

APEC Individual Action Plan Peer Review of Russia 2009

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It is recognised that two areas of current Russian policy create particular problems for the implementation of these kinds of competition rules. As has already been discussed in some detail, the government has for some time designated a number of areas as being “natural monopolies”, and has identified 42 areas as being of particular strategic and security significance. It has already been foreshadowed that steps will be taken to reduce the number of these natural monopolies. In early 2009, Russia introduced a “Program on the development of competition” supplying a plan of actions for the period 2009 – 2012. This document deals with the main challenges to free competition in Russia and the next three years will be crucial in determining whether Russian authorities will be able to restore and protect free competition in the “problem areas” of Russian economy.

4.9 Government Procurement

In the last IAP Peer Review there was some criticism of the lack of transparency in this area, and some of questions and comments submitted by other member economies to the current exercise suggest that some of these adverse opinions remain, although there also seems to be a general acceptance that Russia has made some progress in this complex area.

The Federal Law of July 2005 “On Placement of Orders for Deliveries of Goods, Performance of works and Provision of Services for State and Municipal Needs” has established the general rules for the procurement of foreign goods and services. This is done on the basis of reciprocity: national treatment can be provided in the procurement of goods and services supplied by foreign entities provided that such national treatment is provided by that foreign economy to Russian goods and services needed for government use. However some changes to this framework have been made in response to the current economic crisis:

- In an attempt to give more support to the small business sector the percentage of new civil contracts that must now be awarded to small and medium enterprises has been increased from 10 to 20 per cent. Now some contracts will only be available to small businesses, and this list applies particularly to the supply of services.
- The level of advance payments made on government civil works contracts has been increased from 30 to 50-70 per cent for large contracts (more than 600 million roubles) now that access to bank credit is more difficult.
- A list of items for which Russian suppliers are given a 15 per cent preference has been established, but this will remain in force only until the end of 2010.

An internet site has been established giving details of contracts that are available from central government, regional authorities and municipalities. The general outline of the tender is given in Russian only, and at present it is not feasible to translate all of the documentation into English or other languages. The negotiations for WTO accession have had a significant impact on government policies in this area. A special control commissions has been established to police the implementation of the new rules and in cases of non-compliance there are penalties. However it remains true that only a very low percentage of government contracts are filled by overseas suppliers, significantly less than one per cent by value. At the

same time many government and municipal contracts with local companies involve supplies of imported goods.

4.10 Deregulation/Regulatory Reform

In August 1995 a very important law "On Natural Monopolies" was passed, and since then much of the work in the area of deregulation and regulatory reform has related to the need to deal with the pricing, competition and other implications of this law. The legislation dealt with areas in which natural monopolies were more efficient because of the special technical or other characteristics of that activity. A number of key sectors of the economy were seen to fall into this category: pipelines for oil and other petroleum products; gas pipelines; transport terminals, ports and airport services; public telecommunications and postal systems; the electric power generation and transmission services; the transmission of heat energy; and inland waterway services.

It was recognised that this legislation provided opportunities for monopoly suppliers to abuse their privileged position and set excessive prices for their products or services, hence a number of regulations were established to limit such tendencies, including the 2006 Federal Law "On Protection of Competition" and amendments to the Federal Law "On Natural Monopolies" (the latest amendment of 2008). Mechanisms exist to investigate and where necessary control any abuses of dominance in any economic activity. In 2007, for example, 1675 complaints were made against holders of natural monopolies resulting in the initiation of some 500 cases and the issue of 241 orders. Attempts have also been made to strengthen the rules on non-discriminatory access to goods and services supplied by these monopolies.

Great efforts have been made to ensure the promotion of competition principles in the spheres of natural monopolies. For instance, reform of the power energy sector has been successfully implemented, resulting in transformation from a natural monopoly to a completely competitive sector. Moreover, reforms of the oil and gas sector, air, railway and water transportation are ongoing and their results are already evident to consumers.

Negotiations for WTO accession have also had a major impact on reform in this area. In general Russian legislation in this area has been brought into compliance with WTO rules, a process largely completed by 2007.

In the longer term, Russia plans to undertake a detailed review of the whole structure and rationale of the "natural monopolies". This will involve a re-examination of the whole rationale and criteria for the designation of these monopolies, and the exploration of possibilities for including more competition into some areas. There is an expectation that in future the number of monopolies will be significantly reduced.

As was noted earlier in this report, a number of special regulations governing the banking and financial industries in response to the economic crisis. Most important here are: