

# **WORLD TRADE ORGANIZATION**

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**Working Party on the  
Accession of the Russian Federation**

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## **ACCESSION OF THE RUSSIAN FEDERATION**

### Information on the Subsidies System in the Russian Federation in 2000

The Permanent Mission of the Russian Federation has submitted the following information on the subsidies system in the Russian Federation in 2000, with the request that it be circulated to members of the Working Party.

## **Information on the Subsidies System in the Russian Federation in 2000**

### **1. Budgetary Support for Industrial Production in 2000**

Under Federal Law No. 227-FZ of the Russian Federation “On the Federal Budget for 2000” dated 31 February 1999, the following forms of state support were available to certain economic sectors, specific enterprises and regions:

- direct transfers of funds from the Federal Budget, including under federal programmes;
- budgetary loans and credits;
- deferred payments and exemptions in respect of taxes payable to the Federal Budget;
- tariff preferences in respect of railway transportation granted to industrial enterprises;
- grants and subventions to regions.

The overall amount of funds allocated from the Federal Budget in 2000 to finance the above forms of support amounted to 143,358.43 million rubles, including for direct support for industrial production – 7,932.83 million rubles; for promotion of region development – 79,065.3 million rubles; for funding of various federal programmes – 56,360.3 million rubles.

Out of the total amount of support for industrial production, the largest amount was provided in the form of direct transfers of Federal Budget funds to enterprises, which totalled 7,776.93 million rubles or 98.1% of the overall amount of assistance for industrial enterprises. Budgetary loans and credits were issued in 2000 for a total of 155.9 million rubles, which makes up 1.9%; tax subsidies, tax holidays and exemptions in respect of payments to the Federal Budget in 2000 and tariff preferences were not provided.

#### **1.1 Direct Transfers of Funds from the Federal Budget**

The total payments from the Federal Budget under this type of assistance in 2000 amounted to 7,776.93 million rubles. As in 1999, the expenses mainly represented support for coal industry, which cost 7736.7 million rubles in 2000.

State support for coal industry is provided in accordance with the programme of restructuring of the sector approved by the Government of the Russian Federation. The aim of the programme is to transform the sector into a competitive coal market whose participants, mainly privately-owned coal companies, would be capable of self-financing in the long-term.

The bigger part of the funds of state support for coal industry (75.5%) went to finance measures of liquidation of the most unprofitable mines and open-pit mines; social protection of workers made redundant in the course of reconstruction of coal industry; measures to provide safe working conditions in coal industry.

Direct support was also provided from the Federal Budget for other industries in 2000. For instance, 13.45 million rubles were transferred to finance development of new materials and technologies at enterprises and organisations in the chemical industry; 11.9 million rubles were provided for development of new materials and technologies at enterprises and organisations in the light industry. 7.5 million rubles were allocated for preservation of folk arts of Russia; 7.38 million rubles were provided for development of new materials and technologies at enterprises and organisations in the medical industry.

### 1.2 Federal Budget Financed Loans and Credits to Enterprises and Organisations

In 2000, loans were made out of the Federal Budget on interest-bearing repayable basis. Overall, such budgetary loans were granted in the amount of 155.94 million rubles. This form of support was granted to enterprises in timber industry (52.0 million rubles) and light industry (103.94 million rubles) to finance the expenses of the enterprises on seasonal purchase of inputs and materials for production of consumer goods and industrial goods. The loan were issued on repayable, interest-bearing basis, with interest accruing at 1/3 of the refinancing rate of the Bank of Russia.

### 1.3. Deferred and Instalment Payments to the Federal Budget

No deferrals or exemptions in respect of payments to the Federal Budget that could be regarded as specific subsidies were granted in 2000.

### 1.4. Tariff Preferences for Industrial Enterprises

No preferential tariffs were granted to industrial enterprises in 2000.

## 2. **Grants and Subventions to Regions**

Under the Law "On the Federal Budget for 2000", 81,189.9 million rubles were budgeted for regional development in 2000. The funds were distributed as follows:

- financial assistance provided to the Russian Federation regions, including transfers, compensation of power tariffs, payment of child allowances, and product transportation to the Far North regions, was granted mainly to social needs and totalled 68,005.1 million rubles. Because a considerable part of the Russian territory is located in the Far North, in 2000 appropriations were made to certain regions of the Russian Federation for deliveries of foodstuffs and fuel, totalling 4,370.0 million rubles. Grants to closed administrative areas amounted in total to 8,069.3 million rubles.
- grants and subventions to regions amounted to 11,060.2 million rubles.

An appropriation was made in the 2000 Federal Budget for the Regional Development Fund. These funds were used to finance federal programmes for regions development and certain measures of regions development approved by decisions of the Government of the Russian Federation to the total of 2124.6 million rubles.

## 3. **Financing of Federal Special-Purpose Programme**

In 2000, 56,360.3 million ruble financing was provided from the Federal Budget to fund federal special-purpose programme. Only 21 programmes were industrial support programmes proper, which were financed with 10,986.0 million rubles, or as little as 19.5% of the total financing of federal programmes. The average financing for each programme was 441.6 million rubles used mainly to finance R&D.

Regional support was provided under federal special-purpose 2,516.5 million rubles were dedicated to 32 programmes of socio-economic region development.

As in 1998 – 1999, regions were also receiving financial support under other programmes, for example, the Russian Federation regions located in the Volga basin, in the Russian Far East

Area, in the Caspian and the Lake Baikal areas received funds under various ecological programmes.

#### **4. Support for Industry in 2000 Financed out of the Budgets of the Russian Federation Regions**

Pursuant to Resolution No. 1505-r of the Government of the Russian Federation dated October 19, 1998, 85 regions of the Russian Federation submitted reports regarding assistance granted to industrial enterprises and organisations from the regional budgets.

Information submitted by 85 regions evidences that in 2000 assistance was granted out of the budgets of the Russian Federation regional governments (as well as out of the budgets of cities and districts within the Russian Federation regions) to industrial enterprises to the total of 13,245 million rubles.

The following four most representative forms of assistance were provided:

- direct transfers of funds from the regional budgets of the Russian Federation;
- budgetary loans;
- tax subsidies (tax holidays and/or exemptions from payments to budgets of all levels as well as to social and territorial funds; investment tax credits; preferential tax rates); and
- tariff preferences.

The main component of regionally financed support for industrial production totalling 13,245 million rubles was in the form of tax subsidies, tax holidays and exemptions from payments to budgets of different levels, which totalled 6,509.8 million rubles, or 49.1% of the overall amount<sup>1</sup>. Regional budgetary support for enterprises in the form of direct transfers constituted approximately 5,985.3 million rubles, or 45.2%; budgetary loans were issued in 2000 to the total of 607.1 million rubles or 4.6%; tariff preferences were granted for value of 142.8 million rubles or 1.1%.

##### **4.1. Structure of Regional Subsidies According to Purpose**

Assistance was mainly granted for the following purposes:

- research and development, increase of efficiency of output – 3,728.0 million rubles, or 27.7%;
- social needs – 3,562.4 million rubles, or 26.9%;
- financial rehabilitation of enterprises – 3,224.8 million rubles, or 24.3%;
- compensation of losses to enterprises – 458.6 million rubles, or 3.5%.

Other purposes, such as working capital injections, retooling of enterprises, competitive product manufacture, promotion of small businesses etc., received approximately 7.5% of the total subsidies.

##### **4.2. Structure of Regional Subsidies According to Sector of Economy**

In 2000 for the purposes pointed in p.4.1. the subsidies were granted to the following branches. To metallurgy and mechanical engineering – 3,239.2 million rubles, or 24.2%.

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<sup>1</sup> In this Section 2 percentages are calculated on the basis of the amount of support for industrial enterprises financed out of the budgets of the Russian Federation regions (13,245 million rubles).

Chemical and petrochemical industry received approximately 2,050.8 million rubles or 15.5% of the total subsidies. The housing and public utilities sector and fuel and energy sector rank third and fourth with 14.3% and 14.1% of the total subsidies respectively. 10.3% of the total subsidies, went to transport and communications. Together, the above five sectors received over 78% of the total subsidies to enterprises in 2000. The assistance granted to other branches did not constitute any significant portion of the total subsidies and ranged from 7.8% for food industry to 0.2% for extractive industry.

Russian Federation has prepared and submitted information on federal budget subsidies in 2000 (Non Paper No. 28). The work on preparation information on regional subsidies is on the completion stage; this information would be submitted in due time for Members of Working Party.

Explanation of Certain Terms Used in the Present Document

<u>transfers</u>	budgetary funds transferred to a budget of a different level within the budgetary system of the Russian Federation (here, from the Federal Budget to regional budgets) to finance the making of mandatory payments to the population (pensions, stipends, allowances, etc.)
<u>direct transfers</u>	budgetary funds provided directly to enterprises and organisations;
<u>grants</u>	budgetary funds provided to a budget of a different level within the budgetary system of the Russian Federation, without compensation or repayment, to cover current expenses;
<u>subventions</u>	budgetary funds provided to a budget of a different level within the budgetary system of the Russian Federation, or to a legal entity, without compensation or repayment, to cover specific costs;
<u>budgetary loans (credits)</u>	budgetary funds provided to a budget of a different level within the budgetary system of the Russian Federation, or to an enterprise (organisation), on condition of repayment, with or without compensation; such budgetary loans are usually provided for a period of no more than six months within a financial year;
<u>tax subsidies</u>	tax holidays and/or tax exemptions from payments to budgets of different levels as well as to social and territorial funds; tax credits; investment tax credits; preferential tax rates;
<u>tax credits</u>	tax holidays granted in respect of taxes payable to budgets of different levels for a period from three to twelve months;
<u>investments tax credits</u>	tax holidays granted in respect of taxes payable to budgets of different levels for a period from one to five years; investment tax credits are granted on condition that the amount of taxes not transferred to the budget would be used for development of production;
<u>deferred payments</u>	tax holidays granted in respect of taxes payable to budgets of different levels within one financial year for a period from one to six months.

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