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General Introduction into Customs Union

– By Paul Sprague

On January 1, 2010, the Russia-Kazakhstan-Belarus Customs Union came into effect and as of July 1, 2011, all customs borders between these three states were removed.

As a result, customs clearance of goods originating in any of these three states, along with goods that have been imported into one of these three states from other countries and released for free circulation, may be transferred between the three states without undergoing customs clearance and customs control procedures.

In August 2012, Russia joined the WTO which created customs tariff changes for the Customs Union. In the end, it is believed that Russia's entrance into the WTO will equalize trade among the Customs Union and its trading partners. It is interesting to note that Russia was granted a 3 – 7 year transition period to make a full integration. But some of the most protected industries, such as the automotive market, will not transition to the new rates until the end of this period.

The key aspects in the legislation of the Customs Union include:

Customs Duties by Location	
Russia	87.97 %
Belarus	7.33 %
Kazakhstan	4.70 %

1) A Common Economic Space – an economic union which is the ultimate integration of the three countries to achieve common economic development goals followed by the harmonization of the three countries' various policies, including their economic policy and industrial support policies. The formal establishment

of the Economic Union will take some time and effort.

2) Customs duties are posted to a general account and then distributed among the member states of the Customs Union according to a national budget:

Regarding VAT related to trade between the member states, VAT is refunded to the seller of goods in one country (the exporter) while the purchaser in the other country (the importer) pays VAT to the tax authorities of its country. VAT rates are 18 percent in Russia, 20 percent in Belarus and 12 percent in Kazakhstan. It is unlikely that these rates will be unified in the foreseeable future.

Prospects for the future of the Customs Union

The pace of integration towards a unified economic zone has been accelerated through the political leadership of the member states with a long term goal of creating a free space similar to the European Union.

After 16 years of accession negotiations, Russia finally joined the WTO in August 2012 which will have a positive impact on the economy in the long term. The membership of Kazakhstan in the WTO could take place in 2014.

Other countries have expressed an interest in joining the union including Kyrgyzstan and Tajikistan.

The Custom Union's unified economic zone is becoming increasingly salient in global trade relations, particularly between Europe and Asia. European Union standards have been evident in the emerging technical regulations and rules of the Customs Union and the Single Economic Space right from the start. Experts believe that this will lead to the establishment of an EU-associated free trade area in a portion of the CIS territory as early as 2015 – 2020.

Russia's Accession to The WTO – One year later

– By Bettina Wisthaler

On August 22, 2012, when Russia became the 156th member state of the WTO, it was the end of long lasting talks and the beginning of high expectations. Now, one year later, we are drawing the first conclusions.

Entering the WTO, Russia agreed to adhere to the obligations under the signed protocol which foresees among other provisions, that the import tariff rates should not exceed the rates provided for by the WTO. The requirements regarding the regulation of the import

tariff imply a partial decrease or even a complete cancellation of certain tariff lines. During the talks between the WTO and Russia, the decrease in revenue for the Russian Federation was one of the hottest topics. The complexity of this question is also due to the fact that the consequences will be felt throughout the Customs Union, whereas Belarus and Kazakhstan are not yet members of the WTO. In order to reach, nevertheless, the final agreement, a series of compromises needed to be achieved. First of all, the changes do not need to be implemented right away but within a transitional period of seven years with the main changes to be expected after the third year following accession. The first amendment to the customs import tariff was published on August 6, 2013 and it came into effect on September 1. A total decrease of the rates can be observed from 9.6% to 7.8% on roughly 5,100 products (almost half of the total product lines) while most products witnessed tariff reductions of 1-3%. However, importers should also be prepared to see an increase of those rates which are currently lower than the ones provided for by the WTO. The Eurasian Economic Commission also announced that the compound tariff rate which is a combination of a fixed amount and an amount based on the value of the goods will be replaced by an ad valorem rate, i.e. a percentage of the customs value of goods. In terms of types of products, the reductions apply to a wide range of products with food products being the most common ones. In line with expectations, the country's agricultural

sector is not yet competitive enough to resist growing imports after the reduction of the respective tariff lines. In the last six months, for example, the import of dairy products increased significantly: milk and cream to Russia increased by 15.5%, milk powder - by 47.7%, butter - by 12.5%, cheese and cottage cheese - 10%, according to the Federal Customs Service.

Despite this development in the context of the WTO, Russia has raised international concern over its preferential treatment of domestic industries. One of the most discussed issues, which many seen related to the decrease in revenue coming from customs payments, is the so called recycling fee which was introduced by Russia on September 1, 2012. The fee is levied on motor vehicles and cars and it ranges from about 420 to 2,700 Euro. While the fee is imposed on all imports into Russia, vehicles produced in Russia are exempt. As the fee has a severe impact on EU vehicle exports to Russia, the European Union has already filed the first case against the Russian vehicle recycling fee and is supported also by Japan and the United States.

The current picture shows that Russia's accession to the WTO was not the end of a long path but only the first step towards a more liberal trading environment.

Modern Import Tools

– By Bettina Wisthaler

In the last decade, the Russian Federation and afterwards the Customs Union, tried to develop the procedure of customs clearing and to promote a much faster, less bureaucratic and transparent alternative to the common paper format.

The beginning of the new era was set in 2002 with the law "On the electronic digital signature" and the first electronically submitted customs declaration in November 2002 at a customs office of the Moscow Regional Customs. At that time, the declarations needed to be submitted via the customs communication channel using special software with the attached documents sent in a scanned, informal format. For customs clearance under this so called ED1 form, the presence of the declarant at the customs office was compulsory. In 2008, the electronic form of declaration was improved further when the Federal Customs Service of the Russian Federation developed a means to declare goods through the Internet. The so called ED2 form foresees the completing of special electronic XML forms for the main documents, such as bill of lading, invoice, packing list, but also contracts and attachments. The main advantage is that for the internet declaration, the declarant no longer needs to be present at the customs office and may submit a declaration from his desk. This is possible thanks to the electronic signature. The declarant

company simply needs to apply for an electronic signature at one of the licensed centers for electronic declaration of goods. Such an electronic signature is nothing more than a certificate on a memory card (token) that authorizes the sending of customs declarations to a specific customs office.

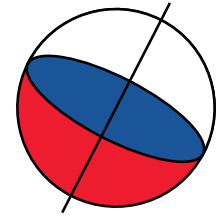
Thanks to this development, customs clearance has not only become less time consuming (about 2-3 hours) but also much more transparent. Indeed, after sending the goods declaration between the declarant and the customs inspector, a sort of "conversation" starts which shows to both of the parties the current status of the process such as receipt of the declaration with the indication of name and surname of the inspector in charge, possible mistakes, request of documents, and eventually the release of goods.

According to the Federal law № 311 dated November 27, 2010 "Of customs regulation in the Russian Federation" from January 1, 2014 the electronic goods declaration becomes compulsory. Customs declarations on paper will be used only in special cases defined by the Government of the Russian Federation.

The next stage in this development is the remote, electronic declaration which foresees the further step of moving customs

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Import to Russia

Moscow

Ulf Schneider
Paul Sprague, Bettina Wisthaler

ul. Bakhrushina 32/1
115054 Moscow, Russia
+7 / 495 / 956 55 57
info@russia-consulting.eu

St. Petersburg

Andreas Bitzi

Finlyandskiy prospect 4a
194044 St. Petersburg, Russia
+7 / 812 / 458 58 00
spb@russia-consulting.eu

London

Dr. Gaby Henze

3rd Floor, Fairgate House
78 New Oxford Street
WC1A 1HB London, Great Britain
+44 / (0)207 / 637 56 66
london@russia-consulting.eu

www.russia-consulting.eu