

Chapter 9

Russian Federation

National Treatment

(1) Introduction of Recycling Fee on Motor Vehicles

Please see pages 173-174 of the 2017 Report on Compliance by Major Trading Partners with Trade Agreements -WTO, FTA/EPA and IIA-.

(2) The Copyright Levy Framework for Private Audio/Audiovisual Recordings

Please see page 174-175 of the 2017 Report on Compliance by Major Trading Partners with Trade Agreements -WTO, FTA/EPA and IIA-

TARIFFS

1. High Tariff Products

* This particular case was included in light of the following concerns despite it being a trade or investment policy or measure that does not expressly violate the WTO Agreements or other international rules.

<Outline of the Measure>

While the current simple average bound tariff rate for non-agricultural products is 7.1%, there are some high tariff products, including automobiles (maximum 20%), clothing (maximum 17.5%), furniture (maximum 17.5%), toys (maximum 15%), rubber products (maximum 15%), etc. Furthermore, the binding coverage on non-agricultural products is 100% and the average applied tariff rate in 2016 was 6.5%.

<Concerns>

High tariff rates themselves do not, per se, conflict with WTO Agreements unless they exceed the bound rates. However, in light of the spirit of the WTO Agreements of promoting free trade and enhancing economic welfare, it is desirable to reduce tariffs to their lowest possible rate, and eliminate the tariff peaks (see “Tariff Rates” in 1. of Chapter 5, Part II) described above.

<Recent Developments>

In May 2014, Russia, Belarus and Kazakhstan agreed on the Declaration of the Eurasian Economic Integration and concluded the Treaty of the Eurasian Economic Union. Thereafter, Armenia and Kyrgyzstan joined the union on December 30, 2014 and May 21, 2015, respectively, resulting in five member states. The Eurasian Economic Union (EEU) uses Russian Federation’s applied tariff rates as its standard common external tariff rates, so compensatory negotiations in GATT Article 28 have been carried out for items of which the bound tariff rate will become higher after joining the EEU. In the middle of this situation, EEU member states have been proceeding procedures to sign the unified customs and tariff regulation, and all member states excluding Kirgiz have signed as of January 2018. After the implementation of the regulation, applied tariff rates may be raised before compensation negotiations are settled.

(2) Violation of Bound Tariff Rates on Refrigerators

<Outline of the Measure>

(1) Large refrigerators with storage capacities exceeding 340 liters (L)

The WTO bound tariff rates for the Russian Federation are as follows

At accession (August 2012)	September 2013	September 2014	September 2015	September 2016	September 2017
20%	18.3%	16.7%	15%	13.6%	12%

(2) Small refrigerators with storage capacities of 340L or less

The WTO bound tariff rates for the Russian Federation are as follows

At accession (August 2012)	September 2013	September 2014	September 2015	September 2016
20%	(i) 18.3%, (ii) 18%, but at least 0.198 euros/1L, whichever is the lower	(i) 16.7%, (ii) 16%, but at least 0.156 euros/1L, whichever is the lower	(i) 15%, (ii) 14%, but at least 0.114 euros/1L, whichever is the lower	12%

However, the applied tariff rates on large and small refrigerators in the Russian Federation at the time of its accession to the WTO were “20%, but at least 0.24 euros/1L,” and thus tariffs exceeding the bound tariff rates are imposed depending on the prices and capacities of refrigerators, which resulted in overpayment by importers (local subsidiaries of Japanese companies).

<Problems under International Rules>

Under the rule stipulating that applied tariff rates shall be “at least 0.24 euros/1L” by the Russian Federation, tariffs exceeding the bound tariff rate may be imposed depending on the prices and capacities of refrigerators (for example, in the case where a refrigerator with a storage capacity of 400L is priced at 470 euros, a tariff of 96 Euros, which exceeds 94 Euros equivalent to the bound tariff rate of 20%, is imposed), which may violate GATT Article II.

<Recent Developments>

The Japanese government raised the issue at the WTO Council for Trade in Goods meeting held in March 2013 and at the Meeting of the Co-chairs of the Trade and Investment Subcommittee of the Japan-Russia Intergovernmental Committee in Tokyo in April of the same year, etc., and at bilateral consultations with the Russian Federation in August between the Minister of Economy, Trade and Industry of Japan and the Russian Minister of Economic Development, the Japanese government requested early correction. As a result of the annual revision of the applied tariff rates in September 2014, at present the tariff rates on small refrigerators with storage capacities of 340L or less are set at “16%, but at least 0.156 euros/1L” and that of large refrigerators with storage capacities of more than 340L at “16.7%, but at least 0.13 euros/1L”. Through these revisions of the tariff rates, the amount of overpayment damage was significantly decreased. However, violations of some of the bound tariff rates still remain, so Japan will continue paying attention to this matter.

To correct the violations of the bound rates on products such as paper and vegetable oils, in addition to refrigerators, the EU requested consultations with the Russian Federation under DS procedures in November 2014, then requested establishment of a panel in February 2015. The panel was established in March of the same year, and Japan has participated in the panel process as a third-party country.

In August 2016, the panel determined that Russia’s tariff measure at issue was in violation of the WTO rules. The Russian Federation and the EU agreed the reasonable term of 7 months and 15 days

for correction on November 10, 2016, and thus the reasonable term was set to end on May 11, 2017. On June 8, 2017, the Russian Federation reported the correction to the Dispute Settlement Body (DSB) of the WTO within the stipulated term, and the correction was confirmed.

Export Taxes

Tariff on Logs

* This particular case was included in light of the following concerns despite it being a trade or investment policy or measure that does not expressly violate the WTO Agreements or other international rules.

<Outline of the Measure>

In February 2007, the Russian government announced an increase in the export tariffs on logs and a decrease in the export tariffs on wood products, and other measures as additional measures to the new Russian Forest Code, which came into effect in December 2006. These measures were implemented to develop the domestic wood processing industry in the Russian Federation and to promote investments in the wood processing industry from overseas. Following this announcement, the tariff rate for conifer logs, exported to Japan in large quantity, was raised from 6.5% to 20% in July 2007, and to 25% in April 2008, and attempts to raise it further were observed.

A large impact on the global wood market due to insufficient supply from Russia was feared from this measure, as (1) Russia was the world's largest log exporting country at that time (holding 33% of the global log exports), (2) it may have the same effect as an export ban on logs if the final tariff rate of this measure is applied, and (3) sufficient investment for domestic wood-processing industry may not be achieved due to the tax increase in an extremely short term.

For this reason, since the introduction of these measures, countries importing Russian logs such as Japan, Sweden, etc. have been expressing their concerns to Russia through various opportunities. As a result, further increase in tax rate was not implemented, with the tax rate maintained at the higher amount of 25% or 15 euro/cubic meter).

Since Russia's accession to the WTO in August 2012, export taxes imposed on Norway spruce, silver fir, and *pinus sylvestris* were partially changed, and export quotas were imposed. For instance, for exports not exceeding the quota, tax rates were reduced to 15% for *pinus sylvestris* and 13% for Norway spruce and silver fir; however, tax rate was increased to 80% (not to be below 55.2 euro/cubic meter) for those exceeding the export quotas. However, export taxes on spruce, Sakhalin fir, and larch, which have been exported to Japan in large volumes, have remained at 25%.

<Concerns>

After the accession of the Russian Federation to the WTO, taxes on exports not exceeding certain export quota levels were lowered, but taxes on exports exceeding the quota levels were significantly raised to rates determined by the Russian government on its own accord, and it has similar effects as the actual export prohibition measure. In addition, annual export quotas are calculated or given based on operators' actual export of the previous three years, so Japan will pay attention to whether or not fair and justified adjustments are made, and will also urge the Russian government to make improvements where necessary through multilateral and bilateral consultations, etc.

<Recent Developments>

In regard to the tariff on logs for spruce, Sakhalin fir, and larch, which have remained at 25%, the Russian government imposed an export quota of 4 million/cubic meter and reduced the tariff on logs not exceeding the quota to 6.5% in December 2017, with the aim of encouraging the construction of new wood processing facilities and creating new employment of wood processing industry in the Far East. Meanwhile, the Russian government determined gradual increase of the tariff on logs exceeding the quota from 2019, to 40% in 2019, to 60% in 2020, and to 80% in 2021. Export quotas of logs are distributed to companies with more than a certain ratio (it will be gradually increased) of export of

fabricated wood products to total exports. This clarifies the measures' aim of promoting the development of fabricated wood products in the Russian Federation, rather than exporting wood as mere raw material.