2001 Country Reports on Economic Policy and Trade Practices
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RUSSIA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise noted)

	1999	2000	2001	1/
Income, Production and Employment:				
Nominal GDP 2/	4,546	7,063	5,475.9	3/
Real GDP Growth (pct)	5.4	8.3	5	3/
GDP Growth by Sector:				
Agriculture	N/A	N/A	N/A	
Manufacturing	N/A	N/A	N/A	
Services	N/A	N/A	N/A	
Government	N/A	N/A	N/A	
Per Capita Personal Income (US$)	650	900.3	1,228	
Labor Force (000s)	72,000	72,300	71,000	
Unemployment Rate (pct)	12.6	10.4	8.2	
Money and Prices (annual percent growth):				
Money Supply Growth (M2)	57.2	47.1	19.4	3/
Consumer Price Index (percent increase)	36.6	20.2	13.9	3/
Exchange Rate (Ruble/US$ - annual average)	24.63	28.15	29.4	4/
Balance of Payments and Trade:				
Total Exports (FOB)	72.9	103.0	51.3	
Exports to United States	5.8	7.8	4.1	6/
Total Imports (CIF)	30.3	33.9	19.5	
Imports from United States	1.8	2.3	1.6	6/
Trade Balance	42.6	69.1	31.8	
Balance with United States	4.0	5.5	2.5	6/
Current Account	24.6	46.3	11.7	7/
External Public Debt	159.7	147	141	8/
Fiscal Deficit/GDP (pct)	1.7	-2.46	-4.2	5/
Debt Service Payments/GDP (pct)	5.9	2.4	3.5	5/
Gold and Foreign Exchange Reserves	12.5	27.9	37.9	4/
Aid from United States (US$ millions) 9/	1,937.1	1,108.9	978.9	
Aid from All Other Sources	N/A	N/A	N/A	

1/ 2001 data has been provided for the last available period (8/00) unless otherwise noted.
2/ Billions of Russian Rubles.

3/ Data for the period January-August 2001.
4/ Data as of September 28, 2001.
5/ Data for the period January-July 2001.
6/ U.S. Commerce Department data for the period January-July 2001.
7 Data for the first quarter of 2001.
8/ Data as of January 2001.
9/ U.S. government assistance (by fiscal year) including food assistance, not including donated humanitarian commodities shipped by U.S. government.

Sources: Russian Statistics Committee (Goskomstat), Russian State Customs Committee, International Monetary Fund, Department of State S/NIS/C and embassy estimates.

1. General Policy Framework

The Russian economy is in its third year of economic growth, albeit at a slower rate. Continued high commodity prices spur this growth, but increased private consumption and investment also contribute. Significant ruble appreciation since mid 2000 has sharply reduced exports and accelerated imports, but import substitution industries. The economy has continued to benefit from increased monetization of the economy, a substantially improved fiscal situation, and a perception of greater political stability. Further economic growth depends on several factors, some internal (continued structural reform, domestic investment, improved rule of law) and some external (oil and other commodity prices, foreign investment flows).

The Russian economy grew 8.3 percent in 2000. In the first six months of 2001, GDP increased 5 percent (year-on-year) and forecasts for calendar year 2001 are for 5.5 percent GDP growth. However, real appreciation of the ruble in the second half of 2000 due to the strong current account surplus and relaxation of fiscal and monetary policies slowed the growth of export and industrial production. Net exports are a declining but still large contributor to GDP (estimated at 16 percent, down from 24 percent in 2000), as oil and other commodity prices remain relatively high. Imports in dollar terms have only recently begun to rise, although the weakness of the euro against both the dollar and the ruble has masked import volume increases. (Note: Many of Russia's imports are denominated in euros.) Domestic demand is increasing and becoming a major economic driver. Total investment also increased substantially in 2001, up eight percent during the first eight months of 2001. Both foreign and domestic investment grew, and increasing amounts went into light industry and food processing, indicating deepening economic recovery and increased productivity.

In the medium term, economic development will depend on a continued recovery in domestic demand and investment, underpinned by progress on structural reform. The Russian government has made impressive strides to implement its reform program, passing a major tax reform, simplifying the tariff system, reducing administrative barriers to business, and allowing for the sale of commercial and residential land in cities and villages. However, problems in the investment climate, including poorly functioning judicial and enforcement systems and poorly developed capital markets, present significant disincentives to domestic and foreign investment.

The banking sector has stabilized from its collapse in 1998, but still does not effectively intermediate savings to productive investments on a large scale. State banks increasingly are crowding out private banks for commercial lending. Capital flight has leveled off, however, and flight capital is returning home to Russia in the guise of foreign investment.

Russia continues to exhibit fiscal discipline, based on better fiscal policy and tax collection and achieved primary and overall surpluses in 2000. In the first eight months of 2001, the federal budget surplus was R85 billion, or 1.5 percent of GDP. Expenditures were R895 billion and revenues were R980.1 billion. Budget surpluses were largely due to higher energy sector tax receipts and improvements in compliance. A relaxation of fiscal and monetary policy in the fourth quarter of 2000 resulted in a surge of capital outflows; in the first quarter of 2001, however, key monetary aggregates were in line with projections. The budget surplus has been the major factor in this regard, absorbing the monetary liquidity created by the huge increase in foreign reserves. Restraining monetary growth has been a significant challenge, in the context of high dollar inflows and the government's desire to build reserves and avoid significant ruble appreciation or inflation. While the Central Bank of Russia (CBR) is limited in its sterilization efforts due to lack of financial instruments, the recent lifting of the 0.8 percent tax on bonds and other measures make it easier for the CBR to issue its own bonds, which, along with increased use of its deposit mechanism, should help to absorb liquidity. The Russian government and CBR continue to coordinate their fiscal and monetary policies to try to avoid substantial real ruble appreciation. The CBR has intervened selectively to even out exchange rate fluctuations, preventing sharp appreciation or depreciation. Inflation was about 18 percent in 2000, and is projected to be 16-18 percent for 2001.

The positive trend for Russia's economy should be put in perspective. The cost of Russia's 1998 financial collapse was significant. Measured in dollar terms at the average rate of exchange (and keeping in mind that the sharp devaluation may have magnified the drop), Russia's GDP in 1999 was only about $183 billion, slightly more than half of its value in 1995 ($337 billion). Even with strong growth registered in 2000 and some real ruble appreciation, Russia's GDP in dollar terms may not reach pre-crisis levels until 2001 or later.

2. Exchange Rate Policy

The objective of the CBR's exchange rate policy is to prevent sharp fluctuations. The CBR and Russian government also are working together to prevent significant real ruble appreciation due to high dollar inflows from high oil and commodity prices. The nominal ruble/dollar exchange rate has been rising relatively smoothly over the first nine months of 2001, and was up by 4.4 percent by the end of September. Even though the ruble depreciated in nominal terms, it continued to grow in real terms and was up by 9.5 percent in the first nine months of 2001. This real appreciation in exchange rates has only partially offset the large devaluation in 1998, so the price competitiveness of imported goods (including U.S. goods) has recovered only marginally.

During the first nine months of 2001, the CBR's international reserves grew to post-Soviet record levels of $37.9 billion: up by 33.92 percent since Jan.2001. Relatively high ruble liquidity, as reflected in the approximately R75-90 billion held in banks' correspondent accounts at the CBR, reflects the CBR's purchase of dollars. Monetary base growth over the first nine months reflects the same fact. Most of these CBR ruble emissions have been "sterilized" by the Russian government's budget surplus, rather than by traditional central bank operations.

Part of the ruble's strength can be explained by administrative controls maintained by the CBR. The CBR still restricts banks from trading on their own accounts, converting funds in S-accounts from the GKO restructuring, and depositing amounts equivalent to those it holds in S-accounts of non-residents. The CBR also continues restrictions on foreign exchange for export contracts, but a new law implemented on August 10, 2001, reduces the rate from 75 to 50 percent of the repatriated export proceeds that must be sold on authorized exchanges. Under these conditions, the CBR only needs to make tactical interventions in the foreign exchange markets to smooth volatility.

3. Structural Policies

The Russian government in 2001 continued to pursue the course of market economic structural reforms outlined in the government's "Strategy of Development of the Russian Federation through 2010." Minister of Economic Development and Trade German Gref, whose Center for Strategic Research developed this reform plan, is pressing forward on its implementation. The plan focuses on modernizing the economy through releasing private initiative and ensuring a favorable environment for economic activity, including fair rules for competition, deepening of the rule of law, integration into the world economy, and reform of Russia's natural monopolies. The strategy includes a detailed table of actions to be undertaken in its initial 18 months, and more general goals for the following eight years.

The continued emphasis on reform from above, coupled with the more cooperative Duma (parliament) that emerged from the December 1999 elections, has made some significant progress on reform legislation in 2001. That said, the government has husbanded its political capital, and pressed only for top priority reforms. Following upon the individual income tax reform in 2000, the Duma passed a new corporate profits tax that lowers rates to 24 percent, and brings deduction practices close to international standards. The Duma also passed a new land code that will legalize sales of non-agricultural land. Other measures passed this year include the first tranche of the government's de-regulation package. The measures recently passed will limit the number of sectors subject to licensing, protect businesses from excessive inspections, and simplify business registration.

Despite the progress on some structural reforms, much additional work remains in key areas such as banking reform, judicial reforms, corporate governance, agricultural land reform, and changes needed to bring Russia's legislation into line with WTO requirements.

4. Debt Management Policies

The Government of Russia is seeking to reduce substantially its internal and external debt, and to minimize new debt or contingent guarantee liabilities. In 2000 and 2001, government budget surpluses, combined with trade and current account surpluses, have allowed Russia to meet external debt payments and build Central Bank reserves. Since the August 1998 financial crisis, it has restructured almost all of its internal and pre-1992 external debt with the London and Paris Clubs, and completed the restructuring of its MinFin3 bonds. The 2002 Russian government budget assumes payment of roughly $14 billion in official debt service payments falling due. In 2003, the Government of Russia faces a debt spike to $19 billion because of higher MinFin and Eurobond payments, although it has prepaid $1 billion of this already and may have repurchased some of its private sector debt. At this point, the Government of Russia is not seeking a new Paris Club restructuring. The IMF is monitoring Russian economic performance in the context of a Post-Monitoring framework. Given its strong international reserve situation, the government is not seeking a Stand-by facility.

The CBR continues to prohibit the conversion of S-account (accounts through which non-residents invested in government securities) rubles to foreign currency, except during occasional CBR foreign exchange auctions. Investors also may invest restricted S-account rubles in certain securities and trade assets within a S-account. Many foreign S-account holders have been able to repatriate their funds, at substantial discounts, through schemes by which they bought and then resold authorized securities.

5. Significant Barriers to U.S. Exports

Complicated economic conditions continue to pose a greater hurdle for U.S. exports to Russia than statutory trade barriers. Despite continuing economic growth, imports are only now beginning to approach pre-1998 levels, as incomes remain low and real appreciation of the ruble has been slow. Russia's overall imports in the first half of 2001 rose almost 25 percent from the still depressed levels for the same period in 2000. U.S. exports to Russia also increased in 2001, up about 18 percent from the previous year's level. With reduced availability of trade finance, exporters remain cautious about entering the Russian market, where they now face much stronger domestic competition from Russian companies that used the weak ruble to build up their market share.

Since 1995, Russian tariffs have generally ranged from zero to thirty percent, with average import tariff rates at 11.4 percent. For some products, however, including poultry and automobiles, compound duties with minimum tariffs per unit or by weight effectively raised tariff rates above their *ad valorem* equivalents. This has particularly affected poultry imports, although this year's modifications in compound poultry duties have brought effective duties closer to the nominal 25 percent rate. In addition, excise taxes are applied to a select group of imports, while Value-Added Tax (VAT) is applied to virtually all imports. The VAT, which is applied on the import price plus tariff, is currently 20 percent with the exception of some medicines, food products and items for children, which are taxed at 10 percent. Russia's new unified tariff regime, which applies the same duty across broad product categories, took effect in January

2001. These new tariffs generally range from 5 to 20 percent, with a very small number of items remaining at the zero (insulin), 25 (poultry, automobiles), and 30 percent (sugar) levels. For sugar, Russia also has resorted to high seasonal tariffs on top of these rates and the introduction of a tariff rate quota. The Russian government is discussing imposing tariff rate quotas on other imports, including rice, poultry and red meats. The first results show the new tariff structure has made modest progress in the government's goal of simplifying customs administration, reducing fraud, and through better compliance eventually increasing customs revenues, although more thorough going customs reform will be needed to make more substantial progress toward these objectives.

Other Russian tariffs that have stood out as particular hindrances to U.S. exports to Russia include those on autos (where combined tariffs and engine displacement-weighted excise duties can raise prices of larger U.S.-made passenger cars and sport utility vehicles by over 70 percent); and on aircraft and certain aircraft components (for which tariffs are set at 20 percent). For the time being, the Russian government has suspended waivers on aircraft import tariffs for purchases by Russian airlines.

Throughout 2001 Russia maintained export duties (for exports to non-CIS countries) on many products as a revenue measure. Initially, these duties were imposed on oil and gas, but have since been expanded to include many export commodities, including fertilizers, paper and cardboard, some ferrous and non-ferrous metals, and agricultural products, including oilseeds raw hides, and hardwoods, all ranging from 5 to 25 percent. Throughout the year, the government has adjusted export duties on crude oil and oil products to reflect changes in world oil market prices, with the duty now set at 34 euros per ton.

Import licenses are required for the importation of various goods, including ethyl alcohol and vodka, color TVs, sugar, combat and sporting weapons, self-defense articles, explosives, military and ciphering equipment, encryption software and related equipment, radioactive materials and waste including uranium, strong poisons and narcotics, and precious metals, alloys and stones. Most import licenses are issued by the Russian Ministry of Economic Development and Trade or its regional branches, and controlled by the State Customs Committee. Import licenses for sporting weapons and self-defense articles are issued by the Ministry of Internal Affairs. The government has continued tight controls on alcohol production, including import restrictions, export duties, and increased excise taxes. Many of these controls are designed to increase budget revenues.

The Law on Protective Trade Measures, passed in spring 1998, gives the government authority to undertake antidumping, countervailing duty and safeguard investigations, under certain conditions. Because of the law's provisions and Russian companies' lack of familiarity with such measures, Russian companies have only been able to file successful actions in a handful of cases, mostly safeguards cases. So far, there has not been a single successful anti-dumping action under the law. The Ministry of Economic Development and Trade has stated it plans by the end of 2001 to submit amendments to the Law on Protective Trade Measures, to make easier for Russian companies to file actions. Under the government's economic reform plan, such protective actions are to replace tariffs as the preferred method for protecting domestic industry.

The June 1993 Customs Code standardized Russian customs procedures, bringing them generally in accordance with international norms, but significant problems remain. Customs regulations change frequently, (often without sufficient notice), are subject to arbitrary application, and can be quite burdensome. In addition, Russia's use of minimum customs values is not consistent with international norms. An April 2000 State Customs Committee restriction that forced U.S. poultry importers to ship directly through Russian ports remains in place. The Veterinary Service regularly promulgates internal regulations that impede trade. On the positive side, Russian customs is implementing the "ClearPac" program in the Russian Far East that facilitates customs clearance from the United States, and there is discussion of extending the program to other regions.

U.S. companies continue to report that Russian procedures for certifying imported products and equipment are non-transparent, expensive, time-consuming and beset by redundancies. Russian regulatory bodies also generally refuse to accept foreign testing centers' data or certificates. U.S. firms active in Russia have complained of limited opportunity to comment on proposed changes in standards or certification requirements before the changes are implemented. The Government of Russia is considering a reform of its standardization law, to be submitted to the Duma by the end of the year. Some reform proposals would reduce the number of areas subject to standards to a minimum. Occasional jurisdictional overlap and disputes between different government regulatory bodies compound certification problems.

Some of Russia's current legislation in the services sector is overtly protectionist. In theory, foreign participation in banking has been limited to 12 percent of total paid-in banking capital, but the legal basis for this restriction was never fully established. In the aftermath of the financial crisis, foreign banks' share has exceeded this limit, but the government has taken no action. The Government of Russia's most recent banking strategy has proposed abolishing this quota entirely. Foreign investment is also limited in other sectors, such as electricity generation and aviation. An October 1999law implicitly allows majority-foreign-owned insurance companies to operate in Russia for the first time, but restricts their total market capitalization and prohibits them from selling life insurance or obligatory types of insurance. The law contains a "grandfather clause" exempting the four foreign insurance companies currently licensed in Russia from these restrictions. In practice, foreign companies are often disadvantaged vis-à-vis Russian counterparts in obtaining contracts, approvals, licenses, registration, and certification, and in paying taxes and fees.

Despite the passage of a revised law regulating foreign investment in June 1999, Russian foreign investment regulations and notification requirements can be confusing and contradictory. The Law on Foreign Investments provides that a single agency (still undesignated) will register foreign investments, and that all branches of foreign firms must be registered. The law does codify the principle of national treatment for foreign investors, including the rights to purchase securities, to transfer property rights, to protect rights in Russian courts, to repatriate funds abroad after payment of duties, and to receive compensation for nationalizations or illegal acts of

Russian government bodies. The law goes on to state, however, that Federal law may provide for a number of exceptions, including where necessary for "the protection of the constitution, public morals and health, and the rights and lawful interest of other persons and the defense of the state." The potential large number of exceptions thus gives considerable discretion to the Russian government. The law provides a "grandfather clause" to protect existing "priority" (foreign charter capital of over $4.1 million and with a total investment of over $41 million) foreign investment projects with a foreign participation over 25 percent from unfavorable changes in the tax regime or new restrictions on foreign investment, but the law's protections have not been effective. Lack of corresponding customs and tax legislation has so far prevented implementation of these tax protections.

The September 2001 passage of a land code for non-agricultural land will for the first time permit foreign ownership of real estate.

The government maintains a monopoly on the sale of precious and several rare-earth metals, conducts centralized sales of diamonds, and conducts centralized purchases for export of military technology. In November 2000, Russia changed its previous regime for arms export sales and established a unified state arms sales organization, Rosoboroneksport through merger and consolidation. Arms exports require licensing by the Ministry of Economic Development and Trade. Export control policy is coordinated by the interagency Export Control Commission.

Most of these issues are up for negotiation as part of the terms of Russia's accession to the World Trade Organization (WTO). The government has made accelerated WTO accession its top economic priority. By mid 2001, the government completed twelve working party meetings. The pace of accession negotiations has accelerated throughout the year, as bilateral goods and services market access negotiations continue to make progress. The Russian government provided a revised services market access offer in early 2001, and has also revised its goods tariff offer. Russia is not yet a signatory of the WTO Government Procurement or Civil Aircraft codes.

6. Export Subsidies Policies

The government has not instituted export subsidies, although a 1996 executive decree allows for provision of soft credits for exporters and government guarantees for foreign loans. The government does provide some subsidies for the production of coal, but coal exports are minimal. Low domestic prices for energy, which are provided to all industries, are seen by some as providing a hidden subsidy to some export industries, such as metals producers. The government is moving to encourage more realistic pricing for energy, however. Soft credits are at times provided to small enterprises for specific projects. Senior Russian officials have publicly advocated establishing an export credit agency, along the lines of the U.S. Exim Bank, but no concrete steps have been taken to establish such an agency.

7. Protection of U.S. Intellectual Property

Under the U.S.-Russia Trade Agreement, which was originally signed with the Soviet Union in 1990, Russia is obligated to take steps to provide for the adequate and effective protection and enforcement of intellectual property (IP). To address these obligations, the United States and Russia established a bilateral working group, which met again in February 2001. In addition, Russia must fully comply with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement upon its accession to the WTO. In 2001, the U.S. Trade Representative retained Russia on the "Special 301" Priority Watch List for a fifth year, due in large part to concerns over weak enforcement of IP laws and regulations as well as the lack of retroactive copyright protection for U.S. works in Russia. In 2000, the U.S. copyright industry filed a petition with the U.S. Trade Representative requesting review of Russia's eligibility under U.S. Generalized System of Preferences (GSP) program, citing deficiencies in Russia's IP regime and inadequate enforcement of IP in Russia. The U.S. government continues to review this petition.

Russia is a member of the World Intellectual Property Organization (WIPO) and has acceded to the obligations of the former Soviet Union under the Paris Convention for the protection of industrial property (patent, trademark and related industrial property), the Madrid Agreement Concerning the International Registration of Marks, and the Patent Cooperation Treaty. Russia has also become a signatory to the Berne Convention for the Protection of Literary and Artistic Works (copyright), as well as the Geneva Phonograms Convention.

In 1992-93, Russia enacted laws strengthening the protection of patents, trademarks and appellations of origins, and copyright of semiconductors, computer programs, literary, artistic and scientific works, and audio/visual recordings. The government submitted new draft legislation in June 2001 to the Duma to provide for retroactive protections for copyrights and other measures to bring Russia into compliance with its bilateral and multilateral obligations, but the Duma has yet to take action on these laws.

Legal enforcement of intellectual property rights (IPR) has seen some improvements through 2001, although the overall level of piracy remains high. A new Criminal Code that took effect January 1, 199, contains considerably stronger penalties for IPR infringements, and amendments passed by the Duma in 2001 will further increase penalties. However, there are still disappointingly few cases in which these penalties have been applied. Widespread sales of pirated U.S. videocassettes, recordings, books, computer software, clothes, toys, medicines, foods and beverages continue, and there are disturbing signs of increased manufacturing capacity for optical media that could be used to produce pirated product.

Russia's Patent Law includes a grace period, procedures for deferred examination, protection for chemical and pharmaceutical products, and national treatment for foreign patent holders. Inventions are protected for 20 years, industrial designs for ten years, and utility models for five years. The Law on Trademarks and Appellation of Origins introduces for the first time in Russia protection of appellation of origins. The Law on Copyright and Associated Rights, enacted in August 1993, protects all forms of artistic creation, including audio/visual recordings and computer programs as literary works for the lifetime of the author plus 50 years. The

September 1992 Law on Topography of Integrated Microcircuits, which also protects computer programs, protects semiconductor topographies for 10 years from the date of registration.

Losses to U.S. industry from pirated products sold in Russia (a significant portion of which are produced in third countries) are estimated to be significant, although there are few reliable estimates of their value, or of the value of purchases that Russian consumers, with their limited incomes, would make of non-pirated goods. Counterfeit goods also cause significant losses and may pose dangers to consumer health and safety. Investors in the consumer goods sector continue to warn the Russian government that they will not make further investments if infringement of intellectual property rights continues.

8. Worker Rights

a. The Right of Association: The law provides workers with the right to form and join trade unions, but practical limitations on the exercise of this right arise from governmental policy and the dominant position of the Federation of Independent Trade Unions of Russia (FNPR). As the successor organization to the governmental trade unions of the Soviet period, and claiming to represent 80 per cent of all workers, the FNPR occupies a privileged position that inhibits the formation of new unions. In some cases, FNPR local unions have continued to work with management to discourage the establishment of new unions. While recent court decisions have supported the right of association and often ruled in favor of employees, enforcement of these decisions remains difficult. Registration procedures for unions are governed by the Law on Trade Unions, which specifies that registration requires a simple "notification" and submission of documents. Regional Departments of Justice throughout Russia have often ignored the procedures set out by this law and refused to register new unions by requiring changes in charter documents or confirmation of attendance at founding conferences. Such practices have prevented the registration of new unions or the re-registration of existing ones.

b. The Right to Organize and Bargain Collectively: Although the law recognizes collective bargaining and requires employers to negotiate with unions, in practice employers often refuse to negotiate and agreements are not implemented. Past court rulings have established the principle that non-payment of wages (by far the predominant grievance) is an individual dispute and cannot be addressed collectively by unions. As a result, a collective action based on non-payment of wages would not be recognized as a strike, and individuals would not be protected by the Labor Law's guarantees against being fired for participation. The right to strike is difficult to exercise. Most strikes are considered technically illegal, as the procedures for disputes remain exceedingly complex. Moreover, courts have the right to order the confiscation of union property to settle damages and losses to an employer, if a strike is found to be illegal. Reprisals for strikes are common, although strictly prohibited by law.

In December 2001, the Duma will consider amendments to a proposed new draft Labor Code. The draft code seeks to diminish the role of government in setting and enforcing labor standards and to move toward more flexible labor markets. In the conceptual scheme of the new code, trade unions are expected to play a balancing role in representing workers' interests. There are significant gaps in the proposed regime, however, including the lack of a clear enforcement mechanism for failure or refusal by an employer to engage in good faith collective bargaining or other obligations. Moreover, there is a substantial risk that existing unions will be dominated by employers under the proposed labor relations scheme, particularly in industries with oligopolistic structures. Final approval of a new code is not expected until the spring of 2002, at the earliest.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Code prohibits forced or compulsory labor by adults and children. There are documented cases of soldiers being sent by their superior officers to perform work for private citizens or organizations. Such labor may violate military regulations and, if performed by conscripts, would be an apparent violation of ILO convention 29 on forced labor.

d. *Minimum Age for Employment of Children:* The Labor Code prohibits regular employment for children under the age of 16 and also regulates the working conditions of children under the age of 18, including banning dangerous, nighttime and overtime work. Children may, under certain specific conditions, work in apprenticeship or internship programs at the ages of 14 and 15. Accepted social prohibitions against the employment of children and the availability of adult workers at low wage rates combine to prevent widespread abuse of child labor legislation. The government prohibits forced and bonded labor by children, and there have been no reports that it occurred. The increase in the number of children working and living on the streets is largely the result of drastic economic changes and a deterioration in the social service infrastructure.

e. *Acceptable Conditions of Work:* The Labor Code provides for a standard workweek of 40 hours, with at least one 24-hour rest period. The law requires premium pay for overtime work or work on holidays. While the overall problem of nonpayment of wages has diminished greatly, wage arrears in June 2001 equaled over $1.14 billion. The monthly minimum wage of $10.20 (300 rubles) remains below the official subsistence level of $51 (1,507 rubles) and approximately 31 percent of the population have incomes below this survival level. Workers' freedom to move in search of new employment is constrained economically and is further limited by the system of residency permits, which is still in use in cities such as Moscow and St. Petersburg. The law establishes minimal conditions of workplace safety and worker health, but these standards are not effectively enforced.

f. Rights in Sectors with U.S. Investment: Observance of worker rights in sectors with significant U.S. investment (petroleum, telecommunications, food, aerospace, construction machinery, and pharmaceuticals) did not significantly differ from observance in other sectors. There are no export processing zones. Worker rights in the special economic zones/free trade zones are fully covered by the existing Labor Code and are the same as in other parts of the country.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		496
Total Manufacturing		138
Food & Kindred Products	157	
Chemicals & Allied Products	-73	
Primary & Fabricated Metals	(D)	
Industrial Machinery and Equipment	3	
Electric & Electronic Equipment	2	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		-76
Banking		3
Finance/Insurance/Real Estate		3
Services		-294
Other Industries		366
TOTAL ALL INDUSTRIES		635

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.