

Chapter 8

Russian Federation

National Treatment

Introduction of Recycling Fee on Motor Vehicles

While the Russian government reduced the import duty on automobiles on its accession to the WTO (August 22, 2012), in September 2012, it amended the “Federal Law on production and consumption waste” and introduced a transport vehicle “recycling fee”. Then, the Russian government adopted a revised Law concerning recycling fees in October 2013 and put it into effect in January 1, 2014. Under the revised Law, (1) the fee exemption system for Russian domestic producers, (2) the fee exemption system for vehicles imported from the customs union, and (3) the local content requirements for fee exemption were abolished, and discriminatory factors in favor of domestic products were basically corrected. However, the difference between the tax rates on imported used cars and those on Russian domestic cars increased, and the situation that additional recycling fees are not imposed on Russian used cars if recycling fees were imposed on those cars when they were new cars was not corrected. The high tax rate imposed on used cars can be a de facto discrimination against countries that exclusively export used cars, raising suspicions of violations of MFN and national treatment obligations. Japan will continue to keep an eye on the implementation and operation status of the revised law and related implementation regulations, and seek from Russia operations consistent with the WTO Agreements, as needed.

For more details, see page 149-150 in the 2017 Report on Compliance by Major Trading Partners with Trade Agreements - WTO, FTA/EPA and IIA.

Tariffs

Tariff Structure

* 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 furniture (maximum 17.5%), automobiles (maximum 15%), clothing (maximum 15%), 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 2018 was 6.1%.

<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. (1) (iii) 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. Eurasian Economic Union Basic Tariff Law was issued on January 1, 2018.

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 around 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/m³).

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/m³) for those exceeding the export quotas.

Meanwhile, the tariff on spruce, Sakhalin fir, and larch, which account for the majority of log exports to Japan, have remained at 25%. However, in December 2017 the Russian government imposed an export quota of 4 million m³ and reduced the tariff on logs not exceeding the quota to 6.5%, with the aim of encouraging the construction of new wood processing facilities and creating new employment of wood processing industry in the Far East, while also deciding to gradually increase of the tariff on logs exceeding the quota (to 40% in 2019, 60% in 2020, and to 80% in 2021).

In addition, the Russian government has raised the export tax rate within the quota to 13% since October 2019.

<Concerns>

While the export tax was reduced for logs within the quota, the tariff for exports exceeding the quota decided independently by Russia was raised extremely high (planned to be increased to 80% by 2021 for spruce, Sakhalin fir, and larch), which, for all intents and purposes, results in effects similar to export ban. Furthermore, imposing the tariff within the export quota on spruce, Sakhalin fir, and larch, which account for the majority of log exports to Japan, requires that it is a company for which

machined lumber makes up a certain ratio of the total export (20% in 2018, 25% in 2019, 30% in 2020 and 35% in 2021). However, there is close monitoring to ensure that distribution of the export quota is fair and just, and improvements are being made multilaterally and bilaterally, as necessary.

