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## **CUSTOMS TARIFF REGULATION AS AN INSTRUMENT OF ECONOMIC SECURITY OF THE RUSSIAN FEDERATION**

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### **Abstract**

*This paper was presented at the 10th annual WCO PICARD conference (in the frameworks of the “Youth Forum”), 8-10 September 2015 in Baku, the Republic of Azerbaijan.*

*The key aspects of Customs tariff regulation after the Russia’s accession to the WTO as well as different scenarios tariff regulation measures implementation, which significantly influences the market structure and saturation, are considered in the paper.*

*The author describes the structure of the Russian Federation export operations as well as the dynamics of the import duties application for various commodity groups.*

*The main advantages of Russia's membership in the World Trade Organization, including: participation in defining “negotiation agenda” and acceptance of the international trade provisions and rules; a more transparent and predictable operation environment; expanded Russian goods and services access into the foreign markets; reduction of prices for goods and services imported; an additional stimulus for companies to increase their competitiveness have been analyzed.*

*The emphasis is put on the major trends and issues of modern Customs tariff policy of the Russian Federation.*

*In conclusion, the author gives specific recommendations in relation to Customs tariff regulation modernization, which will contribute to more effective integration of the Russian economy and the Eurasian Economic Union into the global economy as well as the improvement of Customs tariff policy in order to ensure the economic security of the country.*

*In examining the issue of Customs tariff policy, scientific methods of investigation, namely analysis, synthesis, comparison, generalization, were used. Such specific methods of economic study as economic-statistical and economic-analytical methods for the preparation of tables, charts and diagrams were applied.*

*Keywords: the Eurasian Economic Union, the Customs union, the Russian Federation, the Republic of Belarus, the Republic of Kazakhstan, the system of tariff preferences, the Customs tariff regulation, the Customs policy, commodity turnover, the international trade.*

### **Introduction**

Customs tariff regulation of external trade plays an exclusively important role in the trade-political mechanism as it is used to protect economy, fulfill international obligations and maintain stability of the external trade system. In the territory of the Russian Federation Customs tariff regulation is executed within the Customs legislation of the Eurasian Economic Union with due account for the legislation of the Russian Federation.

Practically, Customs regulation implies elaboration of procedure and rules of Customs affairs regulation in the territory of the Russian Federation within the Eurasian Economic Union.

The system of Customs tariff regulation includes use of Customs duties and other Customs charges which settlement is an essential condition of import into the Customs territory of the Russian Federation and export from this territory, to put it differently, the Customs tariff measures are based on the use of the price impact factor on foreign trade turnover (Bakaeva 2013).

### 1. Structure of the Russian Federation export operations

Customs charges in 2014 (The main directions of Customs and tariff policy for 2014 and the planning period of 2015 and 2016) consist of outward payments as a major part, VAT and import payments (Figure 1).

### The structure of customs duties (billion rub) in 2014

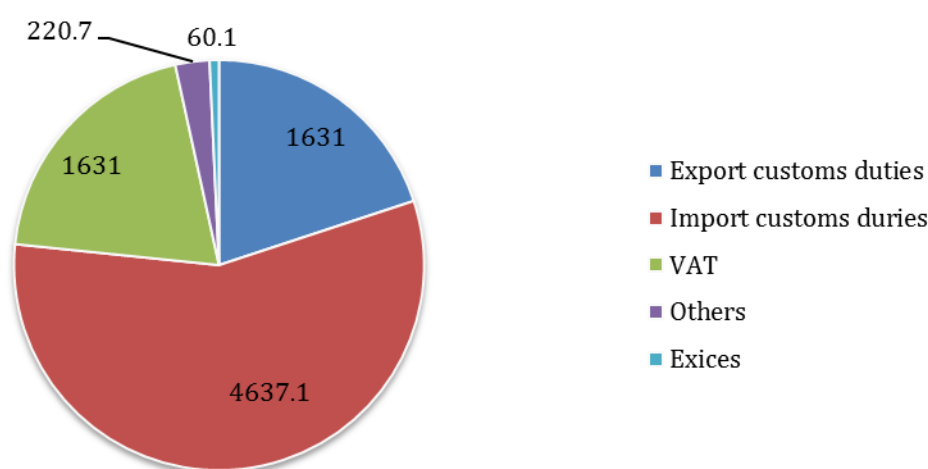


Figure 1. The export structure of the Eurasian Economic Union member-countries

According to the Eurasian Economic Commission data, out of the Eurasian Economic Union member-countries Russia takes an eighty percent share in export of mineral products, metals, and metalwork. Besides, in overall structure of export of the Eurasian Economic Union member-countries a share of these commodity categories is 72.4% for mineral products and 8.6% for metals and metalwork, respectively (The results of Russian's foreign trade in 2015: figures and facts).

Russia is a full-fledged player in the world economy: it exports approximately the same volume of gross domestic product as many other countries. The only problem that exists in domestic trade is homogeneity both in commodity composition and in partners.

Oil, gas, and primary commodities prevail in the export nomenclature of Russia. It is around 85 percent from the total volume of goods supplied to markets. And export of high-tech goods falls within no more than 3.5 percent (The Russian Statistical Yearbook) .

Concurrently, the objective elements of Russia's trade are primary commodities and goods with low reprocessing. Besides, the economy significantly depends on Western Europe.

### 2. Benefits of Russian membership in the World Trade Organization

After accession to the World Trade Organization (further – the WTO), the Russian Federation obtained some advantages, among them [2]:

- 1) Participation in defining “negotiation agenda” and acceptance of provisions and rules of the international trade;
- 2) A more transparent and predictable operation environment;
- 3) Enhancement of access into the foreign markets for Russian goods and services;
- 4) Reduction of prices of goods and services imported;
- 5) An additional stimulus for companies to increase their competitiveness, etc.

The crucial thing is that there is no need in dozens of bilateral contracts on trade and economic cooperation, which require periodic prolongation and sometimes serious revision. The WTO membership will not worsen the condition of Russian exporters who deliver raw materials, semi-finished products and energy sources to the foreign markets. However, high-tech industries (mechanical engineering, motor-car construction, and industries that employ technologies in production of their commodity) will face hardships in entering the Russian market.

Three years ago Russia became a member of the WTO, which had been its striving since the middle of 90s. Everything happened on August 22, when the well-known protocol on Russia’s accession to the Marrakesh Agreement Establishing the World Trade Organization came into effect (WCO official web-site: <http://www.wcoomd.org/>). Before its accession to the WTO, Russia had increased duties for the following commodity groups (Information about Customs and other payments admission to the federal budget):

- 1) car equipment;
- 2) agricultural machinery;
- 3) metals.

Customs duties were lowered for the following commodity groups:

- 1) chemical industry;
- 2) agricultural products;
- 3) food products.

After its accession, the Russian Federation kept duties on alcohol, production of non-ferrous metallurgy and chemical production (Figure 2).

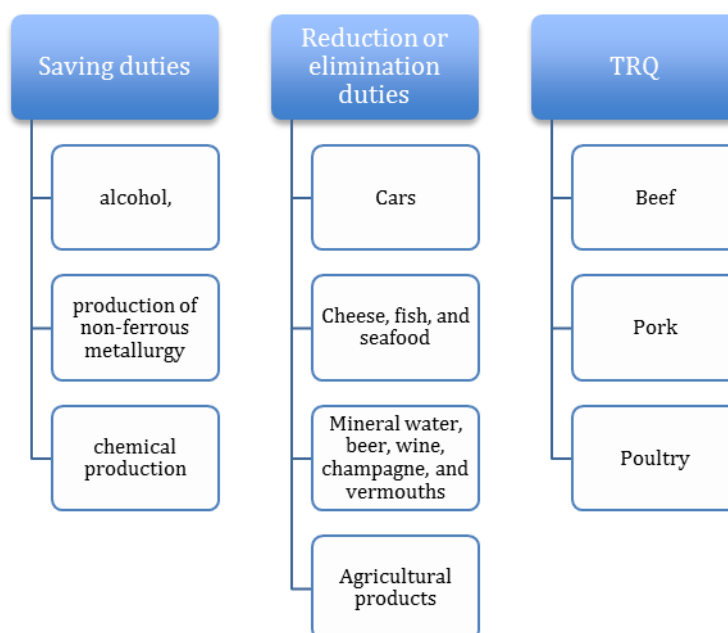


Figure 2. The system of tariff preferences and quotas after Russia’s accession to the WTO

However, duties on the following commodity groups were lowered or completely removed:

- 1) cars;
- 2) cheese, fish and seafood;
- 3) mineral water, beer, wine, champagne, and vermouths;
- 4) agricultural products.

Quotas for beef, pork and poultry are provided.

At the same time, in the framework of the WTO legal system, it is possible to include protective levers if the low import duties, for example, carry a threat for domestic manufacturers.

Reduction of average weighted import tariff rate became a logical consequence of the Russia's accession to the WTO.

According to the WTO rules, the state-member has the right of revision of the conditions of its stay within the organization every three years, inter alia, changes in rates of import Customs duties. But there is one condition: the normal rate of import Customs duty for all product groups shall remain constant (Figure 3).

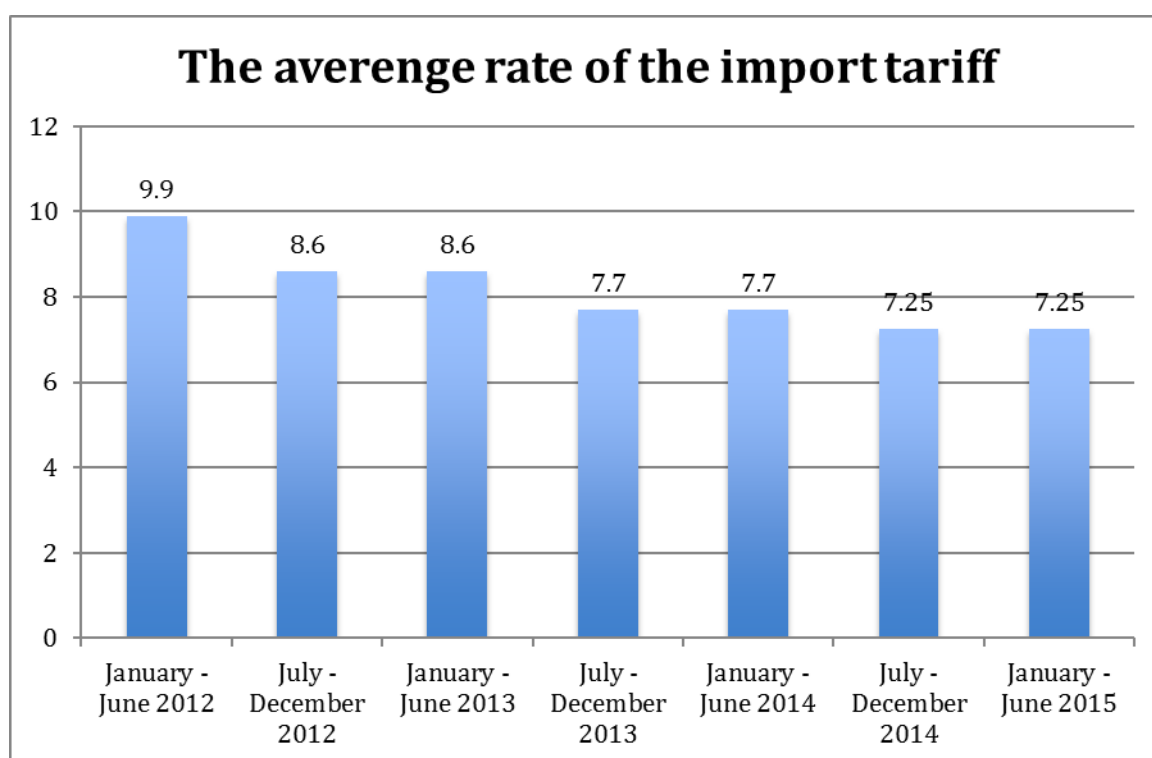


Figure 3. The average rate of the import tariff

### 3. Basic trends in modern Customs tariff policy of the Russian Federation

There are basic trends in modern Customs tariff policy (The development strategy of the Customs Service of the Russian Federation up to 2020): the existing Customs tariff policy of Russia is mainly aimed at replenishment of budget revenue (up to 50% of revenue of federal budget comes from Customs duties) and protection of weakened sectors of economy (as a result, increase in import duties on many kinds of foreign goods, which analogues are manufactured in Russia). Reduction in duties on the goods, which are necessary for domestic production, aims at encouraging international cooperation. High Customs protection of agrarian products (especially, dairy products, sugar and grain crops) and labor-intensive consumer goods (textiles, clothes, footwear) remains (The Customs Code of the Customs Union between Russia, Kazakhstan and Belarus).

Significant changes have been observed lately in the Customs affairs of the Russian Federation and the Eurasian Economic Community (further – EurAsEC). It is related to existing problems in the system of Customs tariff regulation, in particular :

1) inadequate legal support, as the condition of the Customs legislation efficient operation is its simplicity, availability, absence of prejudicing rights and interests of foreign trade participants;

2) the problem of ensuring repayment and investments profitability, which remains the most important reason for vigilance of foreign investors and, therefore, lack of investments in the country's economy. Despite the fact that growth of output is generally accompanied by growth of investments, including foreign ones, the rates of this growth are significantly less than GDP growth rates. There is a significant difference between volumes of foreign investments in different industries, which is primarily determined by a solvent demand of the domestic and foreign markets of production of these industries;

3) unsteady monitoring and analysis of consequences of change in Customs tariff rates and absence of monitoring mechanisms for adopted documents implementation: many agreements require changes and amendments to national legislation as well as adjustment to existing international agreements;

4) absence of an analysis of the country's production industries existing conditions;

5) a weak system of tariff preferences granting. The problem lies in increased volumes of imported goods claiming to be granted with preferences and expanding the import geography. But at the same time, granting tariff preferences shall be strictly controlled, as well as accompanied by stipulations about protective measures to avoid a significant damage from the countries of the Third World delivering cheap goods because of extremely low workforce. "The developed countries have the right to restrict preferential import of those goods from the developing countries which can carry a threat to local production" (Statistics of Customs payments in 2012 - the first half of 2013: main trends);

6) the rule-making process in the EurAsEC characterized by insufficient elaboration (many agreements often duplicate and even contradict each other in some cases).

### **Summary and concluding remarks**

Specific offers to enhance Customs tariff regulation, which mainly fulfills a fiscal function while Customs tariff is an additional tax, include the following ideas:

1) to comply the Customs tariff structure and rates with the goals and objectives of the Concept of the social and economic development of the country before 2020 and the national industrial policy based on it. First of all, the question is in more thorough consideration of the condition and features of certain industries and manufactures with respect to which Customs tariff regulation can implement protective or fiscal functions to various extents. The condition of certain industries and manufactures in the country's domestic market is determined primarily by the level of their competitiveness;

2) to consistently implement the principle of Customs tariff escalation by means of lowering the taxation level of import materials and components used for production of finished products as well as more efficiently apply special Customs regimes;

3) to focus attention on the use of import Customs tariffs as a tool of reasonable protection of the domestic market vulnerable segments as well as growth of Russian manufacturers competitiveness.

Thus, taking into consideration the above listed factors and fulfillment of priority tasks will contribute to more effective involvement of the Russian economy and the Eurasian Economic Union into the world economy as well as Customs tariff policy improvement aimed at domestic economy security.

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