with Nord Stream 2 and general cooperation in the energy sphere. It is feasible to promote an idea to decouple sustainable green energy projects from the sanctions. At the same time, it is necessary to develop carbon regulation agenda in Russia and stop seeing in it only a threat for Russian interests and analyze potential benefits. This will allow to minimize additional duties in case of the implementation of carbon border adjustment mechanism in the EU. China has already been working in this

¹ Carbon challenge for Russian exporters. URL: <https://www.bcg.com/ru-ru/press/29july2020-carbon-challenge-to-russian-exporters>

area understanding the for EU development of green energy is already a priority direction for general economic development. Source of growth, technological and normative leadership. Finally, it is important to actively develop the digital agenda, including within EAEU, in order to incorporate integration partners in the common system of digital infrastructure and regulation, so as not to concede to the EU positions in the key regions for Russian foreign policy.

6.7.11. The Eurasian Economic Union

The development of the Eurasian Economic Union (EAEU) is one of central fields of Russian foreign policy. In 2020, despite many barriers, the process of expanding and deepening integration within the Union went on.

The fight against the pandemic and its fallout was one of the key areas for cooperation in 2020. On April 10, members of Eurasian Intergovernmental Council adopted a packet of measures to ensure the vital needs of the population, maintain mutual trade, and free movement of goods in the context of COVID-19 pandemic. The block of urgent measures includes the creation of a “green corridor for supplying critical goods as well as introduction of single temporary restrictions on export and temporary reduction of zeroing out of import customs duties on components and materials for specific industries. The participants coordinated systemic measures aimed at creating conditions for the recovery and further economic development.¹ On June 10, the Comprehensive plan to prevent the spread of COVID-19 and other infectious diseases was adopted.²

In 2020, the main objective of the EAEU development centered in coordination of strategic directions for developing the Eurasia economic integration until 2025. The draft document went through several stages of coordination, but so far was not approved. Strategic directions include general provisions and 330 measures and mechanisms grouped into 11 system blocks. The document hardly can be called a breakthrough. It only partially expands national mandates and does not ensure a qualitative comprehensive integration mainly focusing on the development of certain narrow spheres or projects on priority fields of cooperation such as trade and customs regulation, macroeconomic policy and finance, industry and agriculture, energy, digital economy, and transportation. The Strategy implementation will complete shaping common market raising effectiveness of its regulation, increased quality of customs regulation and administration, ensuring quality guarantees and security of goods, formation of the EAEU digital space, setting up of mechanisms for targeted support of economic development, providing incentives for scientific and technical progress, raising efficacy of the EAEU institutes, deployment of mechanisms of cooperation in the sphere of education, public health, tourism and sport, evolution of EAEU in one of the most important development centers in modern world.³

1 Intergovernmental Council approved urgent anti-crisis measures to stabilize, restore and further develop the EAEU countries' economies. URL: <http://www.eurasiancommission.org/ru/nae/news/Pages/10-04-2020-1.aspx>

2 EEC Board approved draft comprehensive action plan to prevent spreading coronavirus in EAEU. URL: <http://www.eurasiancommission.org/ru/nae/news/Pages/10-06-2020-01.aspx>

3 Draft document defining strategic directions for development of Eurasian economic integration until 2025. URL: https://docs.eaeunion.org/docs/ru-ru/01427742/err_25112020_166

New measures were adopted within the implementation of the EAEU digital agenda until 2025. On January 31, a time-phased action plan was approved for forming the ecosystem of digital transport corridors. In the framework of its implementation, the EEC Council approved a list of measures implementation of which is required to form and launch the ecosystem of digital transport corridors. The project is aimed at refusing paper support for transport and logistics operations, creating common standards for transport and logistics services and switching to an end-to-end integrated surveillance system, which removes much of the administrative burden from carriers.¹ Three more processes of interstate electronic interaction in the customs sphere as well as a process of customs tariff and non-tariff regulation have been “digitalized” and put into effect. Data on these processes will be transmitted and processed by the Union’s integrated information system.²

Cooperation on issues of export trade development got momentum. On October 9, the Eurasian Intergovernmental Council adopted disposition “On joint export development measures.” The Heads of Governments of the EAEU Member States, jointly with the Commission and the Eurasian Development Bank, were set a task to explore the possibility to expand export support instruments, primarily for jointly manufactured products. As for export credit support, it is suggested to explore, based on the EDB, the issue of forming a resource base and creating financial products to support transactions and projects with an integration effect in the Member States’ national currencies. For the purpose of export insurance support, it is suggested to explore the issue of creating a supranational reinsurance company or the Eurasian reinsurance pool to form a mechanism for reinsuring part of the risks.³

Development of integration in industrial area went on. The EAUS countries approved the Union’s industrialization map. The document encompasses information on 177 major investment industry projects in 21 economic sectors totaling \$194.5 bn. The map also indicates more than 500 technological directions in 30 industries the Union requires import substitution.⁴ Shaping up EAEU common exchange space was on the table.⁵ It was designed to strengthen the investment attractiveness of financial markets and enable attracting additional resources to the Member States’ national economies.

Moreover, there was a pent-up demand for introduction of mechanisms and programs for targeted financing of the EAEU catch-up economies in 2020. The Kirgiz Republic submitted the request and added to the draft of the Strategic

1 The EEC Council approved a list of measures implementation of which is required to form and launch the ecosystem of digital transport corridors. URL: http://www.eurasiancommission.org/ru/nae/news/Pages/24_11_2020-1.aspx

2 The Union digitalized four more intergovernmental processes. URL: <http://www.eurasiancommission.org/ru/nae/news/Pages/28-04-2020-3.aspx>

3 The EAEU countries will jointly encourage export trade. URL: <http://www.eurasiancommission.org/ru/nae/news/Pages/2020-10-09-6.aspx>

4 EAEU countries approved Union’s industrialization map. URL: http://www.eurasiancommission.org/ru/nae/news/Pages/25_11_2020-1.aspx

5 EEC Board approved roadmap for forming Eurasian Economic Union’s common exchange space. URL: http://www.eurasiancommission.org/ru/nae/news/Pages/06_11_2020-2.aspx

integration development directions the need to create a new institution for development and support of the EAEU as well as introduction of mechanism and programs for targeted financing. In the course of analyzing this proposal a possibility of creation of The Eurasian direct investment fund on the basis of the Astana International Financial Center (AIFC) was explored.¹

In 2020, the EAEU faced the task to form strategic integration development directions and implementation of already launched initiatives. The pandemic outbreak has added to the list of objectives the fight against the spread of the virus, as well as coordination of measures to weather economic crisis. The Committee's response to the pandemic outbreak was rather swift, and it was possible to agree on the necessary trade policy measures. The intergovernmental cooperation was successful, and measures to weather the crisis were agreed upon. The implementation of previously launched initiatives went according to plan, new projects and initiatives were on the table, and cooperation with the Eurasian development bank was strengthened. The coordination of strategic integration development directions has not been completed, although the current draft document can not be considered a breakthrough. It will allow to resolve the problem of developing cooperation on current substantive projects, but it will not manage to lay the foundation for a qualitative extension and deepening of integration. Thus, another chance to ensure the functioning of a real, rather than a declared economic union is being wasted, which means that in the next 5 years, the EAEU should not be expected to make a breakthrough in development.

* * *

The COVID-19 pandemic has tested society, economy national institutions and international organizations, and have led to the worst global recession since the Great Depression and posed a threat to the implementation of the sustainable development agenda until 2030. The global crisis requires joint efforts. Russia has consistently called for the development and implementation of coordinated and solidary solutions aimed at protecting human life, jobs and livelihoods of the population, and maintaining economic recovery. At the same time, Russia continues to work with its partners to achieve long-term solutions to strengthen the international trade system and the global monetary and finance architecture, eradicate poverty and eliminate inequality, and ensure sustainable development and inclusive growth. In general, Russia managed to balance the urgent agenda and long-term objectives in the framework of international institutions.

6.8. Customs administration²

The 2020 was the final year for implementing fundamental policy documents that determined the development vector of the customs authorities of the Russian Federation in the expiring decade, i.e. the RF FCS Comprehensive Development

1 EAEU will review a possibility to finance catch-up economies in the framework of development institutes. URL: <http://www.eurasiancommission.org/ru/nae/news/Pages/11-09-2020-2.aspx>

2 This section was written by *Balandina G.*, Senior researcher of the Control/Audit Institute.

Program until 2020 and the Development Strategy of the Customs Service of the Russian Federation until 2020.

The main outcome of the reforms based on the updated customs legislation in respect of the Customs Code of the Eurasian Economic Union, entered into force on January 1, 2018, are as follows:

- opening of 16 e-declaration centers ensuring the declaration of goods throughout Russia. At 2020 year-end, these centers processed 98% of all customs declarations filed electronically. The number of customs offices was reduced from 84 to 66. 92% of all export and 80% of all import declarations were registered automatically, not involving customs officials. About 80% of goods consignments declared by foreign trade operators, classified as a low risk category, were cleared for exports and 64% for imports in automatic mode. Furthermore, it took about 5 minutes on the average to clear such goods;
- introduction of advance notification of customs authorities about imported goods by all modes of transport;
- reduction of the list of documents to be submitted for customs declaration due to the operating system of interdepartmental electronic interaction;
- expansion of international cooperation, use of information received from the relevant authorities of foreign states by customs bodies of the Russian Federation.

The imposed restrictions on the movement of individuals and vehicles due to the spread of coronavirus infection COVID-19 required the customs service to adapt to the changing conditions in conducting routine economic activities. Until the end of the year, there were restrictions in place on the conduct of on-site customs inspections. The customs authorities ensured compliance with the ban on the export of personal protective equipment, protective means and disinfectants, medical supplies and materials, certain types of foodstuffs.¹ Advanced technologies for goods' customs clearance were used to import food and medical supplies.

On the whole, the year 2020 influenced by the changes associated with the spread of the coronavirus infection COVID-19, did not add to significant amendments in the field of customs administration, except for completing the previously planned activities.

The Federal Law of 13.07.2020 No. 193-FZ "On state support for entrepreneurial activity in the Arctic zone of the Russian Federation" was adopted, providing for the application of the customs procedure relevant to a free customs zone in the Arctic, as well as simplified procedures for implementing customs and other types of state control similar to those envisaged for the Free Port of Vladivostok.

The list of goods continued to expand with their marking being the condition for circulation within the territory of Russia. From October 1, mandatory labeling

¹ Decision of the Board of the Eurasian Economic Commission of March 24, 2020 No. 41 "On amendments to the Decision of the Board of the Eurasian Economic Commission of April 21, 2015 No. 30 "On measures of non-tariff regulation."

of perfumes and eau de toilette¹, as well as cameras (except for movie cameras), photo flashes and flash lamps², was introduced, and from November, tires and tire casing.³ Customs authorities allowed marking of imported goods within the territory of Russia subject to their placement in customs warehouses.

Development strategy of the Customs Service of the Russian Federation has been approved by the Resolution of the Government of the Russian Federation of 23.05.2020 No. 1388-r until 2030.

The key development goal is to establish a brand new, packed with “artificial intelligence”, quickly reconfigurable, informationally connected with domestic and foreign partners, “smart” customs service by 2030, invisible to law-abiding businesses and effective for the state. The Action Plan for implementing the Strategy has been approved for the period up to 2024. Priority areas include: development and implementation of an “intelligent” checkpoint model; setting the stage for development of the EAEU unified transit system; further development of the institution of an authorized economic operator; development of customs administration of e-commerce; introduction of the customs audit institution; establishment of interdepartmental integrated information systems including transformation of the customs authorities fiscal function.

Despite the evident progress in improving customs administration, challenges in key areas of the RF customs system development remain pressing.

The risk management system behind the organization of customs control is based on a subject-oriented approach and includes several dozen risks profiles in various areas of control envisaged for different goods. However, there are different risk profiles for each stage of customs clearance. Data on global production and individuals involved in supply chains are poorly used in the information processed for risk analysis.

Due to risk fragmentation at different stages of customs procedures, the risk analysis system does not provide support for releasing “risky” goods by controlling them after customs clearance. Advanced procedures for clearing goods of foreign trade operators classified as a low risk category, using technologies for automatic registration and clearance of goods, do not present a stable situation for importers/exporters, which could allow them to rebuild their business processes and reduce costs (for example, to reduce stocks pending the just-in-time delivery).

The procedure for customs clearance of any goods may be held up for inspection. Moreover, the regulation for procedure of the customs clearance

1 Decree of the RF Government of 31.12.2019 No.1957 “On approving rules for labeling perfumes and eau de toilette with identification means and on particular aspects of introduction of the state information system for monitoring the circulation of goods subject to mandatory labeling with identification means in relation to perfumes and eau de toilette.”

2 Decree of the RF Government of 31.12.2019 No.1953 “ On approving rules for labeling cameras (except movie cameras), photo flashes and flash lamps with identification means and on particular aspects of introduction of the state information system for monitoring the circulation of goods subject to mandatory labeling with identification means in relation to photographic equipment.”

3 Decree of the RF Government of 31.12.2019 No.1958 “On approving rules for labeling tires with identification means and on particular aspects of introduction of the state information system for monitoring the circulation of goods subject to mandatory labeling with identification means in relation to tires.”

of goods in respect of foreign trade operators that are not classified as a low risk category, allows to retain goods for inspection, notwithstanding that such inspection can be conducted after the goods have been cleared.

Customs procedures containing an economic substance (processing in the customs territory, free customs zone, free warehouse) are applied with difficulties. Customs control technologies based solely on checking the information in each specific customs declaration, prevent a comprehensive analysis of the company's activities for a certain period, not only reducing the effectiveness of control but also imposing additional costs on foreign trade operators associated with the forced accounting by batches.

The system of financial guarantees is based on determining the extent of security for payment of customs duties in the amounts corresponding to customs duties potentially payable for each imported product. Global guarantees implying flexibility in determining their size, depending on risk assessment of violations resulting in the requirement to pay customs duties, and on the solvency and financial stability of a potential payer, are not virtually practiced. For this reason, financial guarantees do not present, the instrument that would reduce the level of customs control in clearing the goods. Consistency, clarity and predictability of customs rules for foreign trade operators are critical and required elements for managing the costs of Russian companies. However, these principles disaccord with frequent changes in the competence of individual customs authorities, affecting logistics, changes in sustainable law enforcement practice in terms of approaches to the classification of goods according to the TN VED, determining customs value after informing about the new requirements and recalculating the size of customs duties for already released goods (customs control conducted by the customs authorities within three years after clearance of goods).

Developing the institution of provisional solutions in respect of certain customs issues (for example, with regard to classification of goods, determination of the country of origin, methods for determining the customs value, application of customs benefits and preferential customs procedures) without their retrospective changes, will significantly reduce the risks of the unforeseen costs for companies due to changing conditions in the context of goods imported previously.

