

### 3.5. Status of the Research and Development Sphere

A distinctive feature of year 2002 was the adoption of a national conceptual document that defined guidelines for the development of science and technological sphere until year 2010. The document was approved by the President of the Russian Federation (order number 576 of March 30, 2002) and adopted jointly by the Security Council of the Russian Federation, the presidium of the State Council of the Russian Federation and the Presidential Council of the Russian Federation for science and advanced technologies (decision number 2 of March 20, 2002) and is called «Foundations for the policies of the Russian Federation in the sphere of science and technology development for the period until year 2010 and later». This document contains a set of goals for the country's scientific and technological progress, a list of tasks to be accomplished to achieve these goals and major measures and mechanisms to reach them. The «Guidelines...» are now the key document in planning activities for the state bodies that are charged with the science and technology sphere. Using the «Guidelines...» to proclaim some kind of initiative is quite easy as the material used for them is rather eclectic and contains theses from a number of previously adopted analogous documents (such as «Russian Science Reform Concept for the period 1998—2000» or the Doctrine for Russian science development of 1996). The final version of the «Guidelines...» also contains a new list of nine priority lines for the scientific and technological progress and a list comprising 52 crucial technologies. A closer view of the priorities list exposes that the government stays loyal to the idea of a «continuous frontline» of research, as the priorities include all kinds of technologies starting from military and space research and ending with ecology and informational technologies. An up-to-date level of comprehensive research that would follow the provided list can only be possible if the scientific sphere is supported with substantial financial resources – which is not the case. Apart from the proclamation that modern Russian science needs progress in all its sectors, other ingredients of the model of science that the government strives at stay unclear. The «Guidelines...» give neither a vision for the scope of this sphere as to the number of employees in the state-owned sector and its dimensions, nor desirable proportions in financing civil and defence research, nor any other macro indices.

The initial version of the «Guidelines...» envisaged a gradual increase of scientific expenditures to the level of 4 % of federal funds by 2010, that is implementation of provisions provided in the Law «On science and federal science and technology politics». This gave grounds to assume that science would become a state priority only by 2010, in spite of the fact that scientific and technological progress is defined by the «Guidelines...» as «one of the highest priorities in the Russian Federation». The final variant lacks any concrete figures, financing is supposed at «the level that ensures realization of goals in the present «Guidelines...».

In the past year it became even more urgent to define federal priorities in the broad sense of the word (that is not only priority research activities, but also spheres that the government would focus its attention on) as budget allocations remained limited. According to preliminary estimates in 2002 the science and technology sphere expenditures accounted only for 1.55 % of the state budget expenses as compared to 1.79 % in 2001.

The main goal in the government policies in the sphere of scientific and technological progress was defined as a transition to the country's innovative way of development on the basis of chosen priorities. To achieve this goal it is planned to focus on a wide variety of components and aspects of development and spreading of scientific knowledge – to produce a favourable legislative environment, to advance fundamental research, to reform the state sec-

tor of science, to integrate science and education, to develop the research potential in general and to give support to the leading academic schools in particular, to build and maintain unique scientific facilities, to improve the system for codification of scientific knowledge and implement many other tasks. A separate scheme is connected with the aim of creation of a national innovation system. In this sphere in 2002 there was started practical implementation of several new initiatives.

### Creating Infrastructure for Innovative Activities

Though establishment of a national innovative system was proclaimed a strategic federal goal as far back as in 1997, no considerable changes were happening in this sphere. There were being created separate – more acceptable or less successful – elements of an innovative structure, the attention being focused on direct support to innovative business in form of innovation- technology centres and «technoparks» (technology parks). But no sustainable connections were being built among the key participants of an innovation system – higher education institutions, academic organizations, small innovative enterprises. Therefore the share of enterprises active in innovations remains small. It is very notable that in 2002 the government support of small innovative enterprises was acknowledged ineffective. Official statistics also show that the number of small-sized enterprises active in the «science and scientific services» branch decreases with every year. At the Third venture fair in St. — Petersburg in October 2002 there was given evidence that the experiments by Russian venture funds built up under the auspices of the European Bank for Reconstruction and Development to develop small business gave not a single really successful result. Due to that among the guidelines for government activities were included establishing infrastructure for development of small innovative businesses, venture industry support, and creation of a favourable climate for investments by improving the legislation.

Creation of infrastructure for innovative activities was urged on due to introduction of another organisational form of small business development – establishing «the technology village». Its creation started this summer in Zelenograd. The technology village is a large-scale information and technology centre, which shall have accommodation for about 60 scientific-technological companies. It will also room a public scientific-industrial centre. By its form the technology village is going to resemble the innovative-industrial complexes, an attempt of 2001. Besides, once again attention was concentrated on such an organisational form as technology depots. In the framework of a new draft law «On special economic zones in the Russian Federation» it is planned to create 5-7 such technology depots that will be functioning in the special zones for 20 years with stipulated legal preferences: in the first three years after the date of establishment of the depots the participating enterprises will be released from the profit tax.

Small innovative business got support also in regions including support to «science cities, nauckograde» (towns producing scientific knowledge). In Tomsk oblast there was elaborated a programme and in Leningrad oblast a concept for scientific- technological and innovative development until 2005, which means not just isolated efforts but a whole strategy for small business development present in these two regions. In 2002 of more that 70 towns and cities of that type three — Obnisk, Dubna and Korolyov — already had that kind of official status – «naukograd» — and hence direct subsidies from the federal budget. In the nearest future this status will be granted to the town of Reutov and Koltzovo community located in Novosibirsk oblast. Previously science cities of that type were parts of the military-industrial complex of the country, and now after their restructuring they will become «techno-polises». Federal budget subsidies for each of the science cities will amount to 250-300 mln roubles per year, which is three times lower than the calculated requirements. Besides, the subsidies are



granted under budget section 21 («Financial assistance to subjects of the Russian Federation») for support of the social sphere, municipal economies, by no means for innovative development. Thus the status contains no aspects promoting scientific and innovative development. Due to this innovative output in the science cities today does not exceed 20 % and the number of innovative enterprises practically remains the same. Experience gained in Dubna is viewed today as the most successful of all. Scientific enterprises in this city have transferred their redundant premises to the municipality, which were sold or let to entrepreneurs. The town introduced a new simplified registration procedure for small and medium scale enterprises, which immediately resulted in their quick growth. At present half of all revenues in the local budget are originated by small enterprises (compared to 12-15 % in Moscow oblast on the whole), previously subsidised share of the municipal budget fell from 76 to 14 %.

On the whole the idea to transfer idle property, especially with respect to budget institutions, is a feasible one. In particular higher education institutions have good outlooks here. At present when higher education institutions get licensed or certified, the floor space requirement with respect to internal students is 12 sq. meters per student. This figure was calculated in the time of the Soviet Union based upon the average statistics for higher education institutions. There are higher schools that have 40-50 and even 80-90 sq. meters per 1 student. In developed countries this requirement is much lower. Approximate evaluations show that in case of accepting western standards there will be saved considerable amounts – over 10 bln dollars. Money saved in this way could be channelized to renovate the material basis of education and science, promote their IT support, give extra financing to scientific research through a system of funds and to give higher salaries to professors and tutors.

### Venture Industry Development in Russia

Government attention last year was further focused on venture financing of science intensive projects. The Ministry of industry and science have worked out a draft Concept for venture industry development in Russian until 2010, according to which the government will participate with funding in establishing commercial venture funds to compensate for «market gaps». This type of activity is a catalyst and a means of financing most venturesome project stages when money is allocated to turn an idea into a product. There functions already The Venture Innovative Fund (VIF) established with financial aid of the government, there are plans to establish ten more venture funds in different regions of the country. The idea of state participation in venture industry was successfully implemented in a number of countries (Israel, Finland) and there is a hope that this type of government co-financing of venture funds will prove to be productive also in Russia. At the same time the VIF activities have not yet brought about any sizable success, partially because of the fact that the Fund is quite a new creation – less than two years old.

It is proposed to allocate 1 bln roubles in the budget to establish venture funds in a period of 3-4 years. The government share is assessed as 10-20 %, hence the calculation that for development of venture funds from all sources there will be allotted about 200 mln dollars per year. To make the initiative successful in addition to 1 bln roubles of governmental funds, which are not yet present, there is a need to introduce changes to the current Russian legislation, for the role of the government is not just to give financing to science and technologies, but also to establish favourable conditions for investments from off-budget sources. This can first of all be achieved by improving institutional conditions. There is no legislative basis to guarantee (ensure) investments to develop venture industry at present, the Civil Code does not contain any organisational legal forms that would satisfy the standards of venture business.

Rendering priority support to small innovative business is not that easy in conditions when the government's position with respect to forms and mechanism of small business support is not sufficiently clear. In

2002 there continued a discussion about advisability of abolition of the Federal Law on state support of small entrepreneurship (number 88-FZ of June 14, 1995) held mainly between The Ministry for economic development and trade and the Ministry for antimonopoly policies.

Deficiency of legislation about venture industry is not unique in the legislative system that regulates innovative activities in this country. As for innovative activities on the whole, attitude that became predominant last year was that there was no need in working out a special law on innovative activities, instead one should introduce adequate changes into the current legislation, first of all into the Budget Code, the Tax Code, the Civil Code and other legislations.

#### Development of Legislative Basis for Protection of Intellectual Property

Legislative regulation in the sphere of protection, maintenance and distribution of rights on intellectual property (IP) was acknowledged as one of the most urgent lines in the sphere of improvement of legislation, especially in the light of Russia's entry into the WTO. Bringing the legislation on IP in order was named as one of the most urgent tasks as far back as in 2001, but its solving was moved on to 2002, and as the situation is in 2003 legislative basis in the sphere of IP has not been formed yet. At the same time the Ministry of industry and science, being the major coordinator in legal solutions of problems related to IP, has announced about the beginning of realisation of the liberal approach to regulation in the sphere of intellectual property, which is an antithesis to the currently used fiscal approach. The liberal approach supposes that IP rights on property created using budget means will be assigned to the executing organisations, while funds invested in science will come back to the budget in form of taxes originating from new high-tech enterprises. This kind of approach was tested in many countries of the world and acknowledged as a most effective one. According to the draft Concept of venture industry development there will be established agencies for transfer of technologies under Federal Research organisations, thus giving them greater disposal rights for the IP created by these organisations. But the issue of financing establishing and operation of such agencies is not solved in the draft Concept, this can postpone their creation for several years.

As for conceptual approaches apart from practical steps is concerned, a draft law on realisation of government rights on IP has not yet been worked out. In October 2003 the government has approved a document called «Measures to ensure protection of intellectual property», in which in the foreground stand issues of protection and infringement of copyrights.

Concurrently amendments to the Patent law were discussed, but nevertheless have not been fully agreed upon. The most heated debate is still about the issue of ownership of rights on the intellectual property that was created and is being created at the federal budgetary expense, as far as there is still a lot of unsolved questions and contradictions. As per today a single procedure of contracting for research financing from federal budget means is still lacking, which makes it impossible to clearly identify the federal executive body that will impersonate the government as the client. Even when the government as the client has its rights on the results stated in the contract, the Patent law does not envisage the possibility for federal executive bodies to act as patent holders. As a result the government lacks a financial control system at the level of accounting, there is no basis for business intercourse with respect to intellectual property, the efficiency of public investment to create it cannot be measured.



In addition to the fact that the government cannot execute its rights as patent holder there exists a psychological aspect to this problem. Under the conditions when the rights of the producers are not defined, the researches are not interested in turning the results of a scientific research into an invention. It is much easier in this case to sell the research results abroad.

In cases when the rights on intellectual property belong to the producers there emerges a number of problems when the rights get involved in business circulation. Problems deal first of all with such aspects as introduction of intellectual property into balances as intangible assets. The lists of IP subject to accounting as intangible assets provided by different documents are not identical, the rules prescribing determination of effective usage terms for intangible assets and their depreciation are contradictory. In order to regulate this at the beginning of 2002 the government of the Russian Federation adopted a regulation «On the procedure of inventory and value assessment of rights on results of scientific and technologic activities» (#7 of January 1, 2002) which deals with results acquired in the cause of scientific research and technical research and development works, wholly or partially financed from the federal budget. By this regulation federal executive bodies are charged to make inventory of rights on results of science and technology research when state-owned enterprises are privatised, and when organisations are restructured or liquidated. Inventory shall be initiated and performed at a decision of the owner of the property or the juridical person that possesses this property, has it under its jurisdiction or management. Stating the necessity of such inventory, its aims and procedure the Regulation gives no references to concrete methods, systems or instructions that would enable to perform a practical analysis of the results of scientific and technology activity, including reports, to recognize rights on these results and to assess results with respect to potential protection rights. Underestimation of IP can lead to an after-effect in form of material losses in case of privatisation of scientific organisations. At present when material complexes are privatised intangible assets account for 2-5 % of the value of organisation's property, while in developed countries this figure is as high as 50-70 %.

In 2002 there was also adopted a Regulation concerning objects in military, special and double usage – «On state registration of results of scientific research, research and development effort and technological works for military, special and double purposes» (#131 of February 26, 2002). According to this Regulation there is planned a single registry of results, the rights on which belong to the Russian Federation. In 2003 there is to be performed an inventory of results of intellectual activity. Subjects of the inventory shall be the results created or acquired on the account of the republican budget of the RSFSR, that part of the state budget of the USSR that was a part of the budget of the whole Union, and means from the federal budget of the Russian Federation. Thus, effort and means are once again aimed at a partially useless action – inventory of IP, which in a considerable degree is outdated and represents no value. This testifies to the effect that approaches to solving the problem concerning IP have not changed.

Some departments have started their own IP policies. For example, according to the Charter of the Academy of Sciences one of its functions is to protect rights on intellectual property that belong to researches and organisations under the Academy, to participate in execution of government policies in the sphere of achieving scientific and technological progress and making economic use of these achievements and technologies, as well as to ensure fulfilment of the Academy's engagements with respect to protection of state, official and commercial secrets. Prior to 2002 these goals were not attended to, later there was established

a Coordination council for the Academy's innovative activities under its Presidium (Decision of the Academy's Presidium #17 of January 22, 2002). The Council's goal is to give aid to the Academy's institutes in organizing innovative contacts with industry, to contribute to establishing units in the Academy that will directly assist the institutes in commercial use of their results, to render them a whole series of services in the sphere of innovative management, to promote their commercial activities on the whole. In particular the Council will design mechanisms to make economic use of intellectual property created by the Academy's institutes and to work out recommendations on practical use of this IP. Should the ordering party of all works performed by the Academy were the Academy itself this novelty would have been quite defensible. But as far as many of the works are paid from off-budget means, this centralisation of decisions under the Presidium of the Academy of Sciences can be viewed as excessive.

#### Realisation of the most important national innovative projects

Last year one of the key government directives in the sphere of innovations was establishing ties among principal participants in the innovative process, first of all the science, small business and industry. One of the implementation mechanisms became large-scale innovative projects carried out by groups representing science and industry. It was this form of support that the President focused on in his message to the Federal Assembly (on April 18, 2002) having stressed that there was not enough noteworthy and long-term projects in the economy, and the government in this connection should make up their minds about forms of state support of new technologies.

In May the Ministry of industry and science announced a tender for large-scale innovative projects. Each of the winning projects is to get 20 mln US dollars for two years, which is quite a considerable funding for the scientific-innovative sphere. Though the government will stand for a maximum of one third of the needed funding, the rest is to be obtained from interested investors. As of today 11 projects of more than 200 submitted at the tender are chosen. In a separate line of the 2003 budget there is already planned 1.25 bln roubles as funding of scientific support of the most important innovative projects of national importance.

At the basis of this initiative there is the idea that hi-tech branches more than other branches favour the country's economic growth. But conditions for different branches are uneven, as the risks in the innovative sphere are very high. That means that giving large-scale innovative projects its support the government takes technological risks upon itself and thus creates conditions for high-tech business growth. At the same time the government support of innovative projects is a temporary initiative, which is only used to set examples of success.

Innovative projects were chosen – which is also a novelty for such tenders – by a commission consisting not only of officials and researchers, but also of business representatives. All this taken together gives hope that chosen projects are not just promising research projects but someone is willing to implement these on the market. These projects can also be viewed as priorities actually initiated by those who really need them, that is concrete projects that are capable of being really efficient in the framework of the nine lines for science and technology development proclaimed by the state as priorities. It is expected that 200 mln budget dollars will repay 1 bln dollars in 2-3 years, thus demonstrating to Russian and foreign investors the advisability of investing into science intensive part of Russia's economy. On the whole the



success of this project shall witness that establishing innovative industries and realizing projects based on high technologies in Russia is possible and profitable.

«Side effects» of such projects can be both a growth of the number of modern scientific managers and establishing venture business. It is noteworthy that the problem of trained personnel in the innovative sphere was called one of the crucial ones in 2002. What is meant here is not only managers, but also specialist in technologies, engineers, productions specialists. Indeed, a number of professions have become obsolete, the educational pattern in training highly skilled personnel has noticeably changed in recent years. According to statistics provided by The supreme examination board under the Ministry of education (BAK) nearly half of all new Doctor's and Ph. D. degrees about ten years ago were received in technical sciences and only 20 % in the humanities and social sciences. Today the proportion is reverse and high-tech branches are experiencing lack of specialists.

## Measures to restore the personnel balance in the science and technology sphere

Demographic imbalance of scientific manpower aggravated still more in 2002, researchers' average ageing and drain-away of young researches took place. Situation today is like this: an average statistical Russian scientist is ten years older than his American counterpart.

The manpower issue was given much attention also at the historical meeting of the State Council and in the «Guidelines» adopted by the Council. Also there were announced figures of flow-out of manpower from the science that shocked the public both in Russia and abroad. At the Council it was particularly announced that in the past five years 800 thousand dropped their positions in science and 200 thousand young talented scientists left abroad. The figures were frightening, just as they were partially incorrect. In particular, concurrently with the massive flow-out there was also an inflow of scientific manpower, as a result of which the manpower balance in the past five years was only 103 thousand employees less in the sphere of science. Domestic flow-out at that was greater than the foreign one, scientists left for other sectors of the economy; many specialists got employed in other non-scientific spheres, which is not reflected by the statistics. Aftermath of that is not only a lower quality of scientific research and ineffective use of public funds (in cases when scientific organisations are state-owned ones), but also that young researchers get alienated from the scientific sphere.

In 2002 there were made continued efforts to attract young researchers to the scientific sphere and secure them there, but the majority of initiatives were centred on the youth paying no attention to its connection with other generations of researchers and hence with the problems of these generations. This predetermined chose of temporary and point measures incapable of bringing the manpower situation in harmony on the whole. Besides, government offices that were realizing youth-oriented initiatives were still doing that independently of each other, theirs actions were not coordinated and initiatives actually overlapped. In this sphere several new arrangements were started. In March 2002 a new presidential Decree (#267 of March 13, 2002) was issued – «On certain measures to intensify government support to young Russian scientists – candidates of science and their scientific supervisors». According to this document starting from January 1, 2003 in the name of the President of the Russian Federation there were established 300 yearly grants to support scientific research conducted by young (under 35 years) Russian scientists with Ph. D. degree and 300 grants to support scientific advisors of these young Russian scientists. Amounts attached to these quite prestigious grants are not that great: it is planned that in two years young Ph. D. s will be receiving an addition of 24 thousand roubles per year (that is 2 thousand roubles a month) to their salaries; also planned are certain allocations for conducting research. Scientific advisers will get a lump

sum of 24 thousand roubles as a material encouragement. Thus, also in this programme one could not abandon the practice of many other previous programmes of «quasi equal» small donations. Funds for the grants will have to be found in the budget under line 06 of the functional classification «Fundamental research and promotion of science and technology progress» and according to the definition contained in the Russian government Regulation (#554 of July 24, 2002) issued to fulfil the presidential Decree, the tender and its funding shall be performed from the means of the federal budget designated for support of leading scholars and academic schools on a competitive basis.

The present Regulation also approved the Rules for allotment of Presidential grants, according to them competitors shall be chosen on the basis of analysis of defended theses taking into account the list of priorities in science and technology development in the Russian Federation. Each of the science branches will be allotted its share, and them a maximum of 600 projects will be recommended to participate in the tender. Taking into consideration that the experts will have to look through approximately 12 thousand abstracts of dissertations this can hardly be called a tender, this is rather a selection by non-formalizable criteria. The ongoing selection has shown that the experts had not been given any criteria that they could have used to assess the abstracts.

In October 2002 the Government issued Regulation (#725 of October 1, 2002) «On approval of the regulations on Presidential grants Council of the Russian Federation for support of young Russian scientists and leading academic schools in the Russian Federation», according to this Regulation the Presidential grants Council was established. This Council is a permanent deliberative body, which shall scrutinize three types of grants: newly allotted grants for young candidates of science and their scientific supervisors, grants for support of scientific research by young Russian scientists – Doctors of science, and for support of leading academic schools. The council is to arrange yearly competitions under all the three programmes. The responsibility for the organizational and technical support of the Council's activities is placed on the Ministry of industry and science, which hence will be taking care of both funding of the projects and their expert examination as well. In the budget for 2003 the leading academic schools programme expenses are increased threefold. One is actually faced with several initiatives that get interwoven and merged into each other, but the outcome is a complete vagueness in the question of which of the programmes will be realized and how. At present the programme for support of the leading academic schools, which organizationally and technically has been provided for by the RFFI (Russian Foundation for Basic Research), and funding by the Ministry of industry and science has completely fell under the jurisdiction of the Ministry. It means that the expert examination procedure will have to be build up anew and it is supposed that the examinations will be performed by a state institution called The Republican Research and Scientific-Advisory Expert Analytical Centre (GU RINKTzE), introduction of new criteria for choosing projects is also possible. Review of the programme for the leading academic schools is viewed as a defensible one, as far as the programme actually was boiled down to extra payments to research teams for their previous contributions – an initiative that was crucially important in the middle of 1990s, when the major goal was to preserve the scientific potential, but has become outdated now. Besides, among the leaders of academic schools that will be getting the support 51,7 % are members of the Russian Academy of Sciences, while from January 1, 2003 extra payments for academic status to members and corresponding members of the Academy of Sciences will be increased by a factor of 5 (to reach 20 thousand roubles and 10 thousand roubles per month correspondingly). At the same



time the fact that the programmes for support of the leading academic schools are taken away from the RFFI will have rather negative consequences, as far as it is namely the Fund that possesses the best expert analysis system in the country, it will be more difficult for the Ministry to organize full-scale competitions, it also lacks a corresponding infrastructure.

Attempts to solve the housing problem, which is also an important factor to attract young researches to the science, were predominantly made only by separate organizations and state departments. A federal targeted programme, «Housing for the young», appeared in the 2002 budget, but according to the figures for the third quarter of 2002 it did not start to function. It is planned that young people will be granted targeted subsidies to buy housing and to repay them on certain conditions. Loan repayment shares and terms will be coordinated with the demography statistics. Meanwhile, the Siberian branch of the Academy of Sciences has already started to implement its own programme to help young scientists to buy their own housing. Young researches (under 35 years) and Doctors of science under 40 years that have worked for the Siberian division for at least four years (including the term of their postgraduate studies) can be granted with bank loans to buy or build their own housing against a warranty of the Siberian branch<sup>14</sup>. The programme was just started, but the initiative is by all means is a very important one.

Government initiatives to support young people are much more negligible than needed to change the manpower situation in the country. According to the State Statistics Committee there are more than 83 thousand postgraduate students attending full-time day courses and over 45 thousand young (under 29 years) scientists<sup>15</sup>, which means that at least 130 thousand young people can become potential recipients of youth programmes, though not more than 3-4 thousand persons can be getting support under the government programmes. Consequently the basic level of material incentives for young people remains extremely low. One of the methods to restore the manpower structure could be to invite young scientists and postgraduate students from the CIS-countries, but there exists a number of legal barriers in this respect (difficulties connected with their residence registration, paying them grants from the state budget and a number of others).

The structure of expenses planned in line 06 of the budget for 2003, «Fundamental research and promotion of science and technology progress», testifies rather to a diminishing support to young people or in the best case to its status quo, by no means to a beginning of their systematic «securing» in the science. This reasoning can be supported by the following figures from the new budget:

1. A smaller financing share of state scientific funds, the Russian Foundation for Basic Research (RFFI) in particular – instead of 6 % of budget expenditures on science that the Fund was supposed to get according to the current legislation, in the draft budget for 2003 its share got reduced to 4.9 % even after additional 200 mln roubles after the third reading. Leaders of the Fund in connection with that pointed out that reduced financing forces them to cut and even close a number of programmes. In particular there are expected cuts also in the »Young students and graduate students-programme», the best known among young people and the largest by the number of grants receivers – a programme for support of young researchers, postgraduate students and undergraduates. A scheduled competition un-

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<sup>14</sup> Poisk, #34-35, August 30, 2003. p. 3.

<sup>15</sup> «Nauka v Rossii – 2001», State Statistics Committee of the Russian Federation. Moscow, 2001, p. 26, 37.

der this programme was announced in November, but the number of grants and their dimensions were not advertised.

2. Funds planned for purchase of housing for young researchers and their families in 2003 can only solve the housing problems for approximately 200 among them<sup>16</sup>.
3. Still one more prime federal targeted programme, which promotes an optimised organisational structure of the science and a «gentle» reform of its public sector, as well as a higher educational quality and a better inflow of young researchers – «Integration of science and higher education in Russia in 2002-2006»<sup>17</sup>, is being funded at the level of 2002 and hence actually experiences a financial cut. The Absolute funding value of this programme in 2002 was at the level of the previous year, which means yearly cuts for this programme. Centres of Education and Science created under this Programme were not further developed with respect to a more profound integration of academic institutes and institutions of higher education. It is noteworthy that instead of such an integration in 2002 there was a precedent of establishing a completely new organisation – The Academic University of Physics and Technologies under the Academy of Sciences.

The Academic University of Physics and Technologies under the Academy of Science of Russia became possible in the long run also due the personality of its founder, member of the Academy of Sciences, Nobel Prize winner Zh. Alferov. This university is being built on the basis of the Institute of Applied Physics under the Academy of Sciences named after A. Ioffe, the director there is Zh. Alferov. In spite of the long-lasting connections and co-operation between the Institute of Applied Physics and the Technical university of Saint Petersburg, among other things also within the framework of the «Integration», the Academy preferred doing it its own way and establish its own institutions of higher education. According to the current legislation the Academy being a self-governing organisation and not an executive agency is not entitled to establish public education institutions. That is why the new academic university is devoid of any official status. Its establishing was allowed by a Ruling of the Presidium of the Academy of Sciences and it is expected that this decision will be approved by a special government decree. In his turn Zh. Alferov has suggested to introduce an amendment to the Law «On the science and public science and technology policies», which will allow the Academy to build public institutions of higher education within its structure.

This university is not the first one in the system of education under the Academy of Sciences. There is one university located in Puschino, it has a rather narrow profile and educates specialist for academic research institutes located in the vicinity. The idea of an early specialization is a rather dubious one and has as many advocates as it has opponents. An early narrow-purposed specialized education can not only become a drag on researcher's way to his success, but also a hindrance for a whole line of research in case such a specialist occupies an administrative post. There is one more academic institution of higher education – a university for liberal education that works on the basis of several institutes of higher education in Moscow. All the above-named academic institutions possess the public status, as far as they were officially founded by the Ministry of education, though established at the initiative of the Academy of Sciences.

Simultaneously there are vocalized proposals – among others by representatives of the academic community – to establish closer contacts between universities and academic research institutes in connection with the difficult manpower situation particularly in academic institutes and a possibly closer integration to the point of merging academic organisation with institutes of higher education. Representatives of the academic community in Novosibirsk, for example, moved forward a rather grounded idea to reform the cluster of academic research institutes so that the local university becomes the centre of the community<sup>18</sup>, to make a transition to an institu-

<sup>16</sup> Poisk, #40, October 4, 2002. p. 6.

<sup>17</sup> For more detail about Federal targeted programme «Integration of Science and higher learning in Russia in 2002-2006» see in «Rossiyskaya Ekonomika v 2001 godu. Tendentsii i Perspektivy» Issue 23. Vol. 1. Moscow, IET, March 2002. p. 554.

<sup>18</sup> V.Doroshenko, I. Koshever, V. Matizen «A scientific centre in Novosibirsk: is there a strategic alternative?» (in Russian) // Otechestvennye Zapiski, 2002. #7. p.p.:259–272.



ditional model of science after universities in the West, which has proved effective in many different countries. But one can almost surely assert that the Academy and the Siberian branch of the Academy in particular will not view such changes requisite.

On the whole the above instances show that the science and technology policy remains quite personified and preferences given to this or another alternative are not determined by a chosen strategy approved in official documents. They are to a very high degree dependent on current views of persons of high status – in ministries and other organisations — on what they think is important at this very moment.

## Changes in payment system in the sphere of science

The issue of raising salaries in science in 2002 was a subject matter not only for young researchers. The issue was a burning one especially for those employed by the budget science institutions, where payments are rigidly attached to the fixed payment rates and coefficients defined in the Single scale of wages and salaries. Starting from October 1, 2003 it is planned to introduce new payment systems differentiated by branches. The principal criteria that are going to define a basic salary in the sphere of science shall become the academic degree or the academic status, length of service and the subject of the research in progress. Those doing a work within the framework of the national priority research lines are going to get 10-15 % more. In 2002 there started a heated discussion on whether one should attach remuneration of labour to the length of service, as in this case young scientists lose the chance to get decent payment. The alternative suggestion is that instead of the «length of service» criterion there should be a «corridor» for fixed official salaries and researchers' salaries should depend on the results of their certifications. But on the whole this does not mean much: though fixed salaries are planned on average to be raised by 150 %, an average researcher's fixed salary at that will only reach 3600 roubles. The motivating factor of that kind of salary is close to zero, especially in view of the fact that at effectively run institutions bonuses and additional payments can be 10 times higher than the official salaries and even higher.

Academic degree allowances for candidates and doctors of science were tripled starting on January 1, 2003, they are 900 roubles and 1500 roubles per month correspondingly. But the present regulations will only be effective until October, when the new branch system of labour remuneration will enter into force. The preliminary draft budget envisaged tripled allowances only for candidates and doctors working for institutions under the Ministry of education of the Russian Federation. But the budget committee before the third reading agreed to allocate funds for academic allowance increases for candidates and doctors also working in Federal Researchinstitutions in addition to institutions of higher education.

Also planned that alongside with the new system of remuneration of labour there will be a wider use of terminal labour contracts. This is one more step in bringing the system closer to standards in the West: for example in US universities only 20 % of faculty members and researchers have permanent posts.

The attempt to ensure an inflow of young manpower exclusively by raising salaries and by giving different kinds of bonuses and allowances is unproductive, as far as reasons why young people do not want to stay in the scientific sphere are more profound and complex. The situation when the hiring system is rigid, the contract payment systems is hardly used, when institute administrations are afraid of getting social problems in case of pursuing a strict manpower policy – all this led to the flourishing «preservation-of-workplaces» policy, rather than to the policy of preserving the scientific potentials. The problem lies not only in the fact that

scientists in the pensionable age have no desire to leave their workplaces – many of them according to their young colleagues are quite industrious, able-bodied and resourceful – it is rather an issue of a rather thick accumulated layer of «scientific dead weight». This is a rather dangerous phenomenon, as far as the «dead weight» not only impedes providing young researches with workplaces, but also is a serious factor in itself turning them away from science. Quite many young researches and postgraduate students admitted in interview that the scene of research laboratories that produce nothing and degradation of whole research teams call for negative feelings with young scientists, making them take a closer look at new dynamic sectors of the economy (such as consulting and computer programming) and seriously consider their chances of scientific emigration. This problem can only be dealt with by system reforms in the scientific sector through restructuring of the network of research organisations, more considerable funding to renovate research facilities, etc.

### The Problem of Brain Drain

The problem of young manpower is closely connected with another manpower problem – the brain drain. Scientific emigrants are younger than before and keep staying young, they are predominantly graduates of institutions of higher education, postgraduate students and young candidates of sciences. There is also a «back-flow», but the number of those that come back according to the most optimistic estimates is as low as 10 % of those left to work or study abroad. Last year on the government level there were attempts to solve the problem of preventing the brain drain and re-establishing the balance of the manpower structure by looking for mutually acceptable ways of interaction with Russian scientific communities abroad.

In the recent one or two years there appeared more favourable conditions in Russia for establishing contacts with former compatriots. For example the mathematicians community note that many of the mathematicians that had left make effort to work part of their time in Russia, suggest reading series of lectures in Russian universities free of charge. Representatives of Russian scientific communities abroad supported several scientific conferences financially and organizationally. Former compatriots also assist scientists that work in Russian to get access to electronic subscription to foreign periodicals and other scientific literature. Also discussed are such forms for interaction as doing joint scientific research, establishing mobile laboratories in partnership, invitations to former Russian scientists to spend some of their time to collect material and combine it with lecturing for Russian students and postgraduates.

Prevention and slowing down of the brain drain is put as one of major goals by new Russian private charitable funds that have started announcing programs to support of youth. In 2002 organised charity activity in form of corporative funds was growing. In addition to already existing funds — V. Potanin's charity fund and The social charity fund for support of national science, which were established in 2000, there appeared one more – Non-commercial programmes fund «Dynasty», which puts as its priority support of one of fundamental sciences in Russia – theoretical physics. In 2002 the «Dynasty» fund started realization of a programme of grants for Russian students that specialize in theoretical physics (it is planned to give support on the basis of an open-type competition to 60 students, paying them 2000 roubles per month during the academic year), and a programme of support for young scientists. Within the framework of this programme 10 young candidates of sciences will get an opportunity to work for three years in the country's leading scientific organisations, receiving a grant of 15 thousand roubles each month.



Characteristic tendencies in realization of the programmes of the already actively functioning charity funds in 2002 was a broader target group, in other words number of contenders to get the support, first, and larger grants, second.

In V. Potanin's charity fund today there are several programmes, the largest of them is the Federal grants programme. Under this programme support is granted to excellent daytime students, who concurrently do research and have displayed good organisational skills. In addition, support is also given to sub-faculties having largest numbers of students already receiving grants from the Fund. In 2002 the number of grant receivers grew from 1000 to 1260 alongside with monthly grants – from 1200 to 1500 roubles. On all grant programmes taken together in 2002 V. Potanin's fund spent 1.5 mln US dollars.

The fund for support of national science has also announced as one of its goals financial and moral support to outstanding Russian scientists and talented young researchers, as well as its desire to prevent that talented young people leave for the USA and countries of Western Europe. The charity programme of support for outstanding Russian scientists and talented young researchers was initiated in 2001, its first stage was over in March 2002, and then the programme was renewed. Within its framework there were given 100 grants to young doctors of science and 100 grants to young candidates of science, total amount that went to charitable aims accounted for 1 mln US dollars. The grants were 10 thousand roubles per month or about 4 thousand US dollars per year. The results of the first stage of the programme showed that of 210 grant receivers only one left Russian in the current year.

Thus the support granted thanks to private initiatives is bigger than the allowances and bonuses paid within the framework of state programmes, including presidential ones. Actually private programmes provide young scientists with grants that in the majority of sociological polls young people named as a minimal acceptable salary to stay in the science and really do research instead of having several places of work causing inevitable damage to their scientific work.

On the part of private persons, Russian entrepreneurs, establishing such funds is not just charity, it promotes company image. Support of education and science belong to social initiatives, researches made in the West show that in recent years more than 80 % of consumers when making their choice of services have taken social image of the company in consideration<sup>19</sup>. Thus, it's not by chance that V. Potanin's fund uses about 30 % of the educational projects money for advertising support of the arrangement.

## Foreign Science Foundations' Activities

Last year foreign organisations started paying more attention to working out strategies for joint activities in Russia, bearing in mind that the time of uncoordinated effort was coming to an end. An outline for establishing a coalition of donors in education and science is being discussed among other things. There is a lot of unsolved issues here: what is the advisable limit of duplicating initiatives? In which lines shall efforts be united? How can the effort be assessed by the participants in order to increase the effectiveness of project realization? The main line in coordination of effort is connected with the fact that many organisations plan to reduce their initiatives in Russia, that is why integration of resources, exchange of expert analysis experience and even of «blacklists» of those who violate conditions of grant financing can result in a more effective use of the diminishing funding.

One of the most striking events last year was the announcement made by G. Soros that he would curtail his charitable activities in Russia, cut the budget of the «Open Society» institute in 2003 from 20 to 5 mln dollars and transfer some of the programmes to six newly established organisations, including three regional ones.

«New Russia» will become the leading one, its co-finders are the «Open Society» institute and the «Eurasia» fund. It is planned that all the organisations will be Russian juridical persons, their work to a considerable

<sup>19</sup> Dengi, #40, October 15 – 21 2002, p. 108.

degree will be possible due to Russian philanthropists. There are no grounds to expect a flourishing private charity yet, that is why the tendency is viewed on the whole as an alarming one. G. Soros was the first one to give a full-scale support to fundamental sciences in Russia in their hardest time, other funds took his activities as a possible pattern when planning their own work in Russia.

At present the situation is as follows: in a number of research fields (biotechnologies, molecular biology, chemical physics) the share of foreign sources of funding reaches 70-80 %<sup>20</sup>, that is why curtailing of activities of foreign charity organisations can deteriorate the already rather unstable situation in Russian science.

With respect to activities of foreign charitable organisations some other tendencies that made themselves visible last year can also be pointed out. The first one is a closer attention to the regions in contrast to Moscow and Saint Petersburg. One of the reasons is the common opinion that scientists of these two cities are spoiled by lavish funding from abroad and have lost the ability to spend funds effectively. Another tendency is a higher selectiveness with respect to the lines of research and effort spheres (more emphasis is placed on such spheres as protection of the environment and population health, biomedical research, studies on anti-terrorism, solving social problems, building of civil society, initiatives that promote closer contact between education and science and between research and its commercialisation). The tougher selectiveness is connected with the fact that funds and international organisations, having analysed the effectiveness of their activities in Russia, arrived at the conclusion that considerable amounts of funding was used to no purpose. This was especially evident in cases when they funded lines and programmes that Russian authorities were not interested in. It is now expected, that priority activities of sponsoring organisations will be coordinated with Russia's interior interests. In particular, the US government is thinking of using this pattern when choosing the lines of rendering support to Russia for its science and technology development. There are other tendencies connected with the previous one: financing organisations are more and more focused on parity funding for their projects alongside with means from government and regional sources, more funds are hiring Russian experts to help them work out development strategies.

#### Russian state science foundations: current situation and new projects

Russian scientific funds – the RFFI (Russian Foundation for Basic Research) and the RGNF (Russian Fund for Humanitarian Research) – also in 2002 played an important role in support of both scientific research and upgrading the material resources of the science, they also rendered emergency assistance to a number of institutes when as a result of natural catastrophes their unique equipment was destroyed. This in spite of the fact that conditions for functioning of the funds were far from being the best. The budgets of the funds are not great: for example an average grant given by RFFI for a group of 5-7 persons in 2002 was 150 thousand roubles per year. Inpayments from the budget to the funds reached their peak at the end of the year, that is in the period when it's most difficult to spend the money provided that it is not solely spent to pay salaries and taxes. Pattern of inpayments to RFFI in 2002 looked as follows: 1<sup>st</sup> quarter – 17 %, 2<sup>nd</sup> quarter – 25 %, 3<sup>rd</sup> quarter – 19 %, 4<sup>th</sup> quarter – 39 %<sup>21</sup>. That means that the fund in the first three quarters actually received only a third of the due financial resources. In the 2003 budget the funds' share is reduced and accounts for not more than 6.9 % of the budget expenditures under line 06 instead of 8.5 %. The fund's leaders view it as a setback with respect to the idea of support in form of grants and govern-

<sup>20</sup> Izvestiya-nauka, #16, May 17, 2002, p.4.

<sup>21</sup> Poisk, #10-11, March 15, 2002. p. 3.



ment funds as a form and source of its financing. Definition of the word «grant» is now given only in the Tax Code, in the Budget Code this notion is not explained and the word is used only in one article (article 78 «Subsidies and Subventions»). Besides, in the Budget Code state scientific funds are deprived of their functions as one of administrators of budget means. In case the funds stop receiving funding stated in a separate budget line, their activities priorities can be considerably changed under the influence of interests of the administrator of budget means (most likely this will be the Ministry of industry and science). That is why a new law on Federal Science Foundations has become a necessity. It would identify the meaning of primary notions (including the form of financing called «grant») and mechanisms for Federal Science Foundations' functioning.

In 2002 two state funds – RFFI and the Fund for assistance to small innovative enterprises – started a new perspective programme of joint financing of innovative projects. Besides the possibilities that the programme gives to a number of research teams that work together with small innovative enterprises to commercialise the results of their joint effort, it also gives a try to check a commercial potential of intellectual property created at the expense of the federal budget and thus belonging to the state. Following the competition conditions applications for funding shall be presented by teams that unite research groups that received RFFI grants before and small companies that are ready to invest their own funds to place a ready product at the market. Funding under this programme consists of three equal shares – RFFI funds and money from The Fund for assistance to small innovative enterprises, and financing from small companies. RFFI will finance the necessary research, The Fund for assistance will support research and development, and small enterprises shall make their investments at the stage when the prototype elaborated in the course of the project will be replicated and sold. Each project depending on its dimension will get a non-refundable financing from the funds between 1.5 and 3 mln roubles. The financing procedure will include an advance for one year and later after the report is submitted there will be taken a decision to continue or stop financing. The expert Council that will choose among applications is comprised of both specialists that RFFI cooperates with permanently and scientists that have experience in development and realization of applied works.

As for the IP, the rights for its application are laid down in the contract signed by the four participants: the two funds, the researchers and the manufacturing company. Attached to the contract is the patent or a know-how description. The right to use the IP shall be transferred by the researcher to the small company in question. The IP developed in the course of the project pursuant to programme conditions shall in equal shares belong to the funds and the researchers, its use is regulated in accordance with the government regulation «On basic lines of realisation of the government policies to attract results of scientific and technological activities to the economy» (#1607-r of November 30, 2001). Also according to the programme the funds shall defend interests of the state with respect to the property created using public funds, while the government is interested in turning the results of the research work into commercial products. Due to this the funds will encourage all kinds of transfer of the state share in IP to the researchers including its purchase so that the IP can be commercialised and will transfer all the rights to the research organisations under the condition that the results will be used in the economy. This is the subject of the special agreement between the researchers and the funds.

The organisers of the competition received 503 applications, finally there were chosen 86 projects, though only 60 were planned initially. Good projects turned out to be plentiful. The final outcome will be clear in 2003, as far as the selection process was over only in autumn, meanwhile specialists prognosticate that at least half of the supported projects will be successful.

### Organisational reform in the science sphere

Organisational reform in the scientific sphere has many times been proclaimed as a priority, but in 2002 it was somehow kept in the «background». During the meeting in the State Council the President said that the country needed «a new economy for the science itself», and first of all «targeted financing, not of organisations, but of productive lines of research». It was pointed out that to achieve this in the first place one needed most of all an inventory of the organisational structure of the science, which experienced a very slow progress. At the highest state level it was also stated that one should think over measures to bridge over the lack of unity between the academic, university and applied science that has built itself up in Russia in the course of the historic development.

During the past year these strategic ideas have converted into several directions for practical activity, namely: reform of the system of Federal Research Centres (GNTz), restructuring of the Russian Academy of Sciences (RAS), and establishing new consolidated forms for organisation of science and technology activities.

After the «Guidelines...» were adopted the actual reform of the network of science and technology organisations started with working out a concept for reform of the system of Federal Research Centres of the Russian Federation, which was approved in August 2002 by the collegium of the Ministry of industry and science. The reform of GNTz was planned to make each of the centres responsible for realisation of one of the newly approved priority lines and to bring their organisational and legal forms into conformity with the special features of tasks performed by them. At present there are 58 such Centres, twice a year they go through a procedure that reconfirms their status. By their legal-organisational form the majority of these Centres are state-owned enterprises: of the 58 GNTz 49 are federal state-owned enterprises, 7 – federal state departments and 2 exist in the form of closed-type joint-stock companies. GNTzs are large organisations: being only 1.2 % of the total number of organisations in the science and technology sphere, they employ 9.2 % of the whole of the scientific manpower.

Bringing the GNTzs into conformity with the selected priority lines presupposes elimination of works doubling (which is highly questionable if one's aim is good scientific results, as far as elimination of doubling leads to monopolisation and lower quality of works), finding out which of the priority lines are not covered by a GNTz and should it be the case – giving the corresponding status to organisations on a competitive basis. At present the Ministry of industry and science has more that 200 applications from organisations that wish to get the status of GNTz. Ineffective GNTzs are planned to be abolished or consolidated.

There are two ways to reform GNTzs organisationally that are considered as key ones. The first one is for GNTzs that wish to get or keep this status – their legal-organisational form shall be changed by turning them from federal state-owned enterprises to state-owned non-commercial organisations. State-owned non-commercial organisations the Civil Code provides today with only one form – institutions. It is expedient to give this form only to GNTzs that have proved capable as fundamental institutes. The second way provided by the concept is to privatise GNTzs that have the form of state-owned enterprises and do not wish to keep this status and possibly include a number of these into financial and industrial groups or scientific-industrial or scientific-educational complexes.

According to the draft concept GNTzs will start working on a contractual basis, they will conclude framework contracts that will be adjusted every year with an authorized federal



executive body. GNTzs will get their financing from the federal budget in form of binding government contractual work, and subsidies and subventions.

It is expected that the reform of GNTzs will be more effective if these organisations will have the right to choose from a greater variety of legal-organisational forms for their activity. In particular, the GNTzs could not only become institutions, but also non-commercial organisations controlled by the public, in case the current legislation will be supplemented with this kind of form of state-owned non-commercial organisations.

During one year in the system of the Academy of Sciences there were taken a number of practical steps, which can be viewed as an intention to make organisational changes in the Academy. It's interesting that it was reorganisation of the Academy that was on the agenda initially, later the idea of reorganisation developed into the idea of restructuring. All the plans for organisational changes were worked out by the Presidium of the Academy, without calling in «rank and file» members and corresponding members of the Academy<sup>22</sup> – in spite of the fact that the Academy is a self-governing non-commercial scientific organisation with the General Meeting of the Academy as the highest governing body.

The restructuring of the Academy followed three main directions: 1) changing the number of branches in the Academy; 2) introduction of the system of competitive financing of scientific research done by scientific organisations of the Academy; 3) changing the number of employees at the scientific institutions of the Academy.

The first of the directions as it developed in its essence reminded to a certain degree of the organisational reform of the Academy's institutes made in previous years. At that time the Academy had a plan to cut the number of academic institutes. The result was amalgamation and consolidation of a number of institutes, as far as it was expected that amalgamation of the strong and the weak would lead to a reinforcement of institutes. This didn't happen. Besides, in modern conditions, when only flexible research teams and institutes under 100 persons can become the most effective ones, consolidation of research institutes can hardly be a promising idea. Life showed that it really is so. Some time after the reorganisation was over, the institutes started getting divided and split up, at present their number has grown by 4 % as compared to their quantity three years ago.

The aim of the present restructuring was a more efficient coordination of research within the frameworks of chosen fields of the science and a better management of research programmes<sup>23</sup>. To achieve this goal the number of profile branches was halved from 18 to 8, while new branches in their turn were divided into sectors, so that the result was 21 new structural units instead of 18. The number of administrative posts after the restructuring also grew. In May the General meeting of the Academy approved the new structure for the Academy practically unanimously. It is expected that the changes in the Academy's structure will lead to more democracy in the Academy's activities with respect to the mechanism of administering budget means. The branches can now handle a considerable part of the Academy's budget, while before the bulk of the funds was distributed at the level of the Presidium of the Academy of Sciences.

Also being discussed at present is establishing of one more regional branch of the Academy, the fourth one, this time in Saint Petersburg. The initiative to create it belongs to Zhores Alferov, a member of the Academy. A new regional branch is a new separate line in

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<sup>22</sup> *Ginzburg V.* "Restructurizatsiya ili Profanatziya?" // Poisk, #13, March 2002, p. 3.

<sup>23</sup> *Mesyatz G.* Maximum Samostoyatel'nosti // Poisk, #16, April 19, 2002, p. 5.

the budget, and, hence a possibility to lobby interests of Saint Petersburg science when the budget is being tailored.

The second trend of changes in the Academy was connected with introduction of new principles for planning of scientific-research work of scientific organisations under the Academy. The presidium issued a new ruling on establishing new Basic principles of planning scientific research by the scientific structure of the Academy. According to the Principles the organisation of planned work and its reporting system are changed. The central idea is that the competitive basis for developing plans of research financed by the state budget needs to be reinforced.

According to the new ruling by the Academy bureaus of the Academy's branches got the right to decide against unpromising research themes and to send the money to priority fundamental research. It is expected that this procedure will allow to cut off low-quality works and to stop unjustified doubling. The criterion for «unjustified doubling» at that is rather vague, and it's not clear how one can distinguish between justified and unjustified doubling. In many fundamental researches parallel works is an incentive for higher results and to a certain extent protection against possible mistakes and erroneous interpretations of research results. Moreover, this kind of detailed breakdown of the institutes' works to the level of themes, which will be subjects for scrutiny by Branch bureaus will lead to a manifold increase of paperwork, as far as each of the institutes will be researching in several themes, while each of them will be split into dozens of assignments. According to the new procedure each of the assignments will actually become a theme and shall undergo the process of state registration.

The working plan for the scientific organisation approved by the Academy's Presidium will get the functions of a government contract and be used as a basis for assigning financing for concrete scientific organisation from the state budget.

As for the reporting, structural units will be giving their intermediate and final reports on their theme works, and by analysis of the results ineffective units can even be closed.

One cannot give an advance assessment of this recent innovation, but it is quite obvious that administrations of the institutes and those employed by the Branches will experience a manifold increase of work. The «competitiveness» notion strictly speaking is hardly present here, as far as tenders are not planned and it does not stand who is actually going to compete with whom.

This initiative is to a certain extent connected with still another ruling by the Academy's Presidium on recommencement of competitive check-ups of scientific organisations of the Academy aimed at a systematic analysis of research, organisational and economic activities of the institutes. The check-ups planned to be done at least once in five years can result in suggestions to adjust or close down certain research lines in some of the organisations and even in proposals on reorganisation or a complete liquidation of organisations. This ruling was issued by the Presidium after an audit of the Academy's activities by the State Auditing Chamber.

And at last the third of restructuring lines was initiated at the very end of 2002 after the Academy's Presidium approved the ruling on a 4 % cut of normative employment rates for the scientific organisations of the Central part of the Academy. The ruling was fulfilled in one month, which means that this initiative is likely to become a short-term campaign bearing no clear argumentation, because it's hardly possible to work out criteria for reduction of the staff in such a short term. It is typical, though, that concurrently within the framework of the Academy new scientific centres are being established – the Southern scientific centre of the Acad-



emy, and the scientific educational complex «Scientific and educational centre of applied physics under the Academy in Saint Petersburg». Hence, the total staff of the Academy will most likely grow.

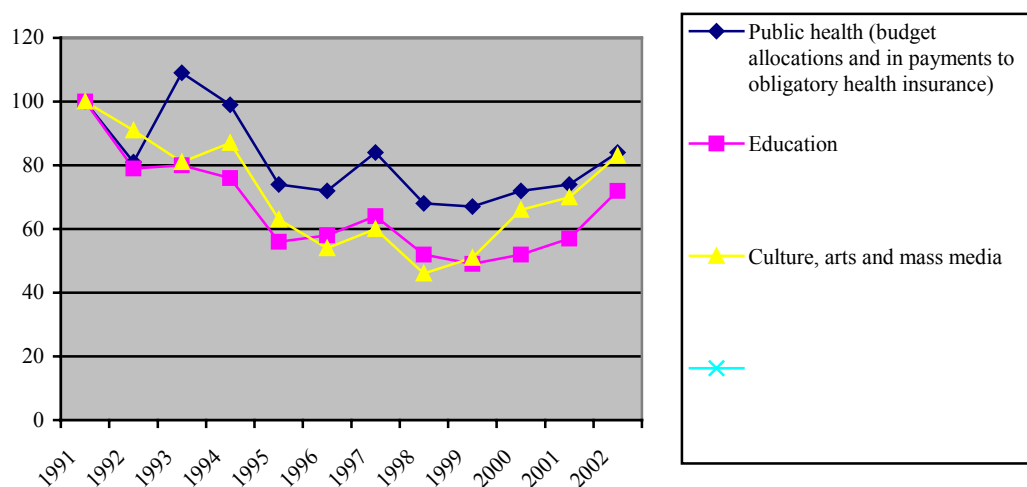
In 2002 also the Ministry of industry and science did some work to form new organisational structures in the scientific sphere, namely: it gave its support to establishing holding companies. For example, there was started the Federal innovative chemical and pharmaceutical company that is supposed to get its final organisational form in 2003. The company will unite nine leading scientific centres, among them several GNTzs, and two or three largest chemical and pharmaceutical enterprises. Organisations that will become parts of the amalgamation will lose their structural independence, but some the institutes' directors will get leading posts in the concern. It is expected that such an amalgamation will possess a higher transparency of the financial system, which will attract investors. As distinct from the classical scientific-manufacturing amalgamations the concern will not only conduct scientific research, work out projects, designs and specifications, it will also manufacture final goods (medicines in this case) and sell them, that is finalise the process by giving the product to the final consumer.

Establishing cooperative groups in the science and technology sphere on the whole is impeded by the current legislation: neither the Civil Code nor the Law on Science provide any feasible mechanism to establish any kinds of cooperative groups usable in the science and technology sphere (for example inter-branch educational and research centres). In other countries legislations on cooperative associations in the science and technology sphere are rather elaborated.

In conclusion it should be noted that the previous year was distinguished by appearance of several clear directions for the government's activities in the science and technology sphere, the financial policies were shaped according to these major directions and a consistent development of the institutional sphere was started. Attention was focused on and maximum progress was achieved in bringing the science and industry closer together through realisation of large-scale innovative projects and establishing holding structures, as well as through developing infrastructure for the innovative activities (a start-up for establishing venture industry).

### **3.6. The Social and Cultural Sphere**

In 2002 the social and cultural sphere branches were really given a priority when budget means were distributed. Financing of public health and physical culture, education, culture, arts and mass media was increased by the government by 20% in real terms as compared to the previous year. The share of these spending in the GDP reached 7.5% (6.5% in 2001). The largest increment of allocations was in education, culture and arts – they were increased by 25% in real terms.



*Source:* calculated on the basis of the data provided by the State Statistics Committee using GDP deflator indices published after the end of the corresponding years (17.2 in 1992; 10.2 in 1993; 4.1 in 1994; 2.8 in 1995; 1.4 in 1996; 1.2 in 1997; 1.1 in 1998; 1.6 in 1999; 1.4 in 2000; 1.2 in 2001).

*Fig. 79.* Government expenditures on social and cultural sphere branches (1991 = 100%)

*Table 33*

**Government expenditures on social and cultural sphere branches (1991 = 100%)**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public health Including	100	80	108	98	72	71	81	67	67	72	73	
State budget	100	80	91	81	59	57	65	51	51	54	55	
Obligatory insurance in payments by juridical persons	-	-	17	17	13	14	16	16	16	18	18	
Education*	100	79	79	76	56	58	64	52	49	52	57	
Culture, arts and mass media*	100	91	81	87	63	54	60	46	51	66	70	

\* State budget expenditures.

*Source:* calculated on the basis of the data provided by the State Statistics Committee using GDP deflator indices published after the end of the corresponding years (17.2 in 1992; 10.2 in 1993; 4.1 in 1994; 2.8 in 1995; 1.4 in 1996; 1.2 in 1997; 1.1 in 1998; 1.6 in 1999; 1.4 in 2000; 1.2 in 2001).

*Table 34*

**Government expenditures on social and cultural sphere branches (in % of the GDP)**

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public health Including	2.9	2.5	3.7	3.9	2.9	3.1	3.4	3.1	2.9	2.6	2.8	
State budget	2.9	2.5	3.1	3.2	2.4	2.5	2.8	2.4	2.2	1.9	2.1	
Obligatory insurance in payments by juridical persons	-	-	0.6	0.7	0.5	0.6	0.6	0.7	0.7	0.7	0.7	
Education*	3.6	3.6	4.1	4.5	3.7	3.9	4.4	3.6	3.2	3.1	3.2	
Culture, arts and mass media*	0.5	0.6	0.6	0.8	0.6	0.5	0.6	0.5	0.5	0.6	0.6	

\* State budget expenditures.

*Source:* calculated on the basis of the data provided by the State Statistics Committee of the Russian Federation.



At the same time the situation with remuneration of labour of those employed in the social and cultural branches remained rather complicated. By the results of the 3<sup>rd</sup> quarter average monthly wages in education were only 63.1% of average wages in the country, 52% compared to the industry. Analogous figures in public health were 68.9% and 56.8%, in culture and arts they were 64.4% and 53.1% correspondingly.

By the results of 2002 aggregated arrears of wages outstanding in favour of those employed in social and cultural branches increased compared to the beginning of the year by 26.3%. The basic reason for this was under-financing of establishments in the social and cultural sphere on the part of the budgets of subjects of the Russian Federation, which grew by 26.5% in one year. The outstanding debts' branch breakdown in the budgetary sphere was as follows: close to 30% in education, 11% in public health and 3% in culture and arts.

The largest debts in arrears of wages due to the under-financing from the budgets of regions and municipalities in the social sphere have the Republic of Sakha (Yakutia), Krasnodar krai, Kirov, Irkutsk and Kamchatka oblasts. At the same time there were no arrears of wages in such regions as Moscow, Saint Petersburg, the Republics of Kalmykia, Ingushetia, Buryatia and Chuvashia, Ryazan and Penza oblasts, Nenets, Khanty-Mansi, Taymyr autonomous okrugs.

Table 35

## Budget arrears of wages caused by under-financing from budgets of all levels in 2002 (for the begging of the month) (in mln roubles)

Showings	01.02	02.02	03.02	04.02	05.02	06.02	07.02	08.02	09.02	10.02	11.02	12.02
Total	3633	4025	4673	4648	4049	4328	5142	5487	4336	4728	4655	4493
From the federal budget	562	610	727	716	612	598	600	614	623	699	722	655
From budgets of the subjects	3071	3415	3946	3932	3437	3730	4542	4873	3713	4029	3933	3838
Including Social sphere branches – total	2308	2562	3027	3069	2691	2596	3630	3940	2806	2977	2995	2915
From the federal budget	17	19	21	25	26	25	25	25	25	23	20	17
From budgets of the subjects	2291	2543	3006	3044	2665	2931	3605	3915	2781	2954	2975	2898
Education	531	671	816	872	712	806	1098	1175	337	467	642	612
From the federal budget	16	17	15	15	13	13	13	13	13	15	12	12
From budgets of the subjects	515	654	801	857	699	793	1085	1162	324	452	630	600
Public health	146	180	335	297	207	293	465	617	466	438	372	323
From the federal budget	0.3	2	5	10	12	11	11	11	11	8	8	5
From budgets of the subjects	146	178	330	287	195	282	454	606	455	430	364	318
Culture and arts	59	62	102	103	85	98	161	183	92	101	100	98
From the federal budget	0.3	03	1	0.4	0.5	1	0.3	0.4	0.1	0.1	0.0	0.0
From budgets of the subjects	59	62	101	103	84	97	161	183	92	101	100	98

Source: based on the data by the State Statistics Committee of the Russian Federation.

In November 2002 the Government of the Russian Federation approved the provisions of the Concept of reform in the system of payment to those employed by organisations in the budget sphere (education, public health, culture and arts, science). The basic idea in the Concept worked out by the Ministry of Labour of Russia is boiled down to a transition from the Single tariff scale to branch systems of remuneration of labour and to a transfer of the respon-

sibility to fix wages, of their indexation and payment to subjects of the Federation and local governments. Federal guarantees with respect to branch system of remuneration of labour will be limited to establishing the minimal amounts of remuneration of labour.

The desire of the government to get quit the responsibility of fixing salaries for those employed in the budget sphere is quite understandable, as far as the government is not capable of exerting a complete control of the payment process. This transfer of the main responsibility in fixing wages for budget sphere workers and their payment from the federal to the regional level when budget revenues have been accumulated in the federal centre in the past years and the majority of Russian regions are subsidised, can lead to consequences opposite to those expected by those, who worked out that Concept. In case this new system will be accepted this will aggravate regional differences in levels of wages and can lead in a number of regions to a considerable lag in wages to those employed in budget branches compared to the inflation and a greater social tension right before parliamentary and presidential elections. The regional governments at that will in all probability be telling the physicians and teachers that the basic reason for their low wages are the policies of the federal centre that takes away too much of the revenues and gives away too little subsidies.

### **3.6.1. Public health**

From the economic viewpoint the status in the public health sphere in 2002 did not undergo any essential changes compared to 2001. Having analysed the situation in this branch by the results of 2001 we have ascertained that the budget and insurance system of government financing of public health got reasonably balanced, though the balance was institutionally ineffective.<sup>24</sup> The past period confirmed this conclusion. All system constituents capable of joint efforts (branch administrations, funds of compulsory medical insurance, medical insurance organisations, physicians' associations) are rather interested in keeping the present institutions than in changing them considerably. Public health was no priority sphere in the eyes of the leaders of the stat, they did not exert any serious pressure on major social interests groups urging them to take effort to change the present situation. As a result no progress in solving acute problems in public health organisation in our country was achieved.

Public health financing from budgets of all levels and the system of compulsory medical insurance in its real terms was increased inconsiderably. Changes in government financing of public health in real terms are given in *Table 33*. The acute imbalance between the guarantees of free of charge medical assistance by the state to its citizens and the scope of financing of these guarantees did not diminish. Inadequate means to ensure this free of charge assistance is compensated by the citizens' outlays. Changes of expenditures of the population and the government on public health in the past years are given in *table 4*. The share of paid medical services in the total paid services to the public in the period from 1993 until 2001 increased from 1.7% to 4.6%. These impressive changes can hardly be explained only by a growing demand for medical services on the part of wealthy citizens.

The above figure of the population's expenses on medical services refer to the services that are legally paid for by the population to cash desks of medical institutions. The official figures do not take into account the informal payments, the money that the patients give directly into the hands of medical personnel.

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<sup>24</sup> Rossiyskaya Ekonomika v 2001 godu. Tendentsii I Perspektivy. Vol. 2. Moscow, IET, 2002. p. 16.

*Table 36***Government and private spending on public health, in bln roubles\***

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Public health expenditures of the government	6.38	23.9	51.3	72.1	98.5	88.0	137.7	199.3	241.0
Inpayments to voluntary medical insurance	0.06	0.4	1.2	2.2	3.4	3.8	7.2	12.8	23.8
Paid medical services provided to citizens	0.11	0.6	2.9	5.6	9.3	11.4	19.7	27.5	37.9
The population's spending on medicines	**Н.д.	2.1	8.1	12.2	19.8	26.3	51.7	70.1	94.2

\*Before 1998 – in roubles reduced according to the denomination scale.

Source: Rossiyskiy Statisticheskiy Yezhegodnik (Russian Statistics Yearbook), 2000. Moscow, The State Statistics Committee of Russia, 2001; Rossiyskiy Statisticheskiy Yezhegodnik, 2002. Moscow, The State Statistics Committee of Russia, 2002.

According to a research done by the Independent institute of social policies in two subjects of the Russian Federation in 2002 by means of interviewing public health employees<sup>25</sup> and polls of a representative sample the share of citizens that are forced to buy medicines at their own expense and to pay for medical services both to the cash desk and to the personnel directly is higher in places where government financing is lower. At the same time the informal payments for medical services turned out to be higher in place with higher popular incomes. The research revealed a low interest of medical workers in giving paid services in present legal forms. Because of this legal payment for medical assistance in itself is no guarantee against ensuing informal payments. There are being built up different views in physicians' communities as to informal payments, sometimes these views are directly opposite. Among medical workers there are lots of advocates of payments from the patients in form of "expression of gratitude" and opponents of wringing money out of patients. Though at the same time there already exists a layer of those who have made informal payments a stable source of a better life for themselves. Quite definite rules of informal payment for medical services have arisen. If the existing formal institutes that regulate the conditions for the population to get medical assistance and for medical workers to get paid for their work will continue, the practice of informal payments for medical services will persist and scopes of these payments will grow in pace with the increase of the citizens' financial resources. No realistic growth in government financing of public health will be enough to prevent greater informal payments. The conclusion is that one needs a review of the basic terms of giving medical assistance to the citizens in state-owned and municipal public health institutions.

The economic conditions of medical assistance to the population in the past year were discussed at special meeting in the Security Council of the Russian Federation. The inter-ministry commission of the Security Council of the Russian Federation on population health took on April 22, 2002 a decision "On measures to prevent negative tendencies in developing paid medical services". This document acknowledges that the lower expenditures on public health is the major reason for an increase of paid medical services, and that an inadequate control of organisation of these services leads to a veiled commercialisation of medical institutions' activities, getting of remuneration from the patients directly by the personnel and an increased "shadow" turnover in the

<sup>25</sup> Besplatnoye Zdravookhraneniye: Realnost I Perspektivy. Pre-print WP1/2002/07 / by Bogatova T., Potapchik Y., Chernetz V., Churikova A., Shilova L., Shishkin S. (the project leader). The Independent Institute of Social Policies. Moscow, 2002.

public health system. The recommendations by the commission contain a whole series of measures, which may make these problems less acute. But the discussion and the decision did not entail any tangible reinforcement of government activities to implement such measures.

A major problem in this branch is that the compulsory medical insurance system has not been completely introduced and public health financing is now an eclectic combination of the budget and insurance systems elements. In the past two years there was a broad discussion about a possible way of developing medical insurance in form of establishing a single system of compulsory medical and social insurance. This goal was formulated in "The basic lines for socio-economic policies of the Government of the Russian Federation in long-term outlook", approved by the government of the Russian Federation on June 28, 2000 and in the Plan for activities of the Government of the Russian Federation in the sphere of social policies and modernisation of the economy in 2000-2001 (The Government of the Russian Federation. Decree # 1072-r of July 26, 2000). A single system of compulsory medical and social insurance was planned to be established on the basis of integration of the existing system of compulsory medical insurance and social insurance system.

Proposals about integration of the compulsory and social insurance into a single system of compulsory medical and social insurance were being worked out starting from the autumn of 2000. The key barrier for establishing such a system was the issue of sources of insurance payments for nonworkers. The problem of transfers of inpayments from budgets of subjects of the federation for insurance of nonworkers in the existing compulsory medical insurance system is not solved yet. An effective way to solve this problem would be an unambiguous establishing of financial sources of these inpayments as fixed labelled tax revenues, for example, certain parts of revenues from income taxes of natural persons or excise taxes on tobacco or spirits. Similar suggestions were discussed by the government, but in April 2002 it was decided to refrain from that kind of integration, as far as possible ways to fix certain tax revenues as sources of financing payments for nonworkers were not found. Without fixing sources of means to pay for nonworkers an integration of the existing system of compulsory medical insurance and the social insurance systems is truly inexpedient. Building up a more complicated system without having solved the problem of financially uncovered obligations within the framework of one of the primary systems would have a destructive influence on implementation both of the medical and social insurance.

At the same time it is still needed to reform the compulsory medical insurance system. In the year of 2002 the Ministry of economic development actively participated in discussions about this problem. Due to the Ministry's initiative there was worked out a draft law on this, which suggests the following:

- ☐ to establish a firm basis for giving the citizens guaranteed free of charge medical assistance.
- ☐ to establish per capita normative inpayments to the compulsory medical insurance system for nonworkers from budgets of subjects of the Russian Federation;
- ☐ to exclude local budgets as a source of financing payments to the compulsory medical insurance system for nonworkers; payments to the system for nonworkers shall be made only from the means of the budgets of the subjects of the Russian Federation;
- ☐ to use means of the federal budget to subsidise payments for nonworkers;
- ☐ to complete an agreement between the Federal Fund of the compulsory medical insurance system and subjects of the Federation on insurance of nonworkers that



would specify obligations of its parties with respect to financing payments for nonworkers that would be transferred to territorial funds of the system; the subjects of the Federation that would not conclude such a contract would independently define the procedure of nonworkers' insurance, giving the medical assistance under the territorial compulsory medical insurance programmes and paying for it;

- ☐ to concentrate a bigger part of the compulsory medical insurance system's means in the Federal Fund of the system by changing the distribution proportion of the social tax revenues between the Federal and territorial funds of the system thus extending the capability of the Federal Fund to even out financial conditions for realisation of the basic compulsory medical insurance in different regions;
- ☐ to keep medical insurance organisations as insurers in the compulsory medical insurance system and to increase the government's requirements to their activities simultaneously;
- ☐ to give the insured the right to choose their insurers;
- ☐ to unify the mechanisms of price formation and payment for medical assistance in the compulsory medical insurance system.

Since August 2002 the Pension Fund of the Russian Federation has been actively participating in discussions about the reform of the compulsory medical insurance system. The Fund moved that it should be included among the subjects of compulsory medical insurance as an insurer of nonworking pensioners and suggested to participate in payment of corresponding inpayments to the compulsory medical insurance system, provided that there will be signed agreements between the system's funds, the Pension fund and the administrations of the subjects of the Federation on financing inpayments to the compulsory medical insurance for nonworkers. The Pension fund worked out its suggestions on corresponding amendments to the current law on medical insurance.

But as late as in the end of 2002 these suggestions had not even been accepted for discussion at a government meeting. Only in the beginning of 2003 there appeared indications that the Ministry of economic development, the Ministry of finance, the Ministry of Health, the Pension Fund of the Russian Federation and the Federal fund for compulsory medical insurance found a compromise and worked out a joint position about the core of the planned reform.

In addition to the above principal of the draft law worked out under the guidance of the Ministry of economic development, it is also suggested that the Pension Fund will become one of the subjects of the compulsory medical insurance system, will participate in multilateral agreements between the administrations of the subjects of the Federation, the Ministry of finance, the Ministry of Health, the Pension Fund of the Russian Federation and Federal and territorial funds of the compulsory medical insurance on insurance of nonworkers that live on territories of corresponding subjects of the Russian Federation. These agreements will determine the parties' obligations on volumes of financial means that are transferred to make payments to the compulsory medical insurance for nonworkers or certain categories of these for one financial year. It is suggested that payments for nonworking pensioners from the federal budget will be financed from the single social tax revenues that are transferred to the federal budget for financing the basic part of the labour pension.

The Pension Fund will keep the register of all those insured by the compulsory medical insurance system, take part in working out the basic and territorial compulsory medical insurance programmes, perform spot checks of the insurers' and medical organisations' activities

in the system. The Pension fund also proposed to start already in the current year in a dozen regions of the country an experiment on financing the compulsory medical insurance from its own means. It can be supposed that the sudden active movements by the leaders of the Pension Fund in reforming the compulsory medical insurance and the achieved compromise are instruments to reach other political and economic goals. In case the above pattern gets realised, one can expect that the Pension Fund's leaders will take measure to visibly demonstrate the ineffectiveness of the existing system of compulsory medical insurance organisation and the potency of its own efforts to make it more efficient.

If we look away from the measures under discussion, and turn to changes that took place in regulation of activities in the sphere of public health, we can state that no significant changes in the mechanisms to administrate and finance public health happened in 2002.

In the past three years the Ministry of Health of the Russian federation has been very active in issues of reform of the branch's administration and financing mechanisms only with respect to the federal medical institutions within its own jurisdiction. In 2000 there was an attempt to change the budget financing mechanism of federal clinics by means of tariffs for payment for treated patients by the final treatment results thus linking budget allocations to a medical institution with the resulting showings of the institution's activities. A pilot approbation of this mechanism was started in 2001 in the Scientific obstetric, gynaecological and perinatal centre under the Academy of Medical Sciences (Moscow), but this long-awaited innovation is being spread in a very low tempo. At the beginning of 2003 financing of only 8 of federal medical institutions was transferred to the new mechanism of budget financing. In February 2002 the Ministry of Health jointly with the Russian Academy of medical sciences issued an order "On organisation of giving high-technology (expensive) types of medical assistance in federal public health institutions". It is planned to work out for these institutions yearly targets for high-technology (expensive) types of medical assistance. But the document leaves the budget mechanism for financing of these clinical activities on the basis of tariffs for treated patients unattended. The essence of establishing targets for institutions is a more stringent control so that the budget means allotted under article 1701/430/315 "Targeted expenditures on high-technology types of medical assistance" are used to provide exactly these types of assistance and not used as a simple addition to the budget allocations to support these clinics (article 1701/430/300)

In the past year the Government of the Russian Federation took decisions "On licensing of some types of activities" of February 11, 2002 # 135; "On licensing of activities connected with circulation of narcotics and psychotropics" of June 21, 2002 # 454; "On approval of the Regulation on licensing of pharmaceutical activities" of July 1, 2002 # 489; "On approval of the Regulations on licensing of medical activities" of July 4, 2002 # 499. The Ministry of Health now got the possibility not just of regulation of the licensing procedure of medical activities performed by executive authorities of subjects of the Federation, which was the case before, but also of independent licensing of medical activities of juridical persons under federal executive authorities, the Russian Academy of Sciences and branch academies.

In May the State Standardisation Committee of the Russian Federation in co-ordination with the Ministry of Health approved the Rules for certification of medicines (Decision # 36 of May 24, 2002). The rules prescribe a compulsory certification of each lot (series) of manufactured or imported medicines. Previously such a certification was only performed when a new medicine appeared at the market.



Giving an assessment to the changes that happened in the normative regulation on the whole, one should state that they continued the line pursued by the Ministry of Health in recent years to broaden its “licensing rights”.

### 3.6.2. Education

In contrast to the public health sphere there were taken real measures to reform the educational system. This year can be characterised as a period of detailed elaboration and concrete definition of previously adopted strategic decisions on basic lines for the reform in education. The Ministry of education of Russia in its order # 2866 of June 23, 2002 approved the Plan of actions for 2002-2004 to put into practice the Concept of modernisation of education in Russian until 2010. This document includes arrangements grouped into two sections: I. Ensuring government guarantees of accessibility of good quality education; II. Building up conditions to increase the quality of general and vocational education.

The basic lines to ensure government guarantees of accessibility of good quality education are:

- ☐ working out suggestions to distribute powers between social security authorities and education management institutions on issues of targeted social support to schoolchildren and students from poor families, handicapped, orphans and children that lost their parents' support, in the part of paying for their lodgings, food, medical care, summer vacations, covering their expenses to buy schoolbooks, etc; in this line there is planned to work out a draft Government decree in the 1<sup>st</sup> quarter of 2003;
- ☐ working out suggestions on military draft adjournment for students graduated from institutions of higher learning and secondary vocational training that were given pedagogical education while they work full time as pedagogues, mentors, teachers in general education institutions, orphanages and boarding schools, in primary vocational training institutions that have state accreditation; in this line there is planned to work out a draft presidential decree in the 4<sup>th</sup> quarter of 2002;
- ☐ increasing overall accessibility of preschool education; establishing a system of guarantees on payment of educational services in preschool institutions by the state; support and development of their material resources on the account of their founders, financing of their expenses on the account of the parents with a simultaneous targeted social support to poor families; in this respect it is planned to work out a draft government decision (in the 3<sup>rd</sup> quarter of 2004) that would include experiments in 2003-2004;
- ☐ establishing cultural, educational, vocational, medical centres on the basis of educational institutions (especially in rural arrears); working out of legal basis for functioning of such centres is planned to be finalised in the 2<sup>nd</sup> quarter of 2004;
- ☐ ensuring social conditions for education of children with limited health capabilities; with this aim it is planned to work out and approve a state standard for special (correction) education in the 4<sup>th</sup> quarter of 2003;
- ☐ an analysis of the experiment on organisation of the single state examination (SSE) and a summary of its results; working out administrative decisions on developing the experiment on the basis of the analysis of its results for each stage of it; monitoring of public opinion; bringing the number of subjects of the Federation

participating in the experiment to 75 by 2004; by the results of the experiments it is planned to work out a draft government decision in the 3<sup>rd</sup> quarter of 2004.

Within the framework of the second section of the Plan of actions it is planned to work along the following basic lines of modernisation of education:

- introduction of a state and public controlled system to assess the quality of education that will be independent of educational administrative authorities; within the framework of this line there are planned arrangements that will be finalised in the 1<sup>st</sup> quarter of 2005 by establishing a single service of examination boards that will be controlled by the state and the public;
- adoption of a state general education standard; ensuring the guarantees of general education quality and unification of the educational space in Russia that would take into consideration ethnic and cultural peculiarities of the population, etc; adoption of a government decree to approve the state standard for general education was planned for the 4<sup>th</sup> quarter of 2002;
- introduction of profile education in the secondary school; decreasing the load on schoolchildren and students in general education institutions and providing better quality to schoolchildren's readiness to start their education in the system of vocational training; arrangements – from working out a Concept for the profile school to writing schoolbooks for it – are planned for the period the starts in the 2<sup>nd</sup> quarter of 2002 and ends in the 4<sup>th</sup> quarter of 2004;
- ensuring the conditions that will promote health of schoolchildren and inmates of the educational system; here it is planned to work out and realise an under-programme “physical training and health support of children, teenagers and youths in the Russian Federation” in the period from the 1<sup>st</sup> to the 4<sup>th</sup> quarter of 2004;
- ensuring government support to educational institutions that perform innovative activities as starting pads for the process of modernisation in educations; in the period from the 2<sup>nd</sup> quarter of 2002 until the 4<sup>th</sup> quarter 2004 it is planned to work out a corresponding system of starting pads;
- working out criteria for choosing and approving the list of the leading institutions of higher learning, scientific and artistic schools with the aim of their higher effectiveness in using the scientific and pedagogical potential of the higher school, building up a modern scientific experimental basis and ensuring priority government support to these institutions; arrangements in this sphere cover the period from the 2<sup>nd</sup> quarter of 2003 until the 4<sup>th</sup> quarter of 2004;
- making a new attestation of educational programmes for training in economy, law and management, a new attestation and in case of necessity a new licensing of branches of institutions of higher learning; arrangements in this sphere are planned for the 2<sup>nd</sup> quarter of 2002 – the 4<sup>th</sup> quarter of 2004;
- ensuring priority development of elementary and secondary vocational training with its simultaneous restructuring taking the regional markets' needs into consideration, reform of the primary and secondary vocational schooling administration; here in the 4<sup>th</sup> quarter of 2004 it is planned to work out a draft federal law “On amendments and additions to the Law of the Russian Federation “On Education”;
- restructuring and institutional reform of vocational training system, enhancing effectiveness of its institutions, perfection of different models of integration of ele-



mentary and secondary education, secondary and higher vocational education, establishing university complexes; arrangements in this line will be finalised in the 4<sup>th</sup> quarter of 2004 by working out draft government decisions.

In 2002 there was started a full-scale work on one of the key issues of this plan – elaboration of educational standards. It should be noted that state standards were mentioned for the first time in the first version of the Law “On Education”. The federal law “On changes and amendments in the federal law “On education” and the federal law “On higher and post graduate vocational education” of June 25, 2002 (#71-FZ) states that the basic regulations about state educational standards in primary general, basic general and secondary (complete) general education, the procedure for their elaboration and approval are established by a federal law at least once in ten years.

The state standards at that shall define the basic parameters of educational process integrating the existing uncoordinated requirements to the school education. For example at present the number of school hours is defined by the basic curriculum, the maximal load for pupils is prescribed in sanitary-planning norms, etc. To set down a new standard that would integrate these requirements the Ministry of education of Russia established in April 2002 a temporary scientific team called “Educational standard”. The first result of this work was the document “Volumetric figures for working out the federal component of state educational standard for general education”. A collegium of the Ministry of education of Russia by its decision #13/2 of June 11, 2002 took these figures into consideration and ordered the temporary scientific team “Educational standard” to be guided by the attained volume figures when it would be working out the federal component of the state educational standard for general education.

The suggested figures prescribe that the federal component for general education shall cover at least 75% of the total normative time for mastering the educational programme in general education, the regional (national-regional) component – at least 10% and the school component – also at least 10%. According to the document that is being worked out to get a complete (general) education a Russian pupil shall study for 4 years in the elementary school, 5 years in the basic secondary school and 2 years more in the complete secondary school. The possibility of a transfer to a 12-year schooling is kept in the document by allowing other normative terms (different from the 11-year schooling) for mastering the curriculum for some categories of pupils in the way of an experiment. The school year in the elementary school shall at least be 33 school weeks in the first form and at least 34 school weeks in the second-fourth forms, the length of the school year in the basic and high school shall be at least 35 school weeks.

The “Volumetric figures...” actually prescribe the minimal list of compulsory subjects: the Russian language and literature, foreign languages, mathematics (including algebra and geometry), information, history, social science (including basic cultural and political studies, basics of the law, psychology, sociology, philosophy, economy), geography, natural studies (including physics, chemistry and biology), arts (including the fine arts, music and world arts culture), technology (including productive work and informational technologies), physical culture and basics of personal security.

As far as according to the current regulations the teachers’ salaries depend on their hours of teaching, it is evident that the number of hours designated by the standard to each of the subjects will surely become an object of tough lobbying on the part of groups of teachers of different subjects. This kind of direct interest in a maximum number of school house led to

a situation, when the “Volumetric figures...” actually fail to reach the goal of easing the school load on schoolchildren that had been proclaimed several times. A formal cut in the number of compulsory hours is actually reached by means of putting the physical training classes outside the framework of compulsory hours, in other words, when the maximum allowed load of lecture hours for schoolchildren is being calculated the hours for subject “Physical training” are not taken into account.

The situation when subject standards will keep the tendency to overload the schooling programme becomes even more probable in connection with the fact that approval of educational standards is planned to be transferred from the level of the Federal legislative assembly to that of the Government of the Russian Federation.

In 2002 considerable effort was taken to work out a Concept for profile education for the highest level of general education. The Concept was approved by the order of the Minister of education # 2783 on July 18, 2002; the schedule for introduction of profile education for the highest level of general education was adopted by the decision of the Ministry of education of the Russian Federation # 970-13 of September 30, 2002. The composition of the Concept’s provisions can be broke down into the following:

- ☐ a possibility of simultaneous functioning in the system of general education institutions in the Russian Federation of profile and non-profile schools and classes, as well as a possibility to build up individual educational trajectories with more profound studies of chosen subjects;
- ☐ a three-component structure of school subjects (courses) for the highest level – basic level subjects (courses), profile and selective subjects (courses);
- ☐ multivariant forms of profile education organisation, including the “distributed network” type that includes usage of vocational training institutions and additional education institutions for children and teenagers, as well as network coordination among schools;
- ☐ the necessity to organise a pre-profile training for schoolchildren in the 9<sup>th</sup> grades.

The time-schedule for profile education introduction envisages performance of basic preparatory arrangements until the end of the 2<sup>nd</sup> quarter of 2004 with the aim to start a full-scale transition to profile education in general education institutions starting in September 2005 after the necessary experiments will be over.

Within the framework of the Concept alongside with the general characteristics of the profile education system in the senior school there are also suggested approximate educational profiles. Among the latter the authors of the Concept name the following ones:

- ☐ natural and mathematics profile;
- ☐ social and economic profile;
- ☐ the humanities profile;
- ☐ technological profile;
- ☐ universal (non-profile) education.

After the Concept was ready it became a subject for a wide discussion in the professional community and in regions. Regional educational authorities in 49 subjects of the Federation held discussions on the Concept. The majority (81%) spoke for taking the Concept as a basis and a subsequent perfection of it, 10.9% viewed it as ready for approval, and only 2.7% believed the Concept to be not worth to be accepted as a basis. 43.3% suggested that the time for a full-scale transition to the profile education should be after 2005, 18.9% wanted it in 2005, and 13.5% in 2004.



The parliamentary hearings made by the Committee on education and science of the State Duma on October 17, 2002 revealed that though the general assessment of the Concept was positive it should be further developed and an additional study of a whole number of issues related to the transition to profile education should be done. Among these issues are:

- ☐ the list of the profiles and their content and universal (non-profile) education;
- ☐ breakdown of school seats by profiles;
- ☐ the procedure of access to profile education on a competitive basis by applying results of examinations of graduates of the basic stage;
- ☐ possibility to change the profile during the education process and possibility to keep the profile in case of changing schools;
- ☐ organisation of pre-higher school training for graduates of elementary vocational education institutions or non-profile (universal) senior schools, etc.

In 2002 the experiment on introduction of the Single State Examination (SSE) was given a broader application, it covered 23% of school graduates in 16 regions of Russia already (*see Table 37*).

*Table 37*

**Advance of the experiment on introduction of the single state examination (SSE)**

	2001	2002	2003 (planned)
Number of subjects of the Federation participating in the SSE	5	16	49
Number of graduates participating in the SSE, thousand persons	30	300	715
The share of graduates participating in the SSE, in % to the total number of graduates	2	23	58
Number of higher learning institutions participating in the SSE experiment	16	117	245

*Source:* data provided by the Ministry of higher learning of the Russian Federation.

In order to improve the legal regulation of the experiment's process and in accordance with the Federal Government Decree "On participation of educational institutions of secondary vocational education in the experiment on introduction of the single state examination" # 222 of April 5, 2002 the Ministry of education adopted the Regulation "On the single state examination procedure" (order # 1306 of April 9, 2002). The Regulation establishes the procedure of final examination of graduates of general education institutions, entrance examinations and enlistment of students by secondary and higher vocational education institutions in the subjects of the Federation, where the experiment took place. The SSE envisages that the final examination of graduates of general education institutions and entrance examinations to secondary specialised education institutions and institutions of higher learning shall be the same thing. The results of the SSE shall be acknowledged by general education institutions as results of final examination, and by secondary specialised education institutions and institutions of higher learning as results of entrance examination. Examination works according to the SSE system are graded by using scores (according to 100-score scale) and marks (according to the 5-score scale). Graduates that have passed the SSE receive: (1) certificate of secondary (complete) general education; (2) certificate of the results of the SSE, its validity shall be until the 31<sup>st</sup> of December next year. Should a graduate postpone his/hers entering an institution of higher learning, he/she shall pass the SSE again in the year when the graduate decides

to enter the institution. To arrange the SSE in each of the subjects of the Federation there were formed state examination commissions, their compositions were approved by the Ministry of education of the Russian Federation.

Last year there were changes in economic mechanisms of higher learning institutions' activities. First of all according to the abovementioned Federal law # 71-FZ (of July 25) article 41 of the Federal Law "On education" was changed. The 25% restriction on intake of students by state and municipal professional secondary and higher learning institutions for paid education of specialist in justice, economy, management, state and municipal administration was changed for 50% of the total intake for each profession.

Secondly, approbation of the new financing mechanism for institutions of higher learning was started. The Government of the Russian Federation by its Decree #6 of January 14, 2002 "On the experiment of transition to financing of certain institutions of higher professional learning by using state registered obligations (SRO) in 2002-2203" approved the regulations about conditions and procedure for this experiment in 2002-2003. The regulations prescribe that the experiment of transition to financing of institutions of higher learning by using SRO shall be performed in interplay with the experiment of introduction of the SSE. They describe the SRO as "a proof of the results of the single state examination passed by a citizen bearing a corresponding inscription that testifies to the category of the financial obligation, which shall be the basis for granting budget means to this institution for education of this citizen in this institution during the whole term in accordance with the state educational standard". For those that fail at the SSE (graduates of previous years, graduates of education institutions in the subjects of the Federation that do not participate in the experiment, etc) or have passed a SSE in subjects, that are non-profile subjects for this institution, the state examination commissions that arranges the SSE shall organise an examination in the form of SSE and using its materials.

The group of institutions of higher learning that participate in the experiment of transition to SRO approved by orders of the Minister of education # 1012 of March 25, 2002 and # 1166 of April 3, 2002 is comprised of 6 institutions of higher learning in 3 subjects of the Russian Federation:

1. The State Technology University of the Republic of Mary-El;
2. The State Pedagogical Institute of the Republic of Mary-El named after N. Krupskaya;
3. The State University of the Republic of Mary-El;
4. The State University of the Republic of Chuvashiya named after I. Ulyanov;
5. The State Pedagogical University of the Republic of Chuvashiya named after I. Yakovlev;
6. The State University of the Republic of Yakutiya.

It should be noted that the institutions in the Republics of Mary-El and Chuvashiya previously participated in the experiment with SSE.

One should also make a note that institutions of higher learning not run by the state and branches of state-owned institutions of higher learning located at the territories of the Republics of Mary-El and Chuvashiya were not chosen to participate. Besides, institutions of higher learning run by different ministries did not give their consent to take part in the SRO experiment, which decreased the representativeness of its participants on chosen territories.

The institutions of higher learning participating in the experiment were supposed at least three months before the date they started accepting entrance documents to define and



announce the price of education for each profession, each line of training and form of education. Those institutions were obliged to take in as first year students in all professions that they educated in only applicants on the basis of SRO.

The number of students whose education was paid for from the means distributed on the basis of SRO with no additional payments on the part of the students was to be at least 50% of the total number of students taken in that year and at least 25% of the total number of students in each profession. Should an applicant fail to be included into the number of those whose education is exclusively paid for from budget means and the price of his education exceeds the financing covered by the SRO issued in his name, he shall conclude a contract with the institution for the time of his studies and pay the difference between the price for his education and the financing covered by his SRO in the order stated in the above contract.

It is stressed in the Regulations that granting of budget means to the higher learning institutions that participate in the experiment shall be done in accordance with the legislation within the framework of federal budget performance. Budget financing of institutions that participate in the contract and are run by executive authorities of the subjects of the Federation and local governments shall be done from the budgets of the subjects of the Federation and local budgets correspondingly. The Ministry of education and the Ministry of finance of the Russian Federation on April 29, 2002 issued a joint order #1597/39n "On approval of methods of planning and financing of federal budget expenditures on higher professional education on the basis of state registered obligations with respect to institutions of higher learning that participate in the experiment". Pursuant to these methods for the period this experiment is run there are introduced 5 categories of SROs; there is established a certain correlation between the SRO categories and the sum of scores received by the applicant on the subjects that he took the SSE in (*see table 38*). Each year the SRO value will be recalculated depending on the budget possibilities, but the correlation between the SRO category and the scores got in the SSE will remain the same.

It should be noted that the institutions of higher learning using the SRO means can cover such expenses as wages, the single social taxes and other current expenses. Other expenditures shall be financed from the budget according to calculations as before.

*Table 38*

**Correlations between the scores received at the SSE, the SRO category and its value**

SRO category	Scores got at the SSE	Budget financing of the SRO*, roubles
Category 1	Over 80- 100	14500
Category 2	Over 68-80	7500
Category 3	Over 52-68	3900
Category 4	Over 43-52	2800
Category 5	Over 35-43	1200

\*Approved by Order of the Minister of education of the Russian Federation # 1013 of March 25, 2002.

By the results of intake of students by the 6 institutions of higher learning participating in the experiment in the academic year 2002/2003 there were admitted 14.3 thousand applicants as first-year students of the total number of 35 thousand applicants; the number of admitted students whose education is financed by SRO was 8.4 thousand or 59% of all admitted applicants. The distribution of first-year students participating in the experiments by SRO categories is given in *Table 39*.

*Table 39*

**Distribution of first-year students participating in the experiment by SRO categories**

SRO category	First-year students, in %	Schoolchildren that took the SSE, in %
Category 1	2	8
Category 2	38	9
Category 3	37	34
Category 4	11	25
Category 5	5	17
No category	1	13

Source: data provided by the Ministry of Education of the Russian Federation

Thus the SROs provide applicants with the right to get a higher professional education using budget means, though the scope of financing will depend on the results that the applicant got at the SSE and the budget financing that the government will allot for higher education in the budget of each year.

The parliamentary hearings in December on the results of the experiment of introduction of the SSE in 2002, as well the Congress of the Russian Association of heads of institutions of higher learning showed a general support for the education modernisation programme, though opinions on methods to realise some of its lines differ greatly. Heads of universities subjected to strict criticism the suggestion about transition to an intake based exclusively on the results of SSE, when the institutions of higher learning actually do not participate in the process of choosing their applicants. Though the SSE was acknowledged as an unbiased mechanism of independent control of schooling quality, many expressed their concern about the fact that in the situation of the present formalised SSE procedure many of the first-year students will prove incapable of studying at an institution of higher learning. Thus there still remains the risk that the applicants' expenses connected with the traditional private tutoring prior to the entrance examinations will take a new form of the first-year students' expenses to "drag them up" to the level of requirements to freshmen in a particular higher school or university.



It is evident that knowledge quality of the students that enter institutions of higher learning by the results of their SSE can only be assessed after they have studied for a certain time in the institutions, that is by monitoring the SSE experiment. But already now to increase the number of institutions that would participate in the SSE experiment and accept its results one needs some kind of a compromise between higher school leaders and advocates of intake of students by institutions of higher learning by the results of SSE. There is a possibility that flexible quotas can serve as a compromise, they will define the share of those entering institutions of higher learning by the results of SSE and by using the traditional system of competitive examinations.

Transition to budget financing of institutions of higher learning through the system of different SRO categories can entail a negative influence on the pattern of professions that are studied in the higher school. Heads of universities in their strive to survive the structural restrictions that will be introduced on financing of studies will in all probability be reducing the intake of students in “costly” professions and extend studies in professions that require minimal cost per student. There can emerge a situation when the higher school system loses its bearings with respect to development trends in economy, science and technologies.

The analysis of the government policies in 2002 on realisation of its proclaimed reform of education testifies to state executive bodies’ wish to go over to giving a practical work-out to some of the concrete and organisational-economic components of this reform in pilot regions. This kind of approach allows a more active progress in adaptation of the education system’s functioning in market conditions, though it requires of government authorities a much quicker reaction with respect to amendments and adjustment of their tactics in implementing the reform at the local level. There is a possibility that the commission on education that is established pursuant to a government decree and consists of the most reform-oriented leaders of regional education administrations as well the suggestions worked out by the Russian President’s Administration on distribution and regulation of powers and of corresponding financing between all levels of federal and local authorities will allow solving this task in a more effective way.

### **3.7. Foreign economic activities**

The WTO in its annual report states a striking contrast between the data on world production and trade volumes in 2001 and 2000. In 2001 the world GDP growth slowed down to 2.2% and the world trade for the first time since 1982 decreased by 1.5%, as apposed to 2000 when record breaking growth rates in trade and production were registered in the past 10 years.

For the world economy as a whole the beginning of the year 2002 was rather a success, though in the last month the outlooks worsened. The state of the US economy will in all probability be getting better in a slower tempo than it was expected; showing of the Japanese economy in the latest period testify to the effect that the economic recession it getting to its end, though the level of domestic demand remains low; in the Euro zone there is registered a slack rise. The steady growth in Asian economies with their developing markets give hope, but the weak economies in Latin America worsen outlooks for the developing markets. A factor that adds to the uncertainty is a possibility of an armed conflict in the Middle East.

Though the world economic activities got more active in the first half of the year 2002, the volume of export and import operations remained 4% lower than that of the previous pe-

riod. In January-June of the current year volumes of imports in Europe and the USA fell by 6% as compared to 2001, the decrease in Japan and Latin America exceeded 10%.

*Table 40*

**Goods and commodities trade growth in value terms in 1990-2001**

	Exports				Imports			
	Value in bln dol-lars		Change in 1 year (%)		Value in bln dol-lars		Change in 1 year (%)	
	2001	1990-2000	2000	2001	2001	1990-2001	2000	2001
World	6162	6	13	-4	6439	7	13	-4
North America	994	7	13	-6	1410	9	18	-6
Latin America	349	9	20	-3	381	12	16	-2
Mexico	159	15	22	-5	176	15	23	-4
Other countries in Latin America	190	6	18	-1	205	9	10	0
Western Europe	2484	4	4	-1	2527	4	6	-3
EU (15)	2290	4	3	-1	2335	4	6	-2
Without internal EU trade	873	5	7	0	140	5	15	-4
Countries with economies in transition	285	7	26	5	268	5	14	11
Central/Eastern Europe	129	8	14	11	159	10	12	9
Russian Federation	103	-	39	-2	54	-	13	19
Africa	141	4	28	-5	134	3	5	1
The Middle East	239	7	42	-9	174	5	10	4
Asia	1671	8	18	-9	1544	8	23	-7
Japan	405	5	14	-16	350	5	22	-8
China	266	15	28	7	244	16	36	8

Source: WTO data.

Russia and China on the contrary have increased their imports by 7% and 10% correspondingly. The WTO points out specially stronger positions of China, which both in goods and commodities trade turnover and its sells of services occupies now the fourth place in the list of the biggest importers and exporters of the world before Canada. China today is only out-conquered by the USA, the European Union and Japan.

On the whole the growths in economies of the USA and South-East Asia and a small upsurge in Europe and Japan led in 2002 to a 1.5-2.0% growth in world trade.

Russia's foreign economic relations during year 2002 developed in rather complicated conditions and were characterised by contradictory tendencies. Against the background of negative foreign factors – a slowdown in the world economy's growth and worsened state of goods and commodities markets in the first half of 2002 there was registered a decrease in Russian exports in value terms. The major reason for exports value decrease were lower world prices on oil, natural gas and metals. According to the assessments of the IMF in the first half of 2002 world prices on Russian exported goods were 20% lower that in the same period of 2001. For example, in January-June 2002 the world Brent oil prices were 12.9% lower than in the same period of 2001, prices on petrol were 21.9% lower. World copper prices lowered by 6.8%, aluminium prices by 11.2%. Natural gas got 43.7% cheaper.

But in the second half of the year as a result of a better situation at the oil market the development of Russia's exports changed and by the results of the year Russian exports exceeded that of 2001 by 5.2% and equalled to 106.9 bln dollars (according to the Central Bank of Russia). Bigger revenues were achieved basically due to a quantitative increase of deliver-



ies. Though the world prices on basic Russian export goods grew in the second part of 2002, their average was still lower than the year before.

*Table 41***Average world prices**

	1996	1997	1998	1999	2000	2001	2002
Oil (Brent), USD/tonne	21.33	17.4	14.1	15.9	28.19	24.843	25.022
Natural gas, USD/1 mln BTU		1.9642	2.5469	2.1876	4.3442	3.9764	3.3857
Petrol, USD/gallon	0.71	0.6146	0.5113	0.5289	0.8869	0.7922	0.7545
Copper, USD/tonne	2574.9	2369.7	1775.3	1539.9	1863.9	1613.6	1592.9
Aluminium, USD/tonne	1590.2	1554.0	1413.5	1318.0	1550.0	1444.7	1350.7
Nickel, USD/tonne	8053.9	7312.4	5352.5	5239.5	8624.0	5966.0	6175.1

*Source:* calculated on the basis of the data of London Metal Exchange (Great Britain, London), the World Oil Exchange (London).

The oil and gas markets experienced considerable price fluctuations. The average world oil price for Urals in January 2002 was 18.3 dollars per barrel, in June it was 23.0 dollars per barrel, in September – 27.1% dollars per barrel. In October, thought, the price went down by 4.1% and by additional 11.6% in November (down to 21.4 US dollars per barrel). As a result the monthly average oil price in 2002 remained at the level of 2001, prices on oil products decreased by 1.1%.

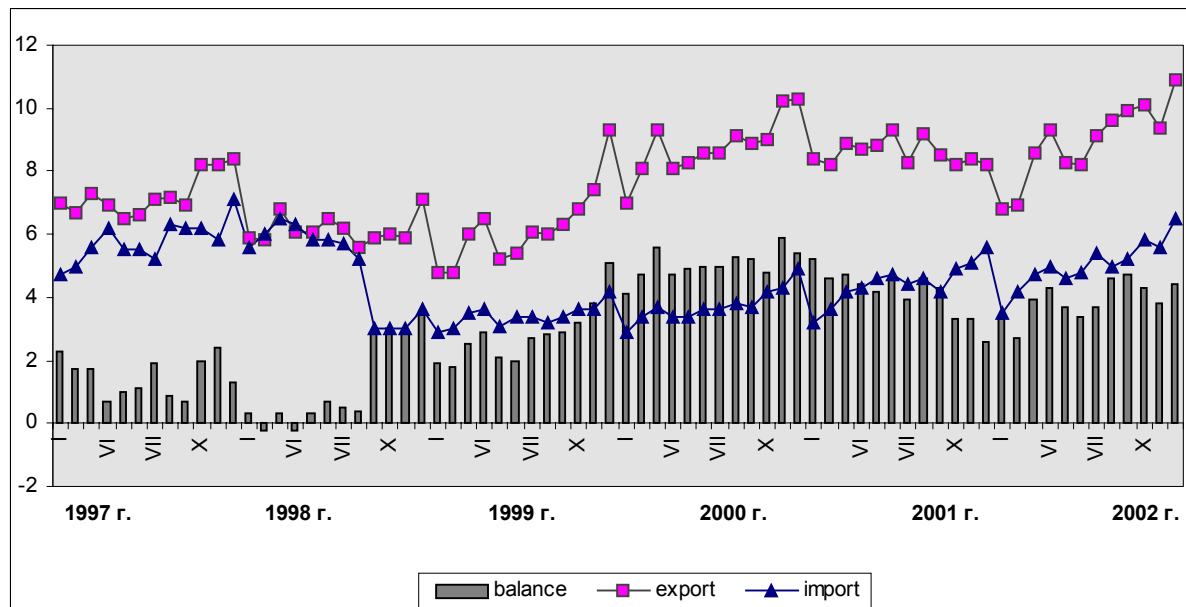
Since the 2<sup>nd</sup> quarter of 2002 there were signs of a better situation at the market of ferrous metals. Steel works in Western Europe went on cutting their production and exports aiming at restricting the supply of steel at the market to support the prices. The average world market price on hot-rolled steel strips in 2002 were 260.8 dollar per tonne, having exceeded the price level in 2001 by 27%, the price for cold-strip steel was 315.4 dollars per tonne (a 4.1% growth), the prices on iron-and-steel scrap and waste were 66.2% (an increase by 20.9%), and the price for profiled steel was 245.8 dollars per tonne (a growth of 5.4%).

The non-ferrous metal market witnessed a poor price situation in the 3<sup>rd</sup> quarter of the year. Prices on all principal metals fell to the level of the 2<sup>nd</sup> quarter: aluminium by 3.4%, copper by 5.9%, nickel by 1.6%. There was no traditional seasonal price increase and a greater demand in September. As a result the price on aluminium in 2002 was 1350.7 dollars per tonne, which is 6.5% lower than the corresponding level in 2001, nickel was 6175.1 dollars per tonne (a 3.5% growth), copper – 1592.9 dollars per tonne (a 1.3% reduction).

The steady growth of domestic demand in Russia alongside with cheaper food and agricultural import prices promoted a highly positive development in goods imports in value terms and especially in quantitative volumes. By the results of 2002 imports value increased by 12.5% compared to the level of 2001 and amounted to 60.5 bln dollars.

A considerably lower development of exports against the background of continuing imports led to a decrease in the positive trade balance, which in 2002 accounted for 46.4 bln dollars, which is 2.9% less than the same in the previous year. Nevertheless the trade balance was highly positive and equalled to 13% of the GDP.

On the whole Russia's foreign trade turnover in 2002 reached in the past 10 years its highest level – 167.4% bln US dollars, which is 7.8% more than in the previous year.



Source: The State Statistics Committee of the Russian Federation.

Fig. 80. Principal showings of Russia's foreign trade turnover

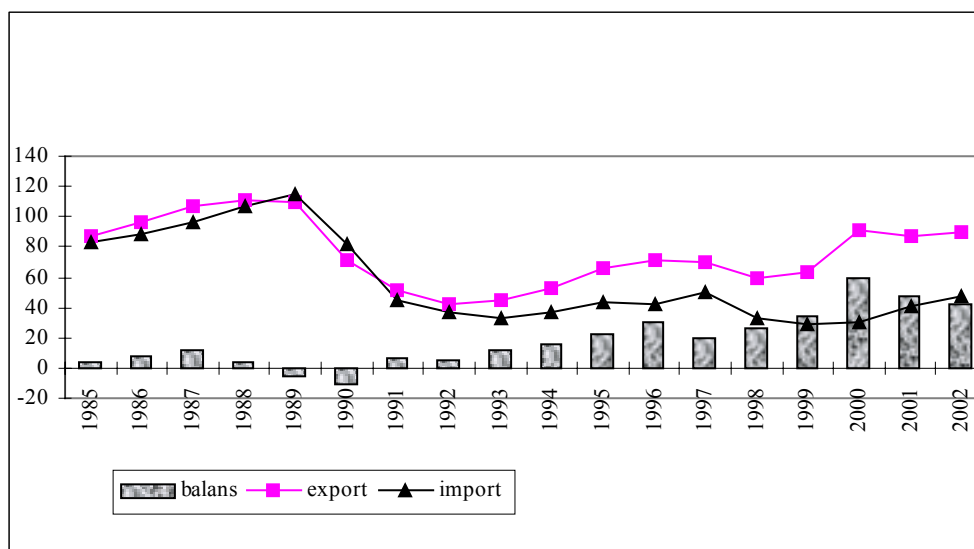
### 3.7.1. Russia's foreign trade with countries outside the CIS

Russia's major trade partners are still Countries outside the Commonwealth of Independent States. The share of these countries in Russia's foreign trade turnover increased in 2002 to 83.0% against 81.8% in 2001. The foreign trade turnover with countries outside the CIS accounted for 138.9% bln dollars, having exceeded the analogous figure of the previous year by 9.3%. A greater turnover in foreign trade was achieved basically due to a quick growth of imports.

The macroeconomic situation of recent years, for the most part the growth of domestic prices and the real exchange rate of the rouble, promoted a quick re-establishing of foreign producers' positions at the Russian market and a tougher competition with domestic manufacturers. This process was to a considerable degree supported by "cheaper" imports, both due to lower average contract prices and imports restructuring that resulted in imports of cheaper goods.

Against the background of a real strengthening of the rouble and a quantitative growth of the GDP the value of goods imported from countries outside the CIS increased in 2002 compared to 2001 by 18.4% and amounted to 48.2 bln dollars. At the same time lower world prices on Russian exported goods, first of all oil and gas prices called for a lower growth tempo of Russia's exports to countries outside the CIS, which in value terms accounted for 90.7% bln dollars (a growth by mere 5%).

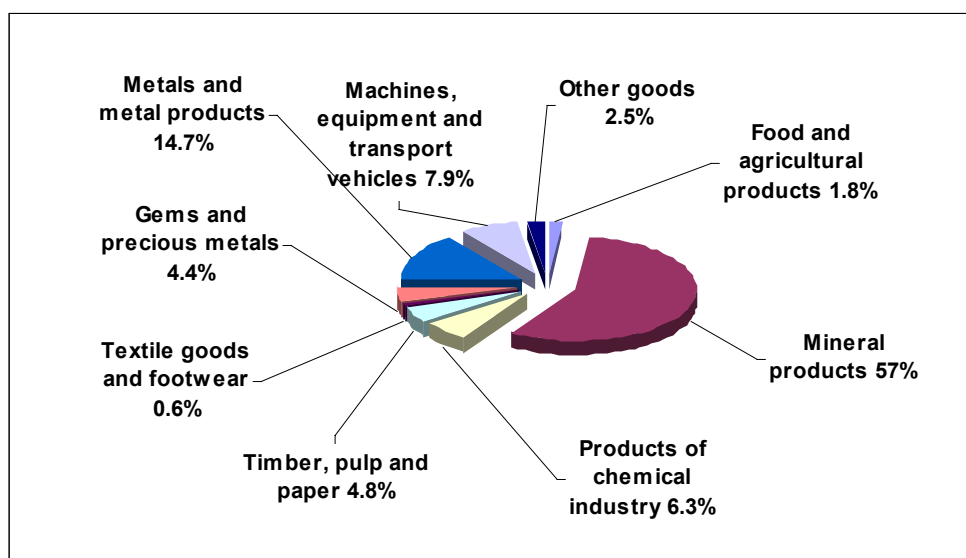
As a result the positive trade balance decreased compared to the level of 2001 by 7%, though it still had a considerable value of 42.5 bln dollars.



Source: The State Statistics Committee of the Russian Federation.

*Fig. 81. Major showing for Russia's foreign trade with countries outside the CIS*

The core of Russia's exports is still comprised of goods with a low added value; for the most part it is raw materials. The share of raw materials in Russia's exports amounts to 45-50% of exports totals. In the period since 1992 and until 2002 Russia lost about a half of its exports of advanced technology products. In 1992 the share of these products in Russia's total export deliveries was 25%, in 2002 their share was as low as 12%.



Source: The State Customs Committee of the Russian Federation.

*Fig. 81. Russian exports' pattern in 2002.*

The share of fuel and energy products in 2002 was 57% in Russia's total exports to countries outside the CIS. There was exported 154.7% mln tonnes oil, which is 9.9% more

than in 2001. Though contract prices in 2002 were 2.8% lower than in the previous year, export revenues increased by 14.1% and accounted for 25133.2 mln dollars.

The second basic group of goods and commodities in Russian exports are metals and metal products. But after 1998, when the share of this group peaked at 24.5%, it has been constantly decreasing. In 2002 it accounted for 14.7% of Russian deliveries to countries outside the CIS (15.4% in 2001).

This is basically connected with a more complicated situation at the world metals market. At the beginning of 2002 the USA imposed prohibitive import duties from 8% to 30% on the majority of imported steel products. Freed from these duties are deliveries from Canada and Mexico (they have a free trade agreement with the USA), and from a number of developing countries – the Argentine, Turkey, Thailand. A 30% duty was imposed on all types of rolled iron, a 15% duty – on stainless steel products except for wire (8%). A 13% duty is effective for imports of carbon steel and ferroalloys. Slab imports are regulated by a quota (5.4 mln tons per year), if it's exceeded this import will be subject for a 30% duty. In three years the duties will be gradually lowered to 24% in the second year and 18% in the third year.

To protect its market against a possible inflow of metals that previously were sold at the US market the European Union has also adopted a decision to introduce on April 3 prohibitive duties on 15 types of metal products imported to the EU countries. This basically concerns of high-technology products – alloyed steel. More simple types of ferrous metals, for example cast iron or metal scrap are subject for usual dues. The prohibitive duties vary from 14 to 26.5%.

The situation was further worsened by the fact that after the USA introduced prohibitive duties a number of markets became automatically less accessible as the competition among the biggest steel exporting countries that were ousted from the American and later from a number of European markets toughened. Though Russia managed to come to an agreement with the European Union, the situation at the markets in South-East Asia turned out to be much more complicated.

Higher duties on the majority of steel products imported by the USA that were imposed in March, gave the desirable effect to the American steel lobby. In 2002 the huge American corporation U.S. Steel for the first time since 1999 had profit.

As a result a reverse situation revealed itself in the second half of the year. A number of big American companies that consume Russian steel started lobbying to abolish the prohibitive duties. One has managed this in 100 of 470 cases of traded goods. In addition in the second half of the year one has managed to lift some of the restrictions on export of Russian ferrous metals. This concerns in particular export of Russian rolled metal to the USA. In July the United States have softened some of the restrictions with respect to Russian steel import.

Also in July The Ministry of Economic Development of the Russian Federation and The European Commission signed a new agreement on conditions for deliveries of Russian steel to the EU, previously in the lack of this agreement Russia's steel exports to Europe were impeded. Among other things new limits on rolled steel export from Russia were made effective, the limits were extended by 30%.

To support Russian metal products exporters the 5% duty on export of ferrous metals was abolished on July 1.

In November Russia and the United States signed an amendment to the comprehensive agreement on steel of 1999. According to the amendment Russian manufactures in 2003 can export 1.2 mln steel slabs to the USA (previously the deliveries were restricted to 1 mln tons).



According to the agreement Russia also gets preferences on heavy plates: the fact that also this country has gained the status of a market economy was taken into consideration and previous quotas and price limitations were abolished. According to the new agreement conditions our manufacturer shall report to US authorities quarterly on cost prices of products delivered to the United States. Based upon this information our partners will fix the minimal price level.

The problem of restrictions on exports of Russian steel is thus made less acute. As a result in the last months of 2002 there was registered a considerable growth in exports of Russian ferrous metals in value terms.

By the results of 2002 the exports of metals and metal products in value terms increased by 1.1%. Prices on ferroalloys grew by 4%, on half-finished products of iron and non-alloy steel by 6.8%, on rolled metals by 13.9%.

On the contrary the nonferrous metals exports has a clear downtrend. Copper export decreased by 14%, aluminium export by 11.3%. Copper and aluminium prices were reduced by 6.4% and 11.8% correspondingly.

Exports of timber, paper and pulp grew in value terms by 10.1%, their share in Russia's exports to countries outside the CIS was 4.8% (4.7% in 2001). Quantitative export of round timber grew by 15.7%, of converted timber by 18.9%, of plywood by 11.2%, of cellulose by 2.0%. Export deliveries of newsprint stayed practically the same. Average export prices grew: on round timber by 1.9%, on converted timber by 5.4%, on plywood by 2.7%. Average export prices on newsprint decreased by 21.1%.

*Table 42***Average export prices on basic goods (dollar per tonne)**

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Crude oil	100.6	108.2	133.5	118.6	74.2	100.8	175.0	159.8	155.3
Natural gas, for 1 thousand m <sup>3</sup>	72.8	80.1	84.2	88.6	66.3	53.5	87.5	100.2	90.4
Coal	33	36.2	38.8	35.7	27.3	16.6	26.4	29.5	26.8
Iron ore	19.6	23.1	26.7	23.9	21.5	15.1	15.8	13.8	15.1
Nitrogen fertilizers	80.9	119.8	128	90.3	60.5	38.3	58.3	63.8	60.7
Potash fertilizers	69.7	71.9	77.2	79.8	87.4	86.4	87.0	77.9	74.7
Round timber, for 1 m <sup>3</sup>	53	58	59.4	57.5	50.5	43.4	43.5	45.1	45.9
Newsprint	291.5	591.8	473.7	383.4	398.9	358.3	397.4	445.1	350.7
Cast iron	112.8	130.4	136.8	124.3	108.5	68.3	85.4	90.0	90.8
Ferroalloys	832.7	1090	1114	818.9	733.8	560.3	631.0	619.0	643.8
Copper	2042	2550	2143	2102	1655.0	1429.7	1658.3	1519.0	1421.8
Nickel	5973	8057	7272	6733	5148.4	5236	8949.4	6091.2	6099.9
Aluminium	1029	1519	1500	1402	1349.4	1145	1343.2	1200.3	1058.7

Source: The State Statistics Committee of the Russian Federation.

Exports of machines and equipment in value terms decreased by 3.7% and their share in Russia's total exports to countries outside the CIS was 7.9% against 8.7% in 2001.

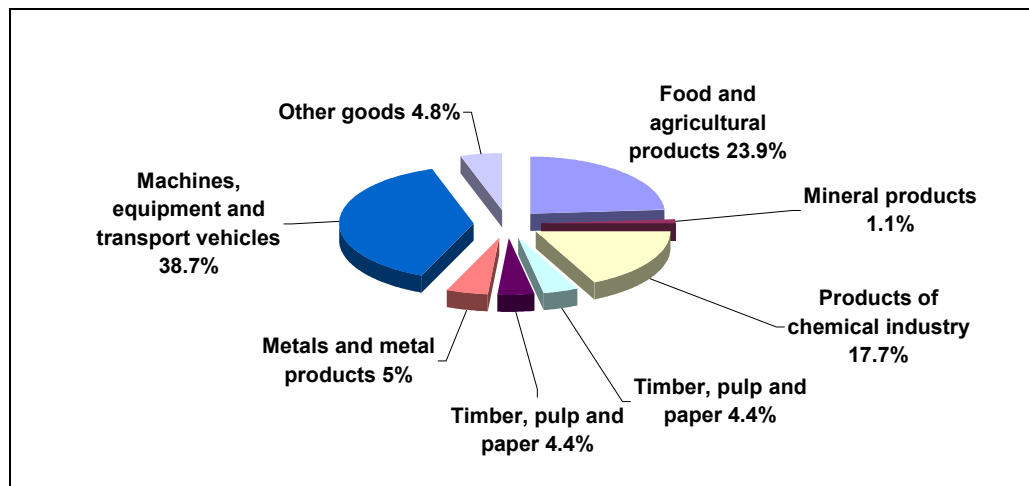
Starting from the second half of 2001 Russia's economy reveals the tendency of substitution of domestic manufacturing by imports that becomes more and more clear. This process is a reverse reaction to the active substitution of imports that happened in 1999-2000 because of devaluation of the rouble and the drop in real incomes of the population. Ousting of domes-

tic manufacturers in those two years was aggravated by the lack of investments for upgrade of production. The quality of the majority of goods remained practically unchanged, while price ratios clearly changed for the better in favour of foreign goods.

A distinctive feature of Russian imports in 2002 was a stable growth of imports from countries outside the CIS and a decrease I imports from CIS-countries.

The real exchange rate growth in 2002 added to the competitiveness of foreign manufacturers. Moreover, the level of the GDP increased by 4.3% as compared to the level of 2001. A growth of economic activity promoted a greater aggregated domestic demand both on the part of households (for consumer goods) and from enterprises (for investments and intermediary goods). A stronger national currency and a growth of incomes in the economy secured a considerable growth of imports.

The most often imported goods from countries outside the CIS in 2002 were machines and equipment. Their share in the total imports accounted for 38.7% (37.2% in 2001). As compared to the previous year purchases of machines and equipment in value terms increased by 21.4%.



Source: The State Customs Committee of the Russian Federation.

*Fig. 83. Russia's goods imports pattern in 2002.*

Imports of foodstuffs and agricultural products last year increased compared to 2001 by 18.2%. Quantitative imports of fresh-frozen meat grew by 32.1%, of fresh-frozen fish by 8.0%, of butter by 62.1%, of oranges, lemons, etc by 26.6%, of coffee by 17.7%, of tea by 5.5%, of sugar by 11.1%, of sunflower-seed oil by 5.3%, of canned meat by 8.6%, of chocolate by 6.8%, of cocoa beans by 10.8%. Imports of dried and condensed milk decreased 3.2-fold and of raw sugar by 18.0%. The share of foodstuffs and raw materials for their production in the total imports from countries outside the CIS was 23.9% and remained practically unchanged compared to 2001.

In September 2002 Russia introduced a new import certificate for chicken from the USA. Pursuant to this document there were imposed higher requirements to chicken quality imported from the United States.

As a result the import of chicken legs from the USA in 2002 got considerably diminished. In nine months of 2002 Russian imported from the USA 509.2 thousand tonnes of chicken against 682.2 thousand tonnes in the corresponding period of the previous year (a



25% decrease). The value of chicken delivered to Russia was 268 mln dollars against 378.7 mln dollars in eight months of the previous year (a decrease by 29%).

But due to deliveries from other markets the import of chicken on the whole exceeded that of 2001 in value terms by 10.5% and quantitatively by 1.4%.

Purchases of chemical products increased in 2002 by 4.8%, at the same time their share in the total imports from countries outside the CIS decreased to 17.7% from 19.8% in 2001.

In geographic breakdown of Russia's foreign trade countries of the European Union had a share of 36.6% in Russia's turnover (36.7% in 2001), CIS-countries' share was 17% (18.2%), countries of Asia Pacific Economic Cooperation had a share of 16.4% (16.1%), and the share of countries of Central and Eastern Europe had a share of 12.9% (13.8%). Russia's principal trade partners in 2002 among countries outside the CIS were Germany, whose turnover equalled to 14.6 bln dollars (97.1% compared to 2001), Italy with 9.6 bln dollars (105.7%), the USA – 6.9 bln dollars (92.8%), China – 9.2 bln dollars (126.8%), the Netherlands – 8.3 bln dollars (149.2%), Great Britain – 4.9 bln dollars (93.1%), Poland – 5 bln dollars (97%), Finland – 4.4 bln dollars (100.5%), Turkey – 4.1 bln dollars (108.1%), France – 4.5 bln dollars (119.6%), Japan – 2.8 bln dollars (84.1%).

In 2002 the EU and the USA acknowledged Russia's economy as a market one. Previously, when the Russian economy did not possess the market status, our exporters could easily be blamed for using government subsidies at home and delivering their products to other countries' markets at prices below the cost price, thus getting advantages in the competition at world markets. That is why in the USA and in Europe there were started anti-dumping investigations on a great number of Russian exported goods. In the course of these investigations prices on Russian products were compared to the so-called normal prices on analogous products produced in any other country close to Russia in its development. The disclosed differences expressed in per cent were called the dumping margin. Depending on its dimension the "defending" state in addition to the usual customs duties imposed extra anti-dumping duties on Russian products. For example, as a result of an anti-dumping investigation about Russian cold-rolled metal started by the US Department of Commerce in October last year, it was suggested to impose a 137% duty.

Having acquired the status of a country with a market economy Russia will be saved from unjustified losses in cases of anti-dumping procedures. In the course of anti-dumping investigations about Russian manufacturers prices on their products will be calculated on the basis of the manufacturers' real costs and not by using prices of the so-called "ersatz-countries", arbitrarily chosen countries with market economies as the case was before.

From the practical viewpoint the market status will allow domestic manufacturers to appeal about reconsideration of the current anti-dumping measures at the EU territory. There are 14 of those, losses due to them account for 230-240 mln dollars per year. At present countries of Europe impede imports of Russian metal products, mineral fertilizers, fibreboards and some other types of products. Moreover, in the past year the EU started anti-dumping investigations about four more types of imported goods (technical carbon, metallic silicon, hollow sections and transformer steel), which can cost Russia at least 50 mln dollars per year.

Last September Russia and the USA signed a special agreement, according to which Russian metal manufacturers have taken upon themselves the responsibility of informing the American part about the constituents of the cost price of Russian rolled metals. On the basis of this the US Department of Commerce shall fix minimal prices for Russian products. In the beginning of November the US Foreign Trade Commission stopped the anti-dumping investi-

gations aimed against deliveries of cold-rolled metals from Russia, and the US Department of Commerce lost its right to dictate minimal prices to Russian manufacturers. Thus, the American rolled metals market with its prices that are one and a half times higher than in other countries became more accessible for Russian metal manufacturers.

A further improvement of the situation for Russian exporters can be expected after Russia joins the WTO. The negotiations process is rather complicated, though members of the working group say that the joining procedure has entered into its final stage. That is why active work on this issue went on also in 2002.

The draft worked out by the WTO Secretariat accumulates the results of the negotiations that started in 1995 and studies Russia's trade regime and its compatibility with the norms in WTO. In these years the Russian delegation has submitted to the WTO Secretariat about 200 analytical documents and more than 1000 legislative and normative documents.

The report was discussed by its sections at the 15<sup>th</sup> sitting of the working group on June 19-20 last year. To this meeting members of the working group and Russia have prepared their draft versions of certain provisions. Concurrently with the meeting of the working work there were held multilateral consultations on issues of the stock market, technical barriers in trade, sanitary and phytosanitary measures and agriculture. There was also held a series of bilateral negotiations on accessibility of the goods and services markets and on system issues.

By the results of the 15<sup>th</sup> meeting of the working group there was taken a decision that the WTO Secretariat will work out a second version of the draft report and a series of multilateral consultations will be arranged.

At present the Russian delegation negotiates in four basic lines:

1. *Negotiations on accessibility of the goods market.* Their issue is to determine the maximal level of import duties, which Russia will be entitled to use after it joins the WTO. The negotiations basis is the third version of Russia's suggestions on accessibility of the goods market adopted by the government of the Russian Federation in January 2001. In the period June 12-22, 2002 there were conducted negotiations with 21 countries. Until now the Russian delegation has coordinated about 75% of tariffs.
2. *Negotiations about agricultural issues.* In addition to tariffs they include also discussions about dimensions of government support to the agricultural sector and dimensions of export subsidies.

On September 26 there were held multilateral consultations on agriculture participated by the USA, the EU, countries in the Cairns group (the leading agricultural exporters), a number of countries of Central and Eastern Europe, Asia and Latin America (in all about 30 countries). Negotiations in this line are quite complicated in their essence, as far as the parties' positions about the level of government support to agriculture and dimensions of export subsidies allowed to Russia as a member of the WTO are extremely different.

The government of the Russian Federation at its meeting on March 14, 2002 approved a new approach to negotiations on agricultural issues. At the same time to continue with the negotiations members of the WTO expect of Russia that it will submit renewed versions of documents on measures that deal with support and subsidies that can be used as a basis to assess whether the Russian position is justifiable.

*Negotiations on accessibility of the market of services.* Their aim is to agree upon conditions of foreign service providers' access to the Russian market. In March 2002 the government of the Russian Federation approved as a basis for negotiations a third version of suggestions on access to the market of services (in the variant approved at the meeting of the



tions on access to the market of services (in the variant approved at the meeting of the Government Commission of the Russian Federation on WTO-related issues on March 12, 2002).

The bilateral negotiations revealed differences in the countries' interpretations of WTO rules about horizontal regulation of service trading. In connection with this on March 19, 2002 there were held multilateral consultations on special aspects of this regulation in Russia (natural monopolies, subsidies, closed administrative-territorial entities, border territories, cultural heritage, anti-monopoly regulations, public services, etc). All key partners have submitted their official requirements, which allowed focussing the negotiation process upon the sensitive sectors, which are of the greatest commercial interest to WTO member states. The latest round of the negotiations that took place in June 2002 showed that to continue a constructive dialogue with WTO members (the USA, the EU, Japan, Canada, Norway, Switzerland, Australia) one needs to adjust Russian suggestions on the key sectors (financial, telecommunications, transport services).

In September there were held negotiations with the Norwegian delegation, and in October – with US experts in Washington.

1. *Negotiations on system issues.* Their aim is to identify the measures that Russia will have to take in the sphere of legislation and its application to fulfil its obligations as a member of the WTO. On the whole the requirements of WTO member states in this sphere can be divided into three parts:

1.1. Non-compatibility of Russian legislation and application practice with WTO norms.

The major concern of WTO members is a number of provisions in the current legislation in the sphere of the customs, excessive requirements to imported goods in the sphere of sanitary and phytosanitary measures, etc. Participants in the negotiations demand that WTO's provisions in this sphere shall be fulfilled unconditionally. This is a standard requirement to all joining countries.

1.2. Using by Russia of certain regulation elements, which are in principle allowed by the WTO can be caused by requirements and obligations, which will be specified in the report of the working group. These are "negotiations requirements".

1.3. Requirements that are clearly outside the framework of WTO obligations ("WTO+" requirements), such as joining the non-obligatory agreements on government purchases and civil aviation equipment, unification of domestic and foreign prices on oil and gas, cancellation of export duties.

In the beginning of October the system issues and the lawmaking process were discussed with the US delegation in Washington. In the middle of October there were held full-scale negotiations in all lines with the European Commission and US delegations in Moscow.

The result of all the negotiations was that one failed to reach a compromise in a number of issues so far, including telecommunications, financial services (insurance, banking, services at the stock market), oil and gas prices, measures to support agriculture.

The Russian part refuses to raise tariffs of RFO "EES Rosii" to the European level and open Russian markets of banking, insurance and telecommunication services. Russia intends to introduce a transition period, that is it will be ready to open its market of financial services and telecommunications 10 years after it joins the WTO. It is quite evident, that dramatically raised tariffs on electricity shall have and utterly negative outcome for the Russian economy. Besides, clearly less dangerous suggestions to open the Russian financial market raise strong objections on the part of Russian bankers and insurers.

EU representatives consider Russia's suggestions unacceptable, especially Russia's intention to restrict the proprietary rights of foreign companies to 49% in telecommunications and to approximately 25% in the brokerage services and insurance sector. Introduction of restrictions is also inspected in the sector of banking services.

Russia's legislative doctrine envisages the precedence of provisions of international contracts in front of home laws, because of this Russia's joining the WTO is connected with considerable lawmaking and rules adjustment activities. Russian will have to pass (adjust) about 100 laws and about 1 thousand departmental regulations. In this way Russia will get at its disposal a full-scale and systematised bulk of modern business legislations, comparable with the international law system, which in modern conditions is one of the crucial advantages of Russia's joining the WTO.

Due to this in 2002 high emphasis was placed on the legislative basis in the sphere of domestic market protection to make it up-to-date, in the focus were tariff regulation measures to ensure the best conditions for the access of Russian goods to world markets, to international resources that are of strategic importance for the country's economic development (goods that are not produced or their production is limited in the Russian Federation), there were made investigations on a considerable damage to Russian manufacturers done by imports of certain goods and introduction of special duties, the issue of planning imports of products that are felt to be in shortage at the domestic market was attended to.

In 2002 The Government commission on protective measures in foreign policies announced about the commencement of a whole series of anti-dumping investigations about foreign foodstuffs. In focus were chicken, starch syrup, butter, confectionery produced of sugar containing cocoa,

The initiator of anti-dumping investigation about imports of chicken legs was the Russian poultry union. According to its data imports of chicken grew 6-fold in the past 3 years. The share of imported goods at the market increased from 24% in 1999 to 61% in 2001. Chicken import growth rates in per cent to previous years were 291.3% in 2000 and 202.4% in 2001. In January – April 2002 the import grew by 21.3% as compared to the same period of 2001. At present the government of the Russian Federation is working out a draft on rates of the special duty on imported chicken and the date for its enactment. It is planned to make it 8.3% of the customs value, though not less than 0.07 Euro per 1 kilogram. This special duty is planned in addition to the existing one (25%) to make competition conditions at the market even.

The investigation about butter was started upon a request from the administration of Krasnodar krai. It is planned to increase customs import duties on butter and margarine from 15% to 20%.

The investigation about starch syrup was renewed. It was supposed to be over by September 1, 2002. By its results customs import duty on starch syrup can be raised, it is 16% of value now, though not less than 0.07 Euro per 1 kilogram.

As for confectionary of sugar containing cocoa is concerned, this investigation is also a renewed one. In focus here are caramels from the Ukraine. There was done an investigation on caramels in 2000 and a special duty was enacted then. But the Ukrainian part managed to find a way to overcome this barrier. Classical caramel practically does not contain cocoa and is included by the Foreign Trade Nomenclature of Goods into group 17. Ukrainian manufacturers increased cocoa content in their caramels, thus making it fall under group 18, which is



not subject for any special duty. Thus the anti-dumping investigation is started concerning another type of goods.

There was started an anti-dumping investigation about imports of wallpaper. Domestic manufacturers of wallpaper have gained a much stronger position at the home market after devaluation of the rouble in 1998, when increased prices on foreign products made them non-competitive. Nevertheless, foreign manufacturers, especially German ones, are gradually increasing their share at the Russian market. It is connected with the fact that in other countries people prefer other finishing materials to wallpaper. Because of this the Russian market becomes still more important for foreign wallpaper manufacturers. Besides, the Russian market is also attractive for manufacturers in CIS-countries, in particular the Ukraine and Byelorussia, their products are quite competitive in price compared to domestic ones.

In 2001 as compared to 2000 wallpaper imports to the customs territory of the Russian Federation increased 2.8-fold, and compared to 1999 more than 4-fold. The share of imported goods in the total of wallpaper sold at the Russian market grew from 32.7% in 1999 to 64.3% in 2001, while the wallpaper imports growth rate in the above period was 435.6%.

The annual wallpaper imports growth rates were accompanied by a greater consumption of this product in the Russian Federation. In the period from 1999 until 2001 wallpaper sales at the domestic market grew by 121.5%, at the same time in spite of a greater wallpaper production in Russia the share of Russian manufacturers in the total sales of this product decreased from 67.3% in 1999 to 35.7% in 2001, which testifies to the effect that Russian manufacturers are being ousted from their home market.

To protect Russian manufacturers the government of the Russian Federation imposed a special customs duty on butter imported to the customs territory of the Russian Federation, the 5% duty is calculated from the basic import customs duty, but shall be not less than 0.07 Euro per 1 kilogram. The duty was effective until December 31, 2002. This duty was not applicable to butter of manufacturers in Byelorussia. At the same time the special duty is applied to the butter when it is imported to the territory of Russia from the territory of Byelorussia in cases when it is produced for free sale in Byelorussia with no special duty paid or when the sums of this special duty paid are not transferred to the federal budget in the prescribed order. The principal suppliers of butter to Russia are the Ukraine (37% of the imports), Byelorussia (20%), New Zealand (14.6%) and Finland (11.1%).

The special import duty on starch syrup was extended for 2.5 years (the duty effective previously was 16%, but not less than 0.07 Euro per kilogram). From now on the duty will be 15.57%, but not less than 0.069 Euro per kilogram. It was simultaneously decided that the duty will be decreased by 0.25% each half year, and will be 14.5% starting on January 1, 2005.

The seasonal import duty on raw sugar in Russia was raised on October 1, 2002. The decision to increase the duty from 0.15 Euro to 0.2 Euro per 1 kilogram was taken by the Russian government in August last year. That duty was effective until December 31, 2002.

The government of the Russian Federation decided to abolish since June 20, 2002 the 15% import special duties on frozen Hungarian vegetables, juices, soups and bouillons, as well as on rapeseed, cabbage and mustard oils. The government took that decision "in connection with the fact that the Hungarian Republic abolished the measures that impaired economic interests of the Russian Federation and Russian enterprises". The special duties on Hungarian goods were made effective in July 2001 in response to the measures taken by Hungary to restrict imports of Russian goods to that country. In particular the Hungarian gov-

ernment made effective additional duties on Russian nitrogen fertilizers and initiated the procedure of making effective quotas on deliveries of concrete, rolled iron and fibreboards from Russia.

On October 4, 2002 there were made effective new dramatically increased import duties on foreign vehicles manufactured more than 7 years ago. According to Government decision #643 of August 30, when natural persons import such vehicles that have engine volumes that do not exceed 2500 cm<sup>3</sup>, the single rate of customs duties and taxes shall be equal to 2 Euro per 1 cm<sup>3</sup> of the engine. The previous duty was 1.4 Euro 1 cm<sup>3</sup>. For vehicles that have engine volumes exceeding 2500 cm<sup>3</sup> the new duty rate shall be 3 Euro per 1 cm<sup>3</sup> (1.4 Euro previously).

For vehicles manufactured more than 3 years ago, but less than 7 years ago, the duties will remain the same – 0.85 Euro per 1 cm<sup>3</sup> for vehicles having engine volume not exceeding 2.5 litres and 1.4 Euro for vehicles with engine volume exceeding 2.5 litres.

The new customs duties determine approximately same prices both for vehicles manufactured between 3 and 7 years ago and for very old cars. This is expected to change the popular preferences in favour of more recent vehicles.

There are also enacted higher customs duties for passenger cars older than 7 years imported by juridical persons (Russian Federation Government decision # 642 of August 30). But juridical persons import old foreign cars in much smaller quantities than natural persons.

In 2001 juridical persons imported to Russia 29 thousand second-hand cars (that were manufactured 3 years before the moment of customs clearance or older) against 23.5 thousand cars in 2000. Natural persons in 2001 imported to Russian 352.5 thousand second-hand cars against 131.9 thousand 2000.

Pursuant to the oil prices monitoring performed in 2002 export customs duties on crude oil and oil products, made of bituminous rock were changed several times. On February 1 the duty was reduced from 21.1 dollars per tonne to 8 dollars, on April 1 it was increased to 9.2 dollars, on June 1 – to 20.7 dollars, on August 1 – to 21.9 dollars, on October 26.2 – to 26.2, and on December 1 – to 29.8 dollars per tonne.

But as far as import duties on other goods and commodities is concerned the government sticks to the proclaimed principle of decreasing customs duties and simplifying the customs regime.

Export duties on ferrous metals were abolished since July 1 in connection with worsened situation in the world and anti-dumping investigations in a number of countries. The customs duty of 5% on ferrous metals exported from the Russian Federation was made effective in May 1999. Since April 2002 export customs duties on certain types of ferrous metals were decreased from 5 to 3%. Annual budget losses caused by the abolishing of the duty are assessed as 120 mln dollars. But this measure will help Russian metal manufacturers to maintain the level of export sales keeping the price advantages in competition. Foreign currency revenues coming from sales of metal by the results of 2001 amounted to 15% of the total Russian exports.

The government commission on protective measures in foreign trade and customs and tariffs policies recommended also to abolish export duties on writing paper, cellulose, germanium and goods produced of it and import duties on glycerine and television tubes.

In September 2002 The government commission on protective measures in foreign trade and customs and tariffs policies took the decision to abolish export customs duties on 432 types of goods that have minimal exports from the Russian Federation. Customs revenues col-



lected on these goods slightly exceed 5 mln dollars. At the same time these goods are about 50% of the total list of goods liable to customs duties.

Still another important decision by the government in 2002 was the cancellation of export customs duty on silver. This measure will in all probability lead to a greater export and a growth of the number of participants at the market. This very result was achieved when the duty on export of gold was cancelled. According to the Gold-mines Union in 2001 there were extracted 646 tonnes of silver in Russia. Of this exported were 462 tonnes, but duties were paid only on 61 tonnes. The rest of the silver was exported through countries of the Customs Union – Byelorussia and Kazakhstan. Thus about 90% of silver from Russia is exported with no duties paid. The volume of explored reserves in Russia is now greater than in all other countries taken together. The share of explored reserves of the biggest producers of this metal – the USA, Canada, Mexico and Australia – at the world market is 40%. Russia possesses the biggest share.

On October 1 the Government resolution “On introduction of changes into the regulations on transfer of goods through the customs border by natural persons” entered into force. This is another try by the government to minimize the “grey” exports. According to the assessment of the Ministry of economic development of the Russian Federation the “grey” imports of footwear and other products of light industry accounted for 10.8 bln dollars in 2000 and 12.4 bln dollars in 2001.

The petty traders called “shuttles” are allowed to bring in goods that weigh less than 50 kg. and cost less than 1000 dollars. This is only permitted when the owner of the goods is present in person at the customs station. Everything exceeding the above norms will be liable to customs duties and the VAT according to usual rates. Temporal preferences will be effective until January 2003 for lots of goods that weigh between 50 and 100 kgs. and cost between 100 and 5000 dollars. Lots that fall under this category will be freed from the VAT.

The regulations effective before were established for petty traders, but in practice they were used by juridical persons, so-called cargo-companies that built up their trade as a tax-free import of goods acting as if they were private persons. The pattern of these cargo-companies’ transactions for tax-free imports was simple. Carriers of cargos divided them into small lots and issued powers of attorney for each lot from private persons and imported the goods using legal preferences. Cargoes between 50 and 200 kgs that cost less than 10 thousand dollars were liable to a 30% tax with no VAT paid. Those that split the cargo into tiny lots (weighing less than 50 kgs.) imported their goods with no duties paid.

The work on the Customs Code of the Russian Federation is going on. The new Customs Code shall be integrated into the world legal and economic systems, because customs procedures will be unified. Consequently one of the major tasks is to bring the Customs Code in conformity with the “Kyoto Convention” (Brussels protocol of 1999), this would bring all of the customs procedures to harmony and conformity.

The first draft of the new Customs Code was ready in 1998. But as far as the then version of the law gave rise to criticism on the part of businessmen, there was made an agreement to form a joint working group that would polish up the document. As a result more than 400 amendments were made to a new draft of the Code.

The major task of the proposed amendments was to deprive the government and federal departments of a large number of powers. A great number of customs rules and procedures, which previously were established by executive authorities, will be written down in the law. The list of documents needed to perform customs clearance was previously prescribed by the

Customs Committee; it is now the Code that will contain the full list of all the required documents.

The new version of the law abolished licensing of certain types of foreign economic activities. In particular, no licenses will be needed for customs brokers, customs carriers, warehouses and tax-free shops, as far as according to the opinion of the lawmakers shops and warehouses are anyway always under customs control.

Temporal customs warehousing regime will also be liberalised. At present the place to put cargos waiting for customs clearance is defined by the State Customs Committee. In future – if the new version of the Code gets passed – entrepreneurs can choose warehouses at their own discretion. The integrity of the goods will be ensured due to a system of financial amenability of entrepreneurs – for example with the help of money deposits.

The governments is yet undecided which of the provisions of the Federal law “On customs tariffs” will be adopted by the Tax Code, which by the Customs Code, and which of them will be left in the law proper. It is not yet decided, whether the Law “On customs tariffs” will be kept, and if not, whether the part on tariffs will be absorbed by the Customs Code. It is expedient to unite these two laws, which will be in a complete conformity with the Customs Code of the European Union. One can leave the Law “On customs tariffs” completely unchanged. But dispersing the provisions of the Law “On customs tariffs” in several other laws is in all probability unadvisable.

In our opinion basic shortcomings of the Customs Code draft version submitted by the government are as follows.

The government version keeps the number of references to the normative documents of the State Customs Committee practically unchanged. It would be expedient to cut their number, though in certain cases attempts to introduce direct norms (complete documents lists, lists of information required for customs clearance, etc.) shall be given a more detailed analysis.

Requirements to the law on the customs shall be formulated from the viewpoint of participants of foreign trade, rather than from that of customs officers, in particular in cases of restrictions or creation of impediments to personal activities not prohibited by the law provisions of the customs law shall be proclaimed null and void.

The Customs Code shall agree with the principle declared by the government of a weaker “incoming” control and a quicker clearance of goods and of a tougher control after the clearance. In the government version the preliminary procedure demands practically the same documents as during the clearance itself. A testimony of this are wordings like “the concrete list of information is defined by the State Customs Committee”, “should the information required by the customs authorities lack in the documents there arises a need of providing additional documents”, etc.

The government version envisages a development of “customs related” business, licensed by a customs authority. This refers to such types of activities as “customs cargo carrier”, “customs broker”, “temporary warehousing”, and «customs warehouse”. At the same time it is expected that a new Customs Code will eliminate the institutions of customs cargo carriers and brokers. Instead of them there should be built an institution of empowered representatives of goods owners, which will function in compliance with the civil law without any licensing or any other interference of customs authorities. As for “temporary warehousing” is concerned, ideally these warehouses shall be established by the customs and placed on premises that belong to the customs or let by them. Should this provision get passed it would entail budget financing of the customs to establish such warehouses.

The Customs Code shall put the customs authorities into strict conditions requiring them to clear goods within 24 hours from the moment they accept customs declaration for clearance. The after-clearance control shall be placed on customs authorities. To perform the control the customs house in question shall send a copy of the customs declaration to the tax authority that has jurisdiction over the place of goods owners' registration.

Adoption of the new Customs Code is one of the basic priorities in the sphere of foreign trade legislation for 2003.

New Customs Code is only the first stage of the customs reform according to the plan worked out by the budget committee of the State Duma. There is planned a reform of customs tariffs in 2004. Import duties shall become more differentiated; export duties shall be completely abolished. Later the Customs Service shall undergo a reform together with customs administration.

### 3.7.2. Russia's foreign trade with CIS-countries.

Russia's turnover with CIS-countries in 2002 accounted for 28.57 bln dollars, including exports – 16.25 bln dollars (a 6.9% growth); imports – 12.32 bln dollars (a decrease by 5.5%). Compared to 2001 the turnover decreased by 4.3%.

The balance of trade with these countries was positive and amounted to 3.93 bln dollars (2.16 bln dollars in 2001). The share of CIS-countries in the country's total trade turnover was 17.1% (18.3% in 2001); the share of these countries in the total exports was 15.20% and 20.36% in the total imports.

*Table 43*

**Changes in Russia's trade with the CIS in 2001.**

	2000	2001	2002
Turnover (bln dollars)	27.68	28.24	28.57
Exports (bln dollars)	14.25	15.20	16.25
Imports (bln dollars)	13.43	13.04	12.32
Balance	0.82	2.16	3.93
Growth rates (%)	23.68	2.02	1.16
Share of CIS in the total turnover (%)	18.47	18.17	17.1

Source: The Central Bank of the Russian Federation.

Russia's major trade partners in 2002 among bordering countries were as before Byelorussia and the Ukraine, their share exceeds 11% of Russia's total foreign trade turnover.

Among CIS-countries trade with Byelorussia accounts for about 40%. In 2002 only these two countries' mutual exports and imports, in contrast with tendencies of Russia's bilateral trade with the majority of countries in the CIS, exceeded the level of 2001 by 6%.

In 2002 Russia's foreign trade turnover with CIS-countries was distributed by its major partners as follows: Byelorussia's share was 38.4%, the Ukraine had a share of 35.1% and Kazakhstan of 16.8%.

*Table 44*

**Shares of CIS-countries in Russia's trade turnover**

Country	Share (%)
Byelorussia	38.4
The Ukraine	35.11
Kazakhstan	16.8

Uzbekistan	3.1
Azerbaijan	1.4
Moldova	2.1
Kyrgyzstan	0.7
Turkmenia	0.7
Armenia	0.6
Georgia	0.6
Tajikistan	0.5

The Ukraine's share in Russia's total trade with CIS-countries decreased compared to 2001 by 1% because of restrictive measures in the Ukraine's exports. The share of Kazakhstan got also slightly diminished in the past year.

Most decisively increased (nearly two-fold) trade turnovers with Azerbaijan, Kirgizia, Georgia and Armenia, the increments were from 10 to 20%. As for other countries, there was a decrease in turnovers; most sizeable ones are in the trades with Tajikistan (by 30%) and Turkmenistan (by more than 20%).

*Table 45*

**Volumes of trade with CIS-countries in January – September 2002 (bln dollars)**

Country	Turnover	Exports	Imports	In % to January – September 2001		
				Turnover	Exports	Imports
Byelorussia	7.04	4.12	2.91	103.2	106.2	99.2
Kazakhstan	3.12	1.71	1.41	85.5	81.6	90.6
The Ukraine	6.33	4.07	2.26	92.1	104.4	76.1
Azerbaijan	0.24	0.18	0.05	162.8	211.4	92.0
Uzbekistan	0.58	0.32	0.26	74.3	109.5	52.9
Tajikistan	0.09	0.05	0.04	53.9	95.4	35.4
Turkmenia	0.12	0.10	0.02	86.1	95.5	55.8

### Exports

Fuel and energy commodities occupied the decisive place in the exports to CIS-countries in 2002. Their exports in quantities compared to 2001 grew by more than 12% (not counting mutual trade with Byelorussia).

Though the goods pattern of the exports to CIS-countries did not change considerably in 2002, it got somewhat degraded – the share of fuel and energy commodities in the total exports to CIS-countries increased by 4% compared to 2001 and exceeded 42%.

Exports of the basic energy commodities grew in 2002 (data for January – November 2002): deliveries of crude oil grew in quantity by 38.7%, of natural gas by 6.5%, oil products by 0.7%. Thus the tendency of 2001, when oil deliveries grew and natural gas deliveries decreased, changed in 2002.

When quantities of exports of oil products and natural gas to neighbouring countries grew, average export prices on these types of products decreased: export prices on oil diminished by approximately 30%.

The share of Commonwealth countries in the total exports of fuel and energy products (in quantities) continued to decrease, resulting from a low effective demand in the region and still remaining considerable debts for delivered gas.

The present negative tendencies in the pattern of Russia's exports are confirmed by the data on exports of machines and equipment. Their deliveries to CIS-countries decreased by



5.1%, their share in the total exports to these countries got reduced to 20% against 25% in the same period of 2001.

Exports of paper and pulp industry products grew considerably in 2002 – by 42.6%; of wheat – by 62.5%.

One of the factors that promoted exports of paper and pulp industry products to neighbouring countries was a low domestic demand at the Russian market for these goods, moreover Russian manufacturers win in the competition with supplies from the West due to low costs of raw materials, manpower and transport.

Export deliveries of coal decreased by nearly a third, of diesel oil by a fourth, of ores and iron products by more than 16%.

*Table 46*

**Exports of some types of goods to CIS member-states**

	<b>January – November 2002</b>	<b>In % to January – November 2001</b>
Crude oil, mln tonnes	29.7	138.7
Oil products, thousand tonnes	2339.6	100.7
of these:		
car petrol	437.5	104.7
diesel oil	714.2	74.1
fuel oil	288.0	146.7
Natural gas, bln m <sup>3</sup>	46.5	106.5
Coal, thousand tonnes	3660.9	70.3
Machines and equipment, mln dollars	2541.6	94.9
Iron ore and concentrates, thousand tonnes	4614.7	83.9
Ferrous metals, mln tonnes	534.6	102.7
Synthetic rubber, thousand tonnes	65.4	111.2
Wood cellulose, thousand tonnes	94.9	142.6
Cotton fabrics, mln m <sup>2</sup>	199.9	119.3
Wheat and meslin, thousand tonnes	972.9	2.5-fold

*Source:* The State Statistics Committee of the Russian Federation.

### Imports

The prevailing part of imports from CIS-countries were deliveries of engineering products and foodstuffs, their share was approximately 20% of the total imports from CIS-countries (mutual trade with Byelorussia is not taken into account). The shares of chemical products, metals, metal products and fuel and energy commodities were 10% each of total imports; the share of textile fabrics was 5%.

There was an increase of imports quantities of such goods as fresh-frozen meat by 15.7% and sugar (2.6-fold) as compared to January – November 2001.

Besides, purchases of spirits and non-alcoholic beverages grew by 5.8% and of textile and knitted clothes by 59.2%.

At the same time from these countries there was purchased 4 times less dried and condensed milk, 15.9% less sunflower-seed oil, 47% less butter and 70% less wheat.

The imports pattern besides less imports of many types foodstuffs also showed cuts in deliveries of ferrous metallurgy products: of ferrous metals by 31.3% and of steel pipes by 45.3%.

The drastic cuts in Russia's imports are connected in particular with reduced imports of foodstuffs and a new orientation at Russian products in this sphere. Goods from CIS-countries more often than not were less competitive. For example prices on products delivered from CIS-countries were much higher than that of countries outside the CIS: on fresh-frozen meat – 1.5 times, poultry – 2.2 times, dairy products – 1.6 times, butter – 1.2 times, sunflower-seed oil – 1.5 times, coffee – 1.5 times, tinned meat – 1.2 times, white sugar - by 13.7%, leather footwear – 1.6 times.

The upsurge of poultry deliveries from CIS-countries was basically connected with the sanitary control problems with deliveries of these products from the USA, but they were reduced considerably because of the unsatisfactory quality according to the Russian part. But in absolute terms deliveries of poultry from Western countries remain incomparably bigger than the imports from CIS-countries: imports of this type of products from CIS-countries account for less than 1%.

*Table 47*

**Imports of some products from CIS member-countries.**

	January – November 2002	in % to January – November 2001
Machines, equipment and transport vehicles mln dollars	2492.2	96.91
Personal cars, pcs.	10589	115.1
Ferrous metals (without cast iron, ferroalloys and scrap) mln dollars	355.0	62.8
Steel pipes, thousand tonnes	329.6	53.7
Coal, mln tonnes	18.7	71.8
Spirits and non-alcoholic beverages mln dollars	297.2	105.8
Meat, fresh and frozen (without poultry) thousand tonnes	154.6	115.7
White sugar, thousand tonnes	281.2	2.6-fold
Condensed milk and cream, thousand tonnes	51.6	74.3
Fish, fresh and frozen, thousand tonnes	28.2	92.2
Wheat and meslin	242.4	30.3
Sunflower-seed oil, thousand tonnes	89.4	84.1
Butter and butterfat, thousand tonnes	40.5	53.0
Balsam wool, non-spread, thousand tonnes	273.9	92.0
Cotton fabrics, thousand m <sup>2</sup>	32613.3	57.6

*Source:* The State Statistics Committee of the Russian Federation.

Russia's imports in 2002 compared to 2001 increased from such countries as Azerbaijan, Armenia, Byelorussia, Kirgizia.

On the contrary deliveries from the countries of Central Asia – Tajikistan, Turkmenia and Uzbekistan – decreased. Deliveries of goods from Tajikistan more than halved, deliveries from Uzbekistan decreased by more than 40% and from Turkmenistan by 20%.

Russia cut its imports of unprocessed aluminium from Tajikistan, and because of an unprofitable economic situation, a landslide of cotton price in the world and development of its own processing industry reduced its purchases of cotton from Uzbekistan.

### Trade relations with some of the member-countries in the CIS

#### Trade with the Ukraine

In the sphere of foreign trade both countries continued to pursue rather tough protective policies: in 2001 – the beginning of 2002 the Ukraine and Russia took different measures



against each other to restrict the accessibility of their home markets for industrial goods. In particular, Russia restricted its imports of pipes, caramels, galvanized rolled metals and rods from the Ukraine. The Ukraine on its side restricted imports of raw materials for iron ore industry, concrete, electric lamps, syringes.

For example the current regulation on import of Ukrainian pipes was prolonged for the whole of the year 2002. Pursuant to the bilateral agreement on regulation of imports of ferrous metal pipes of April 10, 2001 the Ukrainian Ministry fixed quotas for export of pipes of ferrous metals to Russia, which are subject to licensing. Because of this total pipes exports in 2001 was considerably reduced and amounted only to 413 tonnes of pipes, while in 2000 the exports to Russia were 789 thousand tonnes, or 17% of the total Russian market of this type of products.

In July the government of the Russian Federation signed the decision “On measures to protect Russian manufactures of bars for reinforced concrete constructions”, which was adopted by the results of an investigation by the Commission on protective measures about damages to Russian manufactures. By this Decision the government imposed a countervailing duty on the goods in question imported from the Ukraine, which amounts to 21% of the customs value and will last for 3 years.

The Ukraine in its turn took its countermeasures to protect its domestic market and on August 1, 2002 imposed a 32% duty on personal cars imported from Russia. The new duty was initiated by the leaders of the automobile plant in Lutsk and the Ukrainian – South Korean enterprise “AutoZAZ-Daewoo”. The duration of the duty was restricted to 4 months and was aimed at restricting imports of Russian cars with engine volumes not exceeding 1.5 thousand cm<sup>3</sup>.

The Ministry of economy and of European integration of the Ukraine and the Ministry of trade and economic development of Russia as early as in April-May 2002 reached an agreement to set a moratorium on mutual trade sanctions and anti-dumping investigations. In two months Russian and Ukrainian specialists were making an analysis of already imposed trade sanctions to optimise and possibly reduce them.

At last in September in the course of negotiations between the governments of Russia and the Ukraine there were achieved agreements to lift the excessive fiscal barriers in mutual trade between the two countries. The Ukraine lifted its special duties on imports of a number of Russian goods; the duties in question are the special 20% duties as countermeasures with respect to Russian goods after the special duty on import of pipes of ferrous metals from the Ukraine was imposed.

In October the government of the Russian Federation in its turn declared void the decision “On the regulation to impose the special duty on import of pipes of ferrous metals from the Ukraine”, which was effective since May 2001 and imposed for 3 years special customs duties on import of pipes of ferrous metals from the Ukraine. Concurrently the duration of the previous Agreement (of April 10, 2001) on regulation of deliveries of pipes of ferrous metals from the Ukraine to Russia was prolonged. That kind of decisions can have negative effects on the interests of domestic manufacturers of pipes in Russia, as far as now that the duties are lifted the Ukrainian part has no reasons either to conclude or prolong any agreements to restrict itself. Previously it were basically the special duties that induced the Ukrainian part to keep the system of quotas on its imports.

Besides, the Ukraine introduced a quota on Russian concrete for four years. The quota from October 10, 2002 until September 30, 2003 was 150,000 tonnes, from October 1, 2003

until September 30, 2004 – 157,500 tonnes; from October 1, 2004 until September 30, 2005 – 165,000; from October 1, 2005 until October 10, 2006 – 172,500 tonnes. Each period is split into half a year periods, when not more than 60% of the annual quota can be imported.

In all probability the practice of mutual temporal restrictions on import deliveries of certain types of goods will persist in the near future in order to protect national manufacturers and to regulate the Russian and the Ukrainian market of goods, in spite of the progress that was achieved during the numerous negotiations between representatives of the two countries.

In the sphere of customs regulations in the current year another stage of joint work between the Russian State Customs Committee and its Ukrainian partner was finalised. There were achieved important agreements in the sphere of export control of Russian fuel and energy commodities and on cooperation in the sphere of customs statistics. Deviations in the data of national statistics services on mutual trade today are 5% on the average, especially significant are the deviations in data on deliveries of ferrous metals, which account for more than a fourth of the Ukrainian exports to Russia.

#### Trade with Kazakhstan

In the current year the states of the Customs Union, Kazakhstan in particular, went over to collection of indirect taxes on “the country of destination” principle. In connection with that there was a natural decline in the mutual trade between Russia and Kazakhstan, which presumably will have a temporal character. As early as in the second half of 2002 positive tendencies in this sphere were visible.

Nevertheless turnover between these two countries shortened compared to the previous year by 10%, it was Russian deliveries to Kazakhstan that decreased to a greater extent – by close to 20%.

The major part of Russia’s exports to Kazakhstan are fuel and energy commodities, machines and equipment and products of chemical industry. In its turn Russia imports machines and equipment, which accounts for a fourth of total imports. Shares of other groups of goods, such as products of chemical industry, metals and metal goods are approximately 15% each.

There exist certain differences in customs legislations of the two countries. For example, there is a flat VAT rate of 16% in Kazakhstan, practically no export customs duties, there are only duties on 10 types of goods, on non-ferrous and ferrous metals scrap, fells and wool, in particular.

When comparing the level of customs tariffs one should point out that the rates are equal only for a half of the goods that comprise the foreign trade lists of goods. On 60% of goods customs duties are higher in Kazakhstan, than in Russia.

New Customs Codes that are planned to be adopted both in Russian and Kazakhstan in the nearest future can make the process of unification of customs tariffs rates and excise taxes somewhat more complicated.

In the sphere of customs and tariffs regulation one should point out the decision of Kazakhstan to ban exports of diesel oil from the country and a higher excise tax on petrol imported from Russia. The protective measures by the government of the neighbouring country are connected with the fact that prices on Russian petrol and diesel oil are lower than the ones in Kazakhstan. As a result the three largest petroleum refineries in Kazakhstan experience serious difficulties with sales of the their products. The restrictive measures against Russian imports were effective until June 1, 2002, that is until the end of the sowing period.



### Regulation of foreign economic activities in CIS-countries.

In 2002 new lines of integration processes among CIS-countries took shape. For example, in May there was held a meeting of the leaders of member-countries in the Eurasian economic association. Special attention was given to the issue of coordinating activities when members of the Association will be joining the World Trade Organisation and to establishing common customs tariffs.

The international Eurasian Economic Association was founded in 2000 by the presidents of Russia, Byelorussia, Kazakhstan, Kirgizia and Tajikistan on the basis of the Customs Union, which was founded 4 years before that. The priority goal of this Association is a more profound coordination among its member-states in trade, economy, social, humanitarian and legislative spheres. This in particular presupposes unified customs legislations and reporting systems, rules for documentation and transit of goods, joint construction of customs points at outer borders and ensuring economic security of the member countries.

At the summit of this Association in May there was reached an agreement on non-use of anti-dumping measures against each other. Moreover, the Ukraine gained the observer status in the Association, next step can be granting the Ukraine the status of associated member of the Association. An economic integration within the Association besides giving real benefits to the Ukrainian economy due to a growth of tax revenues from imports of Russian oil and gas can lead to stronger economic ties within the CIS, a cooperation, which the Ukraine has for a long time been trying not to get involved into.

In Brest in June there was held a meeting in the Council of the leaders of customs authorities of countries in the Eurasian Economic Association, who discussed the issue of unification of ensuring payment of customs duties and taxes. Russia's State Customs Committee worked out and submitted for discussion a special draft Agreement on ensuring customs payments by means of depositing on a special account with a custom authority sums due to paid or by using bank guarantees when goods travel under the customs' control between customs authorities of member states of the Association.

In September representatives of the Association's member states held an official meeting, during which they discussed such foreign trade issues as unification of trade withdrawals from the free trade regime between member states of the Association and CIS-countries; establishing new common customs tariffs and indirect taxes; mechanism for protection of domestic markets in conditions of non-use of special protective, anti-dumping and countervailing measures; issue of realisation of the Decision of the interstate council of the Association on negotiations about joining the WTO.

One of the most important tasks of this interstate Association are the problems of import customs duties. At the meeting of these countries' representatives in October it was pointed out that the level of tariffs at present is coordinated for 60% of lists of goods between Russia, Byelorussia and Kazakhstan. One can start speaking about a common customs tariffs system after 80% of customs duties are unified.

In September there was a meeting in the Council of leaders of customs authorities of CIS-countries, who discussed issues of broader cooperation among customs authorities, in particular, they scrutinized a set of measures to make customs control and clearance of goods that are transferred by citizen through borders within the CIS more simple.

A special attention was paid to the problem of unification of customs legislations in Russia and Byelorussia. Drafts of new Customs Codes of these two states are practically com-

completely coordinated, though there still remain considerable differences in rates of customs duties on some goods.

Already in July this year Byelorussia shall start using the new import customs tariffs. The country will go over to unified import tariffs. This actually means that same tariffs on imported goods will be effective in Byelorussia as in Russia. Thus, according to the customs in Byelorussia and Russia, establishing of a single customs area will be finalised.

At present in spite of the fact that as early as in January 2001 a special Agreement between two countries was signed, there are still differences in customs duties on about four thousand types of imported goods, the number of differences in tariffs for exported goods is over one thousand.

Besides, active work in lawmaking in the sphere of customs regulations in mutual trade among CIS-countries was going on in the current year. A number of normative documents that regulate some of the markets in these countries were adopted.

For example, the State Customs Committee of the Russian Federation signed on April 29, 2002 a Directive "On control of customs value of goods that according to the list of goods for foreign trade activities fall under groups 07 and 08 and are imported from CIS-countries".

It is pointed out in the Directive that in connection with a more active trade in agricultural products imported in high seasons from member countries in the CIS leaders of customs authorities shall take prompt decisions about customs values of the goods in shortest possible time without raising difficulties for goods clearance. In order to perform an efficient control of seasonal fruit and vegetables imports from CIS-countries customs authorities shall at regular intervals monitor the wholesale and retail prices on perishable commodities (fruit, vegetables) in regions and use the acquired information to control the customs values within the framework of methods prescribed by the law.