

with children, and to improve the access of children who come from multiple-children and poor families to the basic development resources: a quality education and medical assistance, cultural institution services, opportunities to take part in physical culture and sports activity.

1.3. Economic development of Russia

In his Address to the Federal Assembly for 2006, the President of the Russian Federation noted that: «today, our main efforts are directed specifically at those area that directly determine the quality of citizens' lives». Further efforts in the legislative and economic spheres must be directed at creating a strategy for economic development that guarantees a better standard of living for citizens.

The President pointed to the need to seek high levels of economic growth. At the same time, he noted that on the whole, we are accomplishing this task and that over the past three years, the average rate of economic growth stood at about seven percent. However, «if we fail to improve the main macroeconomic indicators and do not establish the required levels of economic freedom, if we fail to create fair competition and do not strengthen property rights, then the goals that we have set ourselves in the economic sphere are unlikely to be met in time», the President stated.

In connection with such a definition of the problem, especial attention in the course of monitoring was paid to the future improvement of legislation capable of improving the level of economic freedom and creating a competitive environment in the fields of manufacturing and housing infrastructure, natural resource use, and the agro-industrial complex. The most important reforms, meant to radically improve the competitiveness of the Russian economic system, include the removal of excessive administrative barriers placed by the government on the industrial initiative of both citizens and business.

The year 2006 was marked by a new stage of development of legislation aimed at setting the groundwork for a strategy for economic development and strengthening the human and civil rights in the economic sphere. The current stage of development is characterized by the fact that the Russian economy is encountering a number of restrictions. First of all, these restrictions come from the existing production infrastructure, and from insufficient activity of investments that could ensure the quickest transition to an innovative path of development. These problems determined the main lines of activity of the legislative and executive bodies of power in 2006, and will continue to determine them for the future, including in regulatory-legal activity.

The Address for 2006 set the goal of creating new, and improving the efficiency of existing, state and private investment mechanisms. Much progress was already made in this direction in 2006. The Investment Fund of the Russian Federation is now operating. It represents a principally new instrument for state investment policy, aimed at economic growth and diversification. The open joint-stock company «Russian Venture Company» (RVK) has been formed.

The process of agreeing the project law «On the Bank of Development» is drawing a to conclusion. This new development institute will allow, without relying on budget resources, to support and insure banks when they issue credits for investment projects in the manufacturing sector that have long product payback periods.

Construction has begun on four special economic zones, created for the implementation of technology and industrial production. A competition has been staged for selecting regions that would have the right to open special economic zones for tourism and recreation. Implementation is starting on the «Creation in the Russian Federation of Technology Parks in the Field of High Technology» state project, and a major package of 12 high technology programs has been created for 2007, with a total value of 112 billion rubles.

The Government of the Russian Federation is ever more readily using a programmed approach to develop leading sectors of the economy. This includes a range of measures on the development of civil aviation equipment, the space-rocket industry, the construction industry, domestic agricultural and transportation machine building.

A legal regulations framework was developed in 2006 to protect competition, prevent and halt monopolistic activity, and make the legal grounds for state policy in this sphere more precise. The federal law «On Protection of Competition» created conditions for the development of the real sector of the economy, the improvement of investment activity, and simultaneously strengthened the state's role in the economy.

Documents have been drafted determining the development strategy for the transportation industry for the coming 15 years, financing has been greatly increased for the construction of roads, seaports and airports along the lines of the «Modernization of the Transportation System of Russia» federal target program.

Russian legislation has for the large part established complete and consistent regulations in the area of intellectual property rights. In 2006, all means available were used to implement the goals set out in the Address to the Federal Assembly for 2006 on organizing a secure defense of intellectual property rights inside the country and abroad.

Measures that have been applied in recent years to support the agro-industrial complex have somewhat stabilized the situation in the agricultural sector. Especial importance is attached to the implementation of the «Development of the Agro-Industrial Complex» priority national project. Besides that, the successful resolution of the problems now characterizing the situation in that industry depends on how well the Federal Law «On Development of the Agricultural Sector», adopted at the end of 2006, is implemented.

Work continued in 2006 on laying the legislative groundwork for the expansion of people's rights in the economic sphere. With introduction of changes to the Federal Law «On Land and Property Registry», an attempt was made to meet the goal set in the Address to the Federal Assembly for 2005 — «to help citizens legalize, through a simplified procedure, the property and associated land that in practice belongs to them». However, as the first results of the monitoring of how the new legislation was being enforced showed, bodies of local self-government have so far failed to fully accept the responsibility for helping citizen register their rights, while regional authorities for the most part are not applying the advisory provisions of the law, which offer them the opportunity to limit the cost of the land survey procedure.

New editions of vital laws concerning natural resources were adopted in 2006 — the Water Code of the Russian Federation and the Forestry Code of the Russian Federation. At the same time, still remaining unresolved is the goal of adopting a new edition of the Law of the Russian Federation «On Subsoils». The tax mechanism for regulating subsoil use has been changed, first of all in the direction of differentiating taxation depending on the particular characteristics of the subsoil use site.

Amid preparation of three basic laws (the Water Code of the Russian Federation, the Forestry Code of the Russian Federation, the Law of the Russian Federation «On Subsoils»), the following types of miscalculations of the legislative process were revealed:

for the large part ignored were the recommendations that came from parliamentary hearings, «roundtables», major Russian and international forums, scientific and public organizations, bodies of power of the constituent entities of the Russian Federation, concerning improvement to the quality of the legislation;

draft laws submitted by the Government of the Russian Federation were transformed in content by between 60 to 80 percent after their approval in the first reading, and by all formal appearances should have been returned to the first reading stage, yet this was done neither with the Water Code of the Russian Federation, nor with the Forestry Code of the Russian Federation;

the procedure of the work on amendments to the draft laws after their approval in the first reading completely excluded the possibility of amendments introduced by other legal entities of the legislative initiative from being taken into account, except for a small circle of individuals in whose name the core changes to the draft law were made in the second reading;

the accompanying materials lacked any forecast appraisals of the consequences of introducing conceptual changes to subsoil use relations.

The President identified the fight against corruption as one of the most important priorities of domestic policy. «The state, meanwhile, must make sure that this happens in fact, not in word», the Address notes. The development of state financial controls is a vital step in achieving this goal.

The Address to the Federal Assembly for 2006 for the first time raised the idea that, under conditions of intense international competition, the economic development of the country must first and foremost be driven by scientific and technological advantages in such high technology fields as modern energy performance, communications, space, aircraft engineering and nano-technologies. Russia must turn into a major exporter of intellectual services. This presents a real opportunity for changing the structure of the entire economy, and to assume a respectable place in the world's division of labor order. The President particularly underlined the need to establish secure protection of intellectual rights.

The main goals of a legislative groundwork for an efficient economic policy are: creation of legal conditions essential for implementing structural reforms, industrial and investment strategies aimed at diversifying and improving the economy's competitiveness, stimulation of the development of knowledge-intensive industries, and the development of a productive system of partnership between the state and private business. Twenty-five federal laws were adopted in these directions in 2006. The legislative process was directed at improving the legal frameworks of the real economy, at stepping up investments, and in creating a favorable investment climate.

Our 2005 report highlighted the importance of improving legislation on insolvency (bankruptcy). In the midrange perspective, the bankruptcy institute must guarantee the solution to such problems as ways to restructure loss-making sectors of the economy, and to improve payments discipline. It is essential to create a legal order that on the one hand provides for the efficient protection of creditors' interests, and on the other shields owners from the risk of losing control over their property as a result of dishonest applications of bankruptcy procedure. To protect creditors' rights, requirements must be tightened on the accountability of independent appraisers in cases when they are called on to perform mandatory valuations of properties. A federal law of July 18, 2006 specified the confirmation process for a bankruptcy commissioner in the transition from one bankruptcy procedure to another.

The federal law «On Making Changes to the Administrative Code of the Russian Federation» handed the function of compiling protocols on administrative violations committed by bankruptcy commissioners to a regulatory body authorized to act both in the areas of bankruptcy and financial restructuring procedures.

The state's current policy, aimed at limiting the extend of state control in the area of economic relations, presumes the obligation of members of civil society to adhere to the principles of self-regulation, and the presence of voluntary unions of professionals who independently work out the norms of cooperation and business ethics. In this connection, relevant goals include the further development and improvement of Russian corporate legislation and corporate management.

Work is continuing on the draft federal law «On Self-Regulatory Organizations». On the whole, development of the provision on self-regulation that exists in current legislation represents a very promising direction of legislative work. It is essential to blend market ownership methods of self-regulation with measured state protectionism and a desire to harmonize the vital interests of the individual, society and the state.

Legislation still needing improvement includes those that cover the protection of property rights, improvement of corporate management, development of bankruptcy and defense of creditor rights procedures, improvement to mechanisms for judicial defense of the rights of owners, creditors and company personnel managers.

In order to create functioning mechanisms for implementing property rights, it is essential to provide for a legislative level of protection for honest securities holders, to improve the mechanisms for registering rights on separate types of property, create perpetual storage of data

on completed transactions and legal entities, and to protect shareholder and investor rights. All of this requires concerted changes to legislation on joint-stock companies, bankruptcy, the securities market, as well as in labor, criminal and administrative law.

The first step in this direction was made in 2006 with the introduction of changes to the federal law «On Joint-Stock Companies» and certain other legislative acts of the Russian Federation, which secured the adjustment of procedures for the purchase of large shares in joint-stock companies and helped establish legal relations in case of the purchase of 30 or more percent of a company's shares. The procedures for creating and reorganizing joint-stock companies were simplified, and problems and collisions identified in the enforcement of the law «On Joint-Stock Companies» were eliminated. Government bodies of the Russian Federation, constituent entities of the Russian Federation and municipal districts were offered the right to keep their share in a joint-stock company in case its charter capital grows, or to refuse their share of ownership.

In this manner, the Russian Federation, its constituent entities and bodies of local self-government, will each have the opportunity, in each particular case, to examine the viability and efficiency of retaining a particular property and spending budget resources on preserving their share in a joint-stock company in which they control more than 25 percent of the shares. In addition, in case of any reorganization, the state or municipal district will retain control over at least 25 percent plus one voting share.

In case the state or municipal district controls more than 50 percent of the shares of the joint-stock company, an increase in the equity capital through an additional share issue that reduce the state's or municipal district's share of the charter capital may only be performed in case of the adoption of a positive resolution on the case by the Government of the Russian Federation, an executive body of the constituent entity of the Russian Federation, or a body of local self-government, and only under condition that the state or municipal district preserves its stake in at least 50 percent plus one voting share. The same holds true for joint-stock companies that are included in the list of strategic enterprises approved by the President of the Russian Federation.

In case joint-stock companies listed as strategic enterprises issue shares on the stock market or outside the Russian Federation, an increase in the shareholder capital and the share of the state's stake in such a joint-stock company is determined based on a decision of the President of the Russian Federation, while in the remaining cases, in accordance with rulings issued by the Government of the Russian Federation, executive bodies of the constituent entities of the Russian Federation, or by the bodies of local self-government.

Also up for State Duma consideration are draft federal laws «On Making Changes to Part One of the Civil Code of the Russian Federation», «On Limited Liability Companies», and «On State Registration of Legal Entities and Individual Entrepreneurs», which help eliminate the shortcoming of existing corporate legislations in the area of limited liability company organization and activity. The adoption of the latter draft law will help limit the practice of using such forms of legal entities as a limited liability company in the creation of fly-by-night firms that are only created so as to avoid paying taxes.

As the experience of countries with developed market economies shows, an energetic state policy aimed at protecting competitiveness averts unwarranted growth in prices and tariffs, promotes the competitiveness of goods, stimulates economic growth and helps build the gross domestic product. Adopted in 2006, the federal law «On Protection of Competition» created conditions for developing the real sector of the economy and improving investment activity, while at the same time strengthening the state's role in the economy. It determined the organizational and legal foundations for protecting competition, including in terms of averting and interdicting monopolistic activity and unfair competition, and for preventing the introduction of limits to or removal of competition by federal bodies of the executive branch, executive bodies in the constituent entities of the Russian Federation, bodies of local self-government, and other bodies or organizations that implement the functions of these bodies, as well as by federal budget funds, and the Central Bank of the Russian Federation. The law «On Protection of Competition»

secured the unity of the economic space, raised the freedoms on movement of goods and economic activity, strengthened the protection of competition, and unified the legal regulation of relations concerning the protection of competition on commodities and financial markets.

In 2006, in connection with preparations for Russia's accession to the World Trade Organization (herewith — WTO), a Federal Law was adopted aimed at bringing the legislative norms of the Russian Federation in line with the norms of the World Trade Organization, in the part on improving the procedure for conducting investigations on past implementation of special protection, anti-dumping and compensation measures.

Another instrument for securing the rights and legal interests of citizens of the Russian Federation, and protecting the economy of the Russian Federation against the negative effects of political, economic and other factors, became the federal law of December 30, 2006 providing for special measures of economic nature that are applied so as to avert threats to investors and ensure the security of the Russian Federation, and also to protect the rights and freedoms of its citizens.

These special economic measures include: a ban on foreign economic operations or introduction of restriction to their conduct, the halt or termination of international trade agreements, financial operations, changes to export and (or) import duties, halt to the implementation of programs in areas of economic and technical assistance, in areas of military-technological cooperation, and refusal to participate in scientific and scientific-technological programs and projects.

The federal law of December 30, 2006 grants the right to the President of the Russian Federation to determine the timeframe for which these special measures will be applied, and to adopt decisions on their revocation, under condition of the immediate notification of the Council of Federation and State Duma of such decisions. In addition, a procedure has been implemented for the Council of Federation or the State Duma to introduce proposals to the President of the Russian Federation to either implement or revoke these special economic measures.

In addition to important economic issues in the foreign policy sphere, numerous problems inside the country also remain unresolved — particularly, the problem of stimulating the development of small and medium-sized business. In its Program of Socioeconomic Development of the Russian Federation for the midrange perspective (2006-2008) (herewith — the Program), the Government of the Russian Federation determined key directions for activities and measures that could promote small-business development.

The current situation in the small and medium-sized business sector demands that state policy be stepped up, especially in the constituent entities of the Russian Federation, so as to help develop the tax base and create state budget revenues for the constituent entities of the Russian Federation.

As statistics illustrate, the number of small companies has not grown in recent years. One of the main reasons for this is infrastructure inefficiency in the part that helps set up and develop small companies at their initial stages; there is a lack of a comprehensive system of support for small and medium-sized businesses, including on the regional and municipal levels. The problem of reducing barriers to creating small and medium-sized business (herewith — SMB) remains acute. In order to overcome the resent situation, an integrated approach is essential, including broadening the access of small business enterprises to credits and financial resources, including through an improvement in the efficiency of the performance of micro-financing institutes.

The existing state system of support for small and medium-sized business is neutral in regards to any conceptions of small-business development, and follows its own inherent inertia. The Russian state system of support for SMB includes almost the entire arsenal of instruments that correspond to those put in practice in countries with developed market economies. However, this rather represents a broad array of isolated instruments that poorly correspond to modern SMB business activity, and that fail to account for either their profiles or for the specific regional socioeconomic conditions in which they operate.

The legislative framework of support for small business is the Federal Law «On State Support for Small Business in the Russian Federation», many of whose provisions have become outdated and contradict current civil, tax and budget laws.

In 2005, under the initiative of the Council of Federation, a taskforce was created out of representatives of the interested federal bodies of the executive power, which prepared a conception of a new federal law on state support for small and medium-sized business in the Russian Federation. On its basis, an interdepartmental taskforce developed a draft federal law that it addressed to the Government of the Russian Federation.

The departmental program of support for small and medium-sized business for 2005-2008 being implemented by the Ministry of Economic Development and Trade of the Russian Federation only encourages the regions to support small business, and does not ensure motivated commitment to this coming from the federal bodies of the executive power that oversee the leading sectors of the economy. Furthermore, it suffers from chronic non-performance along many directions, including in the part on the development and perfection of the regulatory and legal framework for SMB support and development.

Another problem of SMB development concerns the assignment of these issues to local jurisdiction. A resolution that obligates municipalities to eliminate their stock of ownerless municipal housing by 2009 has, in essence, created insurmountable barriers to SMB development, because a lack of sufficient capital prevents small businesses from buying out their rental properties at auctions. In these conditions, it is extremely important to preserve a part of the municipal property for the purpose of developing small business within corresponding restrictions (on conversion, by categories, and others). It is essential to offer subjects of small business — honest renters, the opportunity to privatize the properties they rent, while providing for mechanisms against abusing the system in the shape, for example, of a three — or even five — year moratorium on business conversion and resale of the privatized property.

The Address to the Federal Assembly for 2006 approved the steps taken by the Government of the Russian Federation in changing the structure of the Russian economy, filling it with innovative new qualities. Under conditions of intense international competition, the country's economic development must, first and foremost, be determined by its scientific and technological advantages and implemented through an essential innovative system, with a corresponding developed of infrastructure that guarantees support for business, first of all small, innovative business. At the same time, a general conception on how to construct relations between the subjects of the process of support for small, innovative business and the businessmen, and about the instruments and mechanisms of their cooperation has still not been developed.

One of the most important measures in support of small and medium-sized business became the adoption of the Federal Law of December 30, 2006 that regulates relations associated with the organization of retail market operations, the organization of the sale of goods (performance of labor, provision of services) on retail markets, as well as the rights and obligations of individuals who perform this activity, and which also stipulates for the classification of markets and creates a system of terms and notions.

Establishing the legal procedural frameworks for the organization and functioning of markets on a federal level, the Federal Law of December 30, 2006 presents broad power, to the executive bodies of the constituent entities of the Russian Federation and bodies of local self-government so that they could organize the operation of markets.

The 2005 report highlighted the importance of the adopted federal law «On Special Economic Zones», which received further development in 2006. Changes were made concerning the procedure for the creation and operations of tourism and recreation special economic zones, and its individual provisions were more closely defined. The Federal Law of June 3, 2006 added provisions on the goals of creating special economic zone creation; it specified their territorial outlines and administrative ownership; made additions and specifications to the content of agreements on the creation of special economic zones; expanded and specified the list of circumstances under which

special economic zones may be terminated prematurely; specified the norms associated with the activities of bodies of federal control over the special economic zone territories; and also specified and made additions to a number of other principle provisions of the basic law.

In addition, the above-mentioned law established a new type of special economic zones — tourism and recreation zones, introduced the notion of «tourism and recreation business activity» and «resident of a tourism and recreation special economic zone»; it determined the particular characteristics and procedure for creating and ceasing the operations of tourism and recreation special economic zones, as well as the conditions under which business activity would be carried out on their territories, including the particularities of land use, administrative regulation and taxation. The zones are created in parts of territories of the Russian Federation as determined by the Government of the Russian Federation, in which a special regime is set up for the operations of business activities associated with tourism and recreation. A further step in the development of the Federal Law «On Special Economic Zones» will come with the design of the draft federal law «On Special Port Economic Zones». The conception of this draft law is being developed by the Council of Federation.

The Address to the Federal Assembly for 2005 spelled out the instruction «to help citizens legalize, through a simplified procedure, the property and associated land that in practice belongs to them». Corresponding federal laws aimed at meeting this task were adopted in 2006. However, as the first results of the monitoring of the new laws' enforcement showed, the proposed legislative solutions do not completely simplify the procedure of registering citizens' property ownership rights.

At the junction of economic and cultural interests are legislatively regulated issues concerning the development of the gaming industry in the Russian Federation. By July 1, 2007, four gaming zones will be created on the territory of the Russian Federation, located in the Altai and Primorie krais, the Kaliningrad oblast, and on the border between the Krasnodar kray and Rostov oblast. A special 2006 federal law determined that a time limit may not be implemented on these zones' operations, and that a decision on their liquidation may not be adopted by the Government of the Russian Federation until 10 years elapse after the date of their creation.

The federal law is strengthened by efficient mechanisms of state regulation and protection of the moral values, rights and economic interests of citizens in the performance of activity associated with the organization and performance of gaming activity on the territory of the Russian Federation. This federal law also provides that it will serve as the basis for how constituent entities of the Russian Federation create gaming industry legislation.

The first 10 years of transportation reforms oversaw basic structural and institutional transformations. The created frameworks of a legal foundation for transportation correspond to modern socioeconomic conditions. The functions of state management and economic activity were split apart, and a state transportation regulation system that adequately meets modern conditions was formed. At the same time, despite the general adaptation of transportation to market conditions, the transportation system's current condition may not be described as optimal, or the level of its development as sufficient.

Movement within the Russian population is almost 2.5 times lower than in developed foreign countries. This comes as a result of an absence of a supporting transportation network across the entire territory of the country, which prevents the development of a single economic space and the growth of personal mobility. This makes differences between the European part of the Russia and the regions of Siberia and the Far East ever more heartfelt. But even in the central regions of Russia, some 28,000 settlements with a population of more than 12 million people do not have permanent access to the main land communication systems. The share of transportation in the cost of production is fairly high, sanding between 15 and 20 percent, compared to seven to eight percent in countries with developed market economies.

The transportation process safety indicators, first of all concerning road transportation, do not correspond to world levels. The road fatalities rate, per 100 vehicles, is four times higher than similar indicators in developed countries. The share of transportation in environmental pollution

reaches 33 percent, which exceeds similar indicators in developed countries by more than 1.7 times. Altered socioeconomic conditions have required a precision of the priorities of transportation development, and of the government's goals in the field of transportation development.

The Government of the Russian Federation has developed and adopted a Transportation Strategy of the Russian Federation for the period through 2020 (herewith — strategy). It determines the priorities of the state's transportation policy for the Russian Federation, the main directions of the development of the country's support transportation infrastructure, the priority goals of institutional reforms of transportation, as well as the main goals of transportation system development and directions of their solution for specific types of transportation, considering their individual characteristics, for the period through 2020. The Strategy is fundamental to the development of a goal-oriented program for the transportation field and related sectors of the economy, and for the solution of social, defense and other transportation-dependent problems in individual industries, regions and the economy as a whole. The main principle of state management of transportation activity involves state participation in the financing of elements of the transportation, and of specific types of transportation activity, under market conditions.

The spheres of state responsibility in transportation management are: improvement of the legal frameworks of transportation activity; solution of assignments associated with defense and mobilization; creation of conditions for guaranteeing security and anti-terrorist protection in transportation; ensuring that the development of the support transportation infrastructure corresponds to the development of production forces; ensuring that the support transportation infrastructure continues to function; determining stable sources of investment for its updating; development and control over the compliance with safety standards of the transportation processes, and their environmental effects, including the institution of requirements for means of transportation and its systems; implementation of transportation structural reforms; the elimination and prevention of the appearance of legal and administrative barriers in the processes of transporting passengers and cargo, and also corresponding services; development and control over the observance of rules on competition and nondiscriminatory access to infrastructure; development and implementation of efficient tariffs and pricing policies for transportation; provision of transportation services for all segments of society and regions of the country; targeted support for customers and operators in cases when the market is unable to provide for corresponding services; improvement of the system of control and oversight in the transportation sector, strengthening the powers of controlling bodies, and improving the legal frameworks of their operations; and ensuring the integration of Russia's transportation system into the global transportation system, including within the frameworks of integration processes on post-Soviet spaces.

Issues of Strategy in the context of wide-scale transportation reclamation of Siberia, the Far East, and the Far North were discussed at the Fourth Baikal Economic Forum, held in the city of Irkutsk on September 19-21, 2006, as well as at the Saint Petersburg International Economic Forum. A Baikal Economic Forum proposal to construct a North Siberian main highway so that it could form the central segments of a through-lateral Northern Russian Eurasian highway, linking eastern and northwestern borders of Russia, was included in the Strategy. The project on constructing a railroad to Kamchatka has been designated as the next in line of importance within the Strategy.

Russia has exceptionally favorable opportunities for its integration into the global transportation space, should it establish cost-efficient direct flights between Europe and Asia, as well flights between North America and Asia.

The main projects determining ways of Russian development, and its place in world over the coming half century, concern the construction and creation of transportation-industrial belts and transportation-industrial junctions:

the creation of a Northern Russian transportation-industrial belt along the Baikal-Amur Mainline (BAM) — Northern Siberia (Sevsib) — Belkomur line, which will create a base for

accelerated growth in the country for the foreseeable future; the completion of construction of the Eurasian highway and construction of a railroad to Kamchatka, with the corresponding creation of transportation and reloading points, and the appearance on its basis of railroad stations, river and sea ports, as well as airports for industrial free economic zones; the creation of a Caspian Sea Region transportation-industrial macro-region, which would have strategic significance both to Russia and the neighboring countries; the transformation of the Baikal region into a cultural and business center for the entire Eurasian continent.

At the same time, the reclamation of Siberia, the Far East and the Far North is being restrained by the level of financial support for this direction. Unjustified state parsimony is preventing the development of the required rate of railroad and highway construction. It is essential to provide for the restoration and development of river ports and airports, create new types of means of transportation, and to determine the mechanism for investing into the development in the information sphere, items which Russia's global competitors have and continue to successfully do.

The successful implementation of the goals and tasks in the area of transportation policy for the large part depend on the success of transportation reforms. In 2006, implementation began of the third, key stage of structural reforms in railroad transportation. Considering that one of the main goals of railroad transportation reforms is the establishment on the transportation service market of a balance between the interests of transporters, cargo shippers, cargo receivers, and infrastructure owners, an important role in maintaining this balance is played by the federal laws «On Railroad Transportation in the Russian Federation» and the «Statute of Railroad Transportation in the Russian Federation».

The monitoring of the practice of their enforcement, under conditions of railroad transportation reforms, has identified an objective need for their substantial correction. In order to ensure efficient legislative work, the study of all amendments being submitted to the Ministry of Transportation, and their inclusion in the new conceptions of the above-mentioned laws, the Ministry of Transportation of the Russian Federation has created a commission that is currently completing this work.

The fundamental provisions of the Constitution of the Russian Federation on the use of natural resources and environmental protection for the sake of humanity are being implemented inefficiently. Because the legislative base is lagging behind the more efficiently developing relations in the economy, politics and other spheres of the country's life, and also in connection with the insufficient level of administration of the existing legislation, problems have flared in natural resource, ore and minerals base reclamation, as well as in their rational use and protection.

The natural resource use sector in Russia had until recently been regulated by an outdated legislative and regulatory framework, created at the start of the economic reforms period. Legislation constructed along industry principles represented a body of laws that acted on an individual basis and failed to provide a united, systemic approach to rational and efficient natural resource use. Many aspects of practical activity remain unregulated by legislative acts, even while the regulatory space is overloaded by what are, for the most part, low-quality and contradictory bylaws and administrative ordinances.

Efficient state administration in the area of natural resource use and environmental protection is possible only on the basis of a systemic approach to legislative regulation, called on to guarantee predictability and continuity of state policy in this field. And in 2006, the first practical steps were taken in creating new natural resource legislation, whose goal is to create an efficient system of natural resource use.

However, still remaining unresolved is the goal of adopting a new subsoils law. It must be noted that the creation of an adequate legislative mechanism of state regulation of subsoil use depends on considerations for the economic and social interests of the Russian Federation and its constituent entities, as well as on the global tendencies in the use of the mineral resources base.

Despite the fact that Russia's minerals resource base remains one of the largest in the world, and has no equivalent across a wide range of various subsoil assets, this powerful potential is not being used to its full potential, nor efficiently enough. All of the resource-rich countries of the world, including those with highly developed economies (the United States, Canada, the Republic of South Africa, Australia), at the very least support their established levels of proven reserves, while at the same time carrying out major subsoil development. In Russia, however, the past 12 years have witnessed a steady tendency toward a decline in both the quantity and quality of discovered natural mineral resource reserves, which are not being compensated with new findings because of insufficient amounts of exploration work. The problem of a decline in both the efficiency and comprehensiveness of natural resource use also remains unresolved.

For a long time, efficiency has remained low in the use of forest resources, with planned logging areas being developed at only a 40 percent capacity. The amounts of processed timber sold for exports also remain extremely low. This industry is characterized by wasteful water use, while the problem of providing the population with clean drinking water is being resolved too slowly, as is the problem of reducing the volume of waste being spilled into the water supplies. The water code has also determined the priorities of land legislation concerning property rights to bodies of water, dramatically expanding the number of water bodies in private ownership and establishing the recourse of water-use contractual rights for the purpose of supplying the population with drinking and general purpose water.

A two-year monitoring of the enforcement of the federal law «On Fisheries and Conservation of Aquatic Biological Resources» has identified a number of significant shortcomings in the system of quotas assignment for aquatic bio-resources, effective management during summer fishing season, as well as in the fight against poaching and in the protection of the rights of people living along water shores.

An entire series of federal laws was adopted in 2006 related to the regulation of relations in the area of natural resource use and environmental protection. Important landmarks in the creation of the new natural resource legislation were marked by the adoption in 2006 of framework industry laws calling on the provision of an improved efficiency in state regulation in the sphere of the use and protection of aquatic and forestry resources: the Water Code of the Russian and the Forestry Code of the Russian Federation.

The Water Code is focused on the improvement of water legislation in line with the general principles proposed by the Government of the Russian Federation on legal regulation in the area of natural resource use, the goals of improving the efficiency and effectiveness of water resource use and protection, and further liberalization of relations in the area of water resource use and protection.

The main principles of the Water Code are: federal ownership over bodies of water (excluding ponds and flooded quarries), watershed management of bodies of water, a payment system for water use, and civil law relations for main types of water usage. These principles correspond to the Constitution of the Russian Federation and, in particular, establish the priority of protecting bodies of water over that of their usage, while in case of usage — the priority of drinking and regular needs water above all others.

The main innovations of the Water Code are: the strengthening of the priority of federal ownership over all natural bodies of water and water reservoirs; a change and expansion of the list of bodies of water that may be held in private ownership; a change in access conditions to bodies of water usage; introduction of contractual relations to main types of water usage; a change to the payment mechanism for water usage; an optimization of water-protection requirements and conditions for usage of lands in water-conservation zones, as well as coastal strips and shore lines; a stronger administrative authority over bodies of water under federal ownership; and other provisions.

The official reactions to the Water Code voiced by bodies of state power of the constituent entities of the Russian Federation, experts and public representatives included a large number of

criticisms as well as some constructive proposals. Most of the criticism was drawn by regulations that established: mechanisms for implementing private ownership rights over bodies of water while failing to take into account the criteria for distinguishing ponds from water reservoirs, setting size limits on such bodies of water and allowing for the «automatic» privatization of federal water-covered lands under running ponds; recourse of contractual rights on water extraction for drinking and regular water requirements; a weakening of requirements on the usage of water-protection zones, as well the protection of bodies of water against pollution and drainage; vagaries in regulations determining the conditions of water usage contracts; a withdrawal from the implementation of watershed management over bodies of water.

After the Water Code's adoption, the Council of Federation employed the legislative initiative procedure to address a project federal law to the State Duma «On Making Changes to the Land Code of the Russian Federations». The draft law proposes to introduce limits on the sizes of ponds and flooded quarries that may fall under private ownership. A determination on the limits in size to such bodies of water is proposed to be made a part of the jurisdiction of the constituent entities of the Russian Federation. Considering the priority of drinking water supplies over other body of water usages goals, the draft law proposes to exclude the possibility of the privatization of ponds used to supply drinking water, regardless of what type of ownership has been established over the landed property within whose boundaries this type of body of water is situated. The draft law envisions the introduction of a ban on the transfer of ownership rights on water extraction from surface bodies of water used for drinking and regular water needs.

The Forestry Code fundamentally changes the legal regulation of public relations concerning the ownership, usage, disposal, management, and protection of the forests of the Russian Federation. It significantly simplifies provisions on forest land ownership rights and forest range leasing. It regulates previously unresolved issues that stood at the junction of different sectors of legislations — land, tax and environmental.

For the first time, auctions were introduced to Russian practice on the sale of the right to strike contract leases for forestlands that are under federal or municipal ownership. A right was also introduced to strike purchase and sale agreements on forest ranges for citizens' personal needs. Another innovation is the delineation of authorities between bodies of state power of the Russian Federation, bodies of state power of the constituent entities of the Russian Federation, and bodies of local self-government concerning forestry relations. The Forestry Code stipulates for the implementation of specific rights of the Russian Federation concerning forestry relations to be transferred to the bodies of state power of the constituent entities of the Russian Federation.

It must be highlighted that during State Duma discussions of the Forestry Code of the Russian Federation, as well as of the Federal Law «On the Implementation of the Forestry Code of the Russian Federation», both members of the Council of Federation and experts expressed concern that the new Land Code does not provide for the continuity of forestry legislation. Serious criticism was voiced concerning the undertaken cardinal reconstruction of the system of forest sector management, the introduction of a classification of forests, a replacement of the administrative procedures that had been used for forest usage with declarative ones, and the deficiency of the concepts being written into the Land Code of the Russian Federation.

The government bodies of 74 constituent entities of the Russian Federation sent their responses concerning the draft Forestry Code to the State Duma. But only 15 of were deemed to have been properly filled out, and the rest were practically not reviewed because they violated rules on proper formulation and address of such petitions. This promotes doubts about whether proper consideration had been assigned to the opinions of the constituent entities of the Russian Federation about the federal law on Forestry Code, which regulates issues of joint jurisdiction of the Russian Federation and the constituent entities of the Russian Federation.

The legal bases of subsoil use in the Russian Federation are currently contained in the laws «On Subsoils», «On Production Sharing Agreements», a Regulation on the procedure for licensing subsoil use, as well as 50 other normative legal acts adopted at the federal level. It should

be noted that the Law of the Russian Federation «On Subsoils» has serious gaps concerning the authority to manage subsoil lands that contain reserves of commonly occurring mineral resources, as well management over subsoil lands of local character.

A number of federal laws were adopted in this area in 2006. The federal law «On Making Changes to the Law of the Russian Federation «On Subsoils»», which entered into force on January 1, 2007, empowered bodies of the executive power of the constituent entities of the Russian Federation with the authority to conduct state expert reviews of mineral resource reserves, and to account for the geological economic and environmental information about the mineral resource lands of local character being proposed for exploitation, as well as for lands of local character that are being used for the purpose of construction and operation of underground facilities not associated with the extraction of mineral resources. The law established that the payment for the expert review of mineral resource reserves and for the accounting of the geological, economic and environmental information about subsoil land submitted for use and containing commonly occurring mineral resources, as well as subsoil lands of local character used for the purpose of construction and operation of underground facilities not associated with the extraction of mineral resources, is to be assigned to the revenues of the constituent entities of the Russian Federation.

Significant changes to legislation on subsoil use are expected in 2007. Currently, the Government of the Russian Federation is continuing to make final adjustments to the federal law «On Subsoils» for its second submittal to the State Duma. The gaps and shortcomings of the existing legislation are meant to be eliminated from its frameworks. Important goals of future improvements to the quality of natural resource legislation, which will be addressed in the process of completion of the draft federal law «On Subsoils», is the introduction of typology to the delineation of power, and the creation of a conceptual junction between all framework industry laws in the sphere of natural resource use.

In 2006, changes were introduced to the Tax Code of the Russian Federation that specified the taxation procedure during the exploitation of all types of mineral resources and created tax stimulants for the development of new oil fields in Eastern Siberia and the Republic of Sakha (Yakutia), along with tax stimulants for the development of the remaining reserves oil fields across the entire territory of Russia.

For the development of environmental protection legislation, changes were introduced in 2006 to the federal laws «On the Continental Shelf of the Russian Federation» and «On an Exclusive Economic Zone of the Russian Federation», aimed at creating a single terminology in legislation and precision of the procedure for burying waste on the continental shelf.

The creation of a regulatory legal framework is of key importance amid efforts to secure the development of the agro-industrial complex (herewith AIC) and its most important component — the agricultural sector, as well as to the development of the fishing industry, rural territories and land relations. The main directions for the development and improvement of legislative provision are determined based on the conditions set out in the Address to the Federal Assembly, and in accordance with the instructions of the President of the Russian Federation.

The priority national project on the «Development of the Agro-Industrial Complex» is of particular importance, since it includes three directions: «Accelerated Development of Livestock Breeding», «Stimulation of Small Forms of Managing», and «Provision of Affordable Housing to Young Specialists (or their Families) in the Country». Thanks to its implementation, positive changes had already begun to occur in livestock breeding in 2006; meat and milk production is growing, small forms of management are developing, the number of agricultural consumer cooperatives is going up, and measures are being taken to provide access to affordable housing for young specialists (or their families) in the country.

A number of federal laws were adopted in 2006 regulating various aspects of relations in the agrarian sphere, and in the area of land use and preservation, that are required for the implementation of the priority national project on the «Development of the Agro-Industrial

Complex». The most important of these is the federal law «On the Development of the Agricultural Sector», adopted on December 29, 2006. It determines the goals, principles, fundamental directions and measures for the implementation of the state's agrarian policy, and the participation of the federal bodies of state power, bodies of state power of the constituent entities of the Russian Federation, and unions (associations) of agricultural manufacturers in its implementation. At the same time, the main goals of the state's agrarian policy are defined as, in particular, tracking the price index of agricultural production, raw materials, and index of prices (tariffs) on industrial production (services) used by agricultural manufacturers, as well as the support of parity between such prices (tariffs).

The law regulates relations arising between citizens and legal entities recognized by the present federal law as agricultural manufacturers, as well as in the sphere of agricultural development; it establishes legal foundations for the implementation of the state's socioeconomic policy in the area of development of the agricultural sector as a form of economic activity for the manufacture of agricultural production; it renders services for the purpose of providing the population with Russian produce, industry — agricultural raw materials; and it supports the stable development of agricultural territories.

The law establishes the main directions of state support in the area of agricultural sector development. This involves: provision of affordable credit resources for agricultural manufacturers, support for the development of a system of risk insurance in agriculture, provision for livestock breeding output; development of pure-strain stock-breeding and mother seed production, provision for the laying of perennial plantings, renewal of the main means of agricultural manufacture, measures for increasing soil fertility, as well as provision for the stable development of agricultural territories, including the construction and maintenance of automobile roads, rendering consulting services to agricultural manufacturers, training and retraining of specialists for the agricultural sector, and supplying information in the course of the implementation of the state's agrarian policy. At the same time, it was determined that these measures will be financed in accordance with the legislation of the Russian Federation.

The state program for agricultural development and regulation of agricultural goods, raw materials and produce markets determined the financial provision for the goals and main directions of agricultural development and regulation of agricultural goods, raw materials and produce markets. It is confirmed by the Government of the Russian Federation for a five-year period and implemented through target-oriented programs and other measures. At the same time, it is stipulated that the main parameters of the draft state program for 2008-2012 are to be reviewed by a commission, whose members include representatives from the Government of the Russian Federation and four representatives from each of the chambers of the Federal Assembly of the Russian Federation. The commission's review is addressed to the Government of the Russian Federation.

In addition, the following federal laws of importance to the general development of the AIC were adopted in 2006. First and foremost, it is the Federal Law «On the Adoption by the Russian Federation of the Statute of the Food and Agriculture Organization of the United Nations». Adoption of the Statute of the Food and Agriculture Organization of the United Nations (here-with — FAO) secures the Russian Federation's accession to this international organization, which is one of the most respectable and specialized agencies in the United Nations. Full-fledged membership in the FAO will promote improved efficiency of our country's foreign trade ties, and support our national interests in the area of global trade in agricultural, forestry and fisheries products, while at the same time helping overcome the negative tendencies in the domestic AIC. Upon becoming a FAO member, the Russia Federation will be able to affect international policy in the areas of agriculture, forestry and fisheries, while also attracting (with FAO's support) state and private investments to those sectors.

The Federal Law «On Making Changes to the Federal Law «On Agricultural Cooperatives» and Separate Legislative Acts of the Russian Federation» specifies the regulations for membership in agricultural cooperatives, the procedure for leaving a cooperative, the procedure for

holding a general meeting and an extraordinary general meeting and the adoption of their decisions, the proprietary relations of agricultural cooperatives, including how these concern the creation of funds, the performance of transactions and other issues, as well as the activities of audit councils of agricultural cooperatives, establishing the procedure for staging audits and related activities, along with the main functions of self-regulating organizations within the audit councils of agricultural cooperatives.

The Federal Law «On Making Changes to Chapter VI of the Law of the Russian Federation «On Grain», the Federal Law «On State Control over the Quality and Rational Use of Grain and Grain Derivatives», and the Administrative Offenses Code of the Russian Federation» specifies the names of state bodies performing oversight and control over the quality and safety of grain and its derivatives. The Federal Law «On Making Changes of Article 13 of the Federal Law «On the Quality and Safety of Food Products»» excludes the disbanded state bread inspectorate from the list federal bodies of executive power that perform state oversight and control over the provision of food quality and safety.

A number of federal laws regulating land relations were adopted in 2006. The Federal Law «On Making Changes to the Land Code of the Russian Federation, the Federal Law «On the Enactment of Land Code of the Russian Federation», the Federal Law «On State Registration of Property Rights and Property Transactions», and Recognizing Separate Provision of Legislative Acts of the Russian Federation as Expired», changes the mechanism for demarcating state land properties. In this connection, changes are also made to the Land Code of the Russian Federation and the federal laws «On the Enactment of the Land Code of the Russian Federation», «On State Registration of Property Rights and Property Transactions», and «On Converting Land or Land Plots from One Category to Another».

With the adoption of the federal law «On Making Changes to Certain Legislative Acts of the Russian Federation on Executing Citizen Rights to Individual Parts of Property Through a Simplified Procedure», land legislation is undergoing another transformation: the legal guarantees of those who employ and own plots of land are changing. Changes have been made to the Land Code of the Russian Federation providing for the right to one-off, free acquisition of land that is inherited for life and is legally open to permanent (unlimited) use. Changes were also made to the federal law «On Gardening, Vegetable Cultivation and Country Residence Non-Profit Unions of Citizens», which clarifies the legal status of common-use property, as it applies to common-use land plots.

The Federal Law «On Making Changes to Article 72 of the Land Code of the Russian Federation» specifies issues on municipal land control in the constituent entities of the Russian Federation — the cities of Moscow and Saint Petersburg, while the Federal Law «On Making Changes to Articles 87 and 89 of the Land Code of the Russian Federation» establishes a special legal regime for the use of lands occupied by electricity facilities. The adoption of the Federal Law «On Making Changes to Articles 20 and 36 of the Land Code of the Russian Federation» brings norms of the Land Code of the Russian Federation in line with current legislation on state and municipal unitary enterprises.

In order to eliminate administrative barriers in the area of housing construction, the Federal Law «On Making Changes to the City-Building Code of the Russian Federation and Individual Legislative Acts of the Russian Federation» changes land legislation in the part on the legal status of settlements lands, and also establishes a restitution mechanism in case land properties are expropriated or transferred from one category to another.

Besides the federal laws identified here, a number of legislative acts were also adopted concerning issues of providing budget resources to and the taxation of agricultural manufacturers, agricultural retail market organizations, as well as fisheries issues and a number of others. The list of taxpayers with the right to pay a unified agricultural tax was expanded to include agricultural consumer cooperatives. This will help ease the tax burden of agricultural consumer cooperatives, simplify tax accounting and reporting, and create favorable conditions for their development.

Changes were also made to the Tax Code of the Russian Federation aimed at improving the tax system for agricultural manufacturers and eliminating the shortcomings in the procedure of its application to agricultural manufacturers (the unified agricultural tax). In particular, a provision is made for extending until January 1, 2008 the application of the zero income tax rate on agricultural manufactures that did not switch to the unified tax rate system, and to include legal relations in this provision that arose from January 1, 2006, which represents a measure of state support for agricultural manufacturers. The Value Added Tax was revoked on stock cattle, breeding hog, sheep and goats, the seed and embryos of these stock cattle, pedigree horses and eggs imported onto the territory of the Russian Federation.

The Federal Law «On Retail Markets and on Making Changes to the Labor Code of the Russian Federation» is aimed at regulating relations associated with retail market organizations, including agricultural and agricultural cooperative markets. Changes were also made to the federal law «On Fisheries and Conservation of Aquatic Biological Resources» and the Land Code of the Russian Federation in order to bring their regulations in line with land and water legislation and clarifying the procedures for creating fishing grounds.

Draft federal laws «On Cooperatives in the Russian Federation» and «On Ecological Agro-Industry» were prepared, and the draft federal law «On the Stable Development of Rural Area» is being developed. The draft federal law «On Cooperatives in the Russian Federation» stipulates for the establishment of a single set of legal norms for regulating all types of cooperatives, defines the procedural, institutional and socioeconomic relations that arise in the process of creating, operating and dissolving cooperatives and their unions, as well as their relations with other economic entities and the state. The draft federal law «On the Ecological Agro-Industry» is aimed at regulating relations arising during the application and use of mandatory requirements placed on ecological agro-industry production, and its sale.

In addition, it appears expedient to speed up the work on draft federal laws «On Hunting and Game Husbandry», «On Grapes and Wine», and «On Making Changes to the Federal Law «On Seed Farming», «On Making Changes to the Federal Law «On Gardening, Vegetable Cultivation and Country Residence Non-Profit Unions of Citizens»», and the Land Code of the Russian Federation». The draft federal law «On Credit Cooperatives» requires further study.

Important roles for the provision of AIC development are played by the draft federal laws «On Special Technical Regulations for Milk, Milk Products, their Production and Sale», «On Special Technical Regulations for Juices and Juice Products», «Special Technical Regulations for Tobacco Products», and the «Special Technical Regulation «On Oil and Fat Products, Their Production, Storage, Transportation, Sale and Use»», which are all being considered by the State Duma.

Monitoring of enforcement of Federal Law «On Fisheries and Conservation of Aquatic Biological Resources» has confirmed the need for establishing stricter controls over its regulatory provision. A number of normative legal acts essential for its implementation have still not been adopted. It is also essential to make changes to the law itself in order to improve the legal regulations in place for fisheries, the preservation, restoration and rational use of aquatic biological resources, development of coastal fishing, fishing science, on optimizing access by Russian users to aquatic biological resources on a longer-term basis, and provision of a correspondence between the fishing fleet's fishing capacities and the size of aquatic biological resource reserves. The draft federal law «On Aquaculture» proposes the establishment of legal frameworks for creating conditions that would lead to the growth of fishing production volumes, while preserving the amounts of aquatic biological resources in natural bodies of water, through fish farming. At the same time, work is underway on the draft federal law «On the Preservation of Sturgeon Varieties, Their Reproduction, Rational Use and Regulation Over the Sale of its Production», which stipulates for the improvement of mechanisms aimed at commercial cultivation of sturgeon varieties, their preservation and reproduction.

The issue of government regulation over the sale of sturgeon varieties and their production, including caviar, has special significance. In order to create a legal framework for adopting

measures to preclude sturgeon varieties from poaching and the illegal sale of its production, the Government of the Russian Federation has developed a draft federal law «On Making Changes to Article 56 of the Federal Law «On Wildlife»». The draft law establishes regulations that make up the grounds for introducing a ban on the sale of confiscated sturgeon varieties and their production, stipulates the procedure for eliminating individual types of wildlife that were procured from the environment in violation of the legislation of the Russian Federation governing the preservation and use of wildlife, and also the production derived from it.

No less relevant in current times is the issue of improving land legislation, first and foremost as it concerns land utilization, cadastral accounting, securing rights to land plots, and land reservation. It should be noted that in 2006, the Government of the Russian Federation prepared and submitted to the State Duma a number of draft laws on these issues.

The draft federal law «On Making Changes to Certain Legislative Acts of the Russian Federation in the Part on Establishing a Procedure for Reserving Land Plots for State or Municipal Needs» proposes to introduce a new chapter to the Land Code of the Russian Federation on land reservation, which implements restrictions on the legal rights of proprietors, owners, users and leasers of land plots. The draft federal law «On Making Changes to Legislative Acts of the Russian Federation in the Part of Specifying the Terms and Procedures for Obtaining Rights to Land Plots in State or Municipal Ownership» specifies the terms and procedures for obtaining rights to land plots in state or municipal ownership, and which have buildings, structures or constructions on them, so as to accelerate the inclusion of these lands in economic activity by establishing reasonable land repurchasing prices and rent rates for these lands.

The draft federal law «On State Cadastral Register of Property» stipulates for the creation of a fundamentally new accounting mechanism for land properties and certain other real estate property objects (buildings, structures, constructions, unfinished constructions, and others) — the state cadastral register of property. At the same time, issues of administration over land properties where state ownership has not yet been delineated also need to be addressed.

Further work lies ahead on laying the regulatory groundwork for creating and developing a system of mortgage lending. For this to happen, changes must be introduced to legislative acts of the Russian Federation concerning improvements to regulations on mortgage relations in agriculture, and provision of balanced mechanisms for defending the rights of mortgage providers and mortgage holders. In addition, the creation of such a system is being restrained by the expense of land plot surveys and lengthy procedures involved in including them in cadastral accounts. In connection with this, work must be speeded up on the adoption of the draft federal law «On Making Changes to Certain Legislative Acts of the Russian Federation in the Part on Improving Land Utilization», which was submitted by the Government of the Russian Federation and is now being considered by the State Duma. This draft law focuses and appends the existing mechanism for land use planning and significantly alters the structure of the existing federal law «On Land Utilization».

The problem of undivided land share turnover, provision of guarantees to owners of land share, and the assignment of land plots in exchange for land shares remains unresolved.

It is essentially to quickly adopt the draft federal law «On Making Changes to the Federal Law «On Agriculturally Assigned Lands Turnover»», which extends the term for execution of land share rent agreements, in accordance with existing legislation.

The adequate provision of financial control over state institution activities remains an important issue at this time. The founding document, setting international standards for the development of legislation on state financial control, is the Lima Declaration of Guidelines on Auditing Precepts (adopted by the IX Congress of the International Organization of Supreme Audit Institutions (INTOSAI) in 1971). The European Organization of Supreme Audit Institutions (EUROSAI) adheres to the principles proclaimed in this document.

The Russian Federation joined the Lima Declaration of Guidelines on Audit Precepts, and also became a member of EUROSAI, in 1995. In 1996, Russia was also accepted into the Asian

Organization of Supreme Audit Institutions (ASOSAI). With our participation, the Declaration of Guidelines of Auditing Precepts was signed by the member states of the Commonwealth of Independent States (CIS) in 2001.

Thus, the Russian Federation has assumed the responsibility of developing a national system of state financial control that corresponds to generally accepted democratic principles and traditions. The Russian Federation's unwavering commitment to democratic principles has also predetermined the paths of development of Russian legislation regulating the legal relations in the sphere of state financial control and the federal budget.

The role of the Accounts Chamber of the Russian Federation as an important element of Russian democracy has been repeatedly underlined by the President of the Russian Federation V. V. Putin, who has repeatedly noted Russia's commitment to global standards of international control. At the same time, it must be noted that the system of state financial control is still in its formative stage in Russia. On the one hand, this state of affairs is reasonable and reflects the system of checks and balances characteristic of democratic states, but on the other — prevents the legislative regulation of a number of the more acute problems of the national financial and budget systems.

A federal law «On State Financial Control in the Russian Federation» must become the underlying legislative document that sets the founding principles for creating a system of state financial control in the Russian Federation, delineates the authorities of state financial control agencies, and also legislatively secures Russia's adherence to the international principles of state financial control. In the part concerning the Accounts Chamber of the Russian Federation, this federal law must secure the status of the Accounts Chamber of the Russian Federation as the «highest controlling agency, being an external auditing body».

Unfortunately, a conception of state control has still not been found that could meet the interests of the different branches of power and reflect the current sociopolitical realities of Russia. There are no grounds for Russia accepting models used in the United States, Japan or India, where tens of thousands of staff members work in the state control system, while the highest body of state control is a department. Thus, the question of the structure of state financial control in Russia remains open.

Also remaining unresolved is the issue of control over the financial-economic activities of the Accounts Chamber of the Russian Federation. According to current budget legislation, the financial-economic activities of the Accounts Chamber of the Russian Federation may be subject to inspection by the Federal Service of Financial and Budgetary Oversight. The work performed by the Accounts Chamber of the Russian Federation in 2006 confirmed the efficiency of external state financial control and the inadmissibility of its replacement by departmental control.

One of the key areas of stronger effort from our entire society concerns lifting the administrative barriers placed by the state on the entrepreneurial initiative of citizens and businesses. An especially difficult situation has developed in the sphere of technical regulations. More than 25,000 All-Union State Standards (GOST), more than 22,000 state standards, nearly 1,000 construction rules and regulations, thousands of instructions, industrial standards, technical regulations, provisions, rules, procedures and other departmental normative legal acts, which all limit entrepreneurial activity, are currently operating in the Russian Federation. The total number of normative documents has exceeded 100,000.

As a rule, these sorts of departmental acts are subject to arbitrary and unpredictable change, are not officially published, are not posted on official Internet sites of the bodies of state power that implement them, and thus become practically inaccessible. As a result entrepreneurs, including foreign investors, have contradictory information about the mandatory requirements they must adhere to while performing their economic activities. As a result, the existing system of technical regulations precludes the full implementation of the principles of the Constitution of the Russian Federation, which state that citizens' rights and freedoms (including the right to entrepreneurial activity) may only be confined by the law.

According to the Federal State Statistics Service, the predominant majority of claims made by controlling bodies against producers of goods and services concern the labeling and external appearance of a product (97 percent), and only a tiny fraction concern the quality or safety of a good (around three percent).

The current system presents a serious threat to the future stable development of Russia because of its propensity for corruption. The anarchic mass of requirements and regulations, which are all equal before the law, prevents the organization of even the most minimally efficient system of implementation oversight. The oversight and control bodies independently decide which particular standards and norms to apply when conducting their checks, procedure that only stimulates corruption, places the entrepreneur at the mercy of the official, and fails to prevent dangerous products from reaching the market.

On the one hand, Russia has moved to a market economy, but on the other — our entire system of mandatory norms, oversight and control was inherited from the Soviet economic period and is inapplicable to market conditions. The first step in resolving these problems, and launching a reform of the technical regulation system, became the adoption of the federal law «On Technical Regulation», which created a legal framework for conducting technical regulations reform.

This reform must use the frameworks of the adopted law to resolve the following goals: reduce the number of mandatory requirements, and a codification of mandatory technical requirements; focus the state on issues concerning the provision of personal and environmental safety; create a system of voluntary compliance with quality standards; publicize the process of developing and adopting technical regulations; attract society to the process of developing technical regulations.

The federal law provides for a seven-year transition period from the moment of the law's entry into force. By July 1, 2010, a transition must have been completed so that mandatory requirements are only set through technical regulations, which will align the entire system of technical regulations within a new regulatory framework. Such an extended transition period is objectively justified, first of all, by the need to create a legislative system of federal laws that is new to Russia — one of technical regulations.

All acts containing requirements on production, goods and services will be approved in technical regulations, which contain all of the mandatory requirements for product safety and the production process, or through voluntary compliance with standards (national, corporate) that promote the products' competitiveness.

It will be necessary to adopt about 500 technical regulations. In addition, irrespective of the specific type of business activity, there are also universal requirements: on the safe operation of machines and equipment, buildings and structures, as well as fire, biological and environmental safety, and others. These requirements will make up the contents of general technical regulations. They will be adopted concerning issues of: safe operation of machines and equipment; buildings and structures, safe operation and use of machines and equipment; safe operation of buildings, structures, constructions, and the safe utilization of their surrounding territories; fire safety; biological safety; electromagnetic compatibility; environmental safety; nuclear and radiation safety. The remaining technical regulations will be specialized.

The implementation of reforms encountered serious hurdles in 2005, most of which are associated with the state administration's unwillingness to change the state of affairs in this field. Over a period of two years, administrative resistance to the reforms kept mounting, and by the end of 2005 there was talk of scrapping the entire process.

Also worth noting is the insufficient involvement of the regions of the Russian Federation in the reform process, including of the legislative and executive bodies of the constituent entities of the Russian Federation. It should have been foreseen that the implementation of these reforms would not be concentrated in the federal center, since the mandatory regulation requirements will include such entities as, for example, manufacturers, suppliers and vendors. And of these categories of the entrepreneurial community exist across all regions of Russia.

The reform's methodological framework was greatly expanded and fine-tuned in 2006. However, a high probability exists that in 2007, draft regulations will come under review that failed to get developed in 2006. For 2008, the program envisions reviewing some 95 draft technical regulations.

The state of housing and public utilities in modern Russia is characterized by numerous unresolved problems — a large number of utilities suffer from wear and tear, housing is shabby, tariff policies are contradictory, and the quality of offered utility services is low. A significant part of the industry is still operating according to outdated models. Housing and public utilities prices are set not by the market, but by regional and local authorities. Local-level monopolies prevent the development of competition, and financial relations in the industry remain opaque. All of this leads to an investment shortage that prevents even the current system from staying afloat.

Such a difficult set of problems is hard to resolve in a short timeframe. Nevertheless, adoption of the Housing Code of the Russian Federation has determined the main strategies for sector reforms. At the moment, the Government of the Russian Federation is proposing a package of measures aimed at creating institutional conditions that could introduce market mechanisms to the housing and public utilities sector. They also set out to specify the provisions laid out in the Housing Code of the Russian Federation.

An important element in this package of measures is the development of housing owners' initiative (simplification of the rules for how housing associations operate, transfer of premises and apartment housing to joint share ownership). Should the owners be unable to agree on the choice of a managing company, the Housing Code of the Russian Federation provides for the possible appointment of a managing organization by local authorities. The Government of the Russian Federation's package of measures establishes a fairly detailed procedure for how local authorities should stage competitions.

Nevertheless, the issue of apartment house management remains ambiguous. A general meeting of apartment tenants is meant to decide which of the methods established in the Housing Code of the Russian Federation should be used for house management. This may be done either through direct tenant management, a housing association, housing cooperative bodies, or through a special managing company. If the tenants fail to adopt a decision within the establish timeframe (right now, this date has been set as January 1, 2007), then the bodies of local self-government decide for them, appointing a manager through a competitive process. And here, two cases arise in which the subjective opinions of local authorities play the decisive role.

The first case: appointment through a competition. The very mechanism of competitive selection allows for certain liberties — the setting of various criteria, including those that have no defined interpretation, or simply put, the creation of preferences toward a specific participant. For this very reason, a tendency has been building to replace competitions with auctions as the fairer and more objective means of determining the winner.

Moreover, it is possible to conclude an agreement without holding a competition altogether in case the competition is declared invalid. It is very obvious that conditions could be created for declaring competitions null and void. In such a case, the managing company may be appointed without any competition at all.

An agreement on apartment building management is concluded for a period of between one and five years, but at the same time, the system of management may be changed at any time by a decision adopted at a general meeting of apartment tenants. The managing company is thus forced to always remain in a «suspended» state, and in such a situation, it has no stimulus for voluntarily performing its obligations. It turns out that the manager is a «temporary» who has no desire to care about the future. Thus, in the absence of an underlying, long-term approach, only the immediate problems will get resolved. The entire section of the Housing Code of the Russian Federation devoted to issues of apartment building management needs to be improved.

The Council of Federation is receiving petitions from the regions with calls to implement a program on modernizing the state of existing housing. However, the financial resources for such a program remain undefined. The Government of the Russian Federation's plan of measures contains proposals to amend the Housing Code of the Russian Federation in the part on conditions for joint financing from federal and constituent entities of the Russian Federation budgets for expenses associated with the elimination of rundown and dangerous housing.

A comprehensive approach is required to resolve this problem. The situation in the sector is critical, the amount of housing of sufficient quality is far short of the population's needs, and a significant part of existing housing has unsatisfactory accommodations (plumbing, heating, hot water supply). It is essential to conduct annual capital repairs and reconstruction on 150 million square meters of housing; current financial resources are completely insufficient for completing an assignment of such proportions, and as a result, only 30 million square meters of housing are included in annual repairs.

The current Housing Code of the Russian Federation entrusts living accommodation owners with the obligation of carrying out capital repairs. In other words, all owners of privatized apartments must complete these repairs at their own expense, irrespective of their financial health. And yet, the apartment payments that these people made regularly until the adoption of the new Housing Code of the Russian Federation, included expenses for capital repairs that were never even carried out.

Additional immediacy to this issue is added by another norm of the Housing Code of the Russian Federation, which requires owners of property in an emergency-condition building to carry out its demolition at their own expense. Moreover, exceptions are not even made for cases when the housing reaches such a state because its capital repairs were not carried out within the required timeframes, or in the required amounts. And such a situation simply leads to a direct violation of the Constitution of the Russian Federation, which states that no one may be arbitrarily denied housing.

The difficulty in resolving this problem lies in that municipal districts, in whose jurisdiction the housing and utilities sector now rests, often do not have the resources to conduct even the emergency repairs, much less the capital ones; budget expenditures for capital repairs have already exceeded 100 billion rubles for 2006. In general, the solution to this problem, while it does go into the sphere of budgetary and inter-budgetary relations, nevertheless remains a political one in many ways, being a question of willpower. For now, one immediate measure may be the exclusion, through legislation, of the obligation for emergency-condition housing owners to pay for a building's demolition in case no repairs had been carried out on that particular property.

Efficient management must be introduced to the housing and utilities sector, and as the most complete possible transition made from monopoly to market relations: all services that may be performed by market structures must be moved to the market sector. At the same time, rules of the game must be established for this market, under which the newly created enterprises would free from unwarranted state interference and have the motivation to enter the market to conduct business in the housing and utilities sphere. Upon entering the housing and utilities sector market, the created market entities will need to be supplied with information, methodology and consulting support to help them overcome the administrative barriers.

Because municipal districts at present do not have the corresponding stimuli and authority to organize a system of utilities services on market conditions, in order to attract private business to the housing and utilities service sector, is essential to introduce corresponding amendments to the Federal Law «On the General Principles on the Organization of Local Self-Government in the Russian Federation». In addition, the need has now developed to improve the form of business ownership registration for companies involved in the housing and utilities sector. For this, it is essential to work out legislation that regulates the legal status of unitary enterprises.

Finances allocated from the budget are insufficient to pay for the modernization of the utilities services infrastructure and to restore the existing stock of housing. Investments must be attracted to the industry, implementing a mechanism of state-private partnership. In order to improve the industry's investor appeal and build even the remotest amount of confidence among investors in the safety of their financial commitments, it is essential ensure the wide-scale transfer of management over the utilities infrastructure to the corresponding business structures. This must be done through open auctions, under firm and non-discriminatory conditions.

At long last, 2005 saw the adoption of the Federal Law «On Concession Agreements». However, the law is of a fairly general, framework nature and does not resolve the problem of creating economically efficient cooperation between public entities and private investors on use of publicly and privately owned properties in concession agreements. Work on improving concession agreements must continue.

In addition, private capital involved in providing utilities services itself remains unconsolidated on the market, and a single conception is missing from the provision of such services. On their own, private companies also have trouble defending their interests. To a certain extent, the situation could be improved by the presence of a self-regulating organization, but work on the corresponding legislation has stalled. It is essential to complete work on such a draft law in the near future, and to adopt it.

The entire housing and utilities system remains strictly centralized, which hampers its improvement. There is an alternative — autonomous systems of heat, water and electricity supply. Their advantage rests in these resources potentially being generated closer to the location where they are used, thus minimizing the costs of building and then repairing their distribution networks and minimizing resource loss during delivery to the end-user. The efficiency of selecting the functioning regime is thus improved. But the introduction of such systems is being hampered by the fact that the entire legislative framework, including technical and technological regulations, as well as rules and standards, were developed particularly with a centralized supply system in mind. For this reason, the issue of developing modern technical regulations is gaining new relevance.

It is essential to complete the development, agreement and adoption of regulations on water, heat, electricity and gas supplies as quickly as possible. Unfortunately, this work is progressing slowly, even though the adoption of technical regulations covering the utilities and housing service sector should move slightly ahead of housing and utilities sector reforms.

In the course of sector reforms, it is essential to create modern accounting and disclosure standards, in other words, to make the sector financially transparent and, as a consequence, manageable and financially attractive to businesses. It is essential to develop a system of qualified management, and to organize full-fledge modern standards training for management personnel.

An important problem requiring improved legal regulation involves intellectual property protection. In the opinion of international experts, Russian legislation in the intellectual property sphere overall corresponds to the generally accepted norms of international rights. However, the practice of its implementation often does not correspond to international requirements, and for this reason, especial attention is devoted to this issue against the backdrop of Russian economic development and its accession to the World Trade Organization.

The Address to the Federal Assembly for 2006 especially underlined the need for the secure protection of intellectual property rights, both inside (including for the purpose of meeting our obligations before our foreign partners) and outside the country, so as to improve the defense of Russian copyright holder interests.

The main result of 2006 legislative activity concerning the legislative provision of the institute of intellectual property became the federal law «The Civil Code of the Russian Federation. Part Four», which enters into force on January 1, 2008.

Part four of the Civil Code of the Russian Federation unified previously disparate regulations of existing legislation on copyrights and allied rights, trademarks, legal protection for

computer programs, and patent rights. It included both standing and new legal institutes. Among the new ones — the institute for protecting the exclusive rights of a database creator to this database's contents; the exclusive allied right of a publisher — citizen who for the first time released a work of literature, science or art, which had not published while the copyright remained valid and which became a part of the public domain, or which was never protected by a copyright to begin with; the right to know-how (production secret); the right to use the results of intellectual activity as part of a single technology.

Part four of the Civil Code of the Russian Federation clarifies the following issues: protection of a legal entity's company name, on a commercial basis, which in contrast to a company name that identifies the legal entity, is called on to identify the company (store, restaurant, plant, etc) as a production unit; the initial origin of the right of its author; the appearance and transfer of the exclusive right to the results of the creative process; copyright for employment-related pieces of creative work; employee awards received from employers; copyright protection.

Especially attention is devoted to the regulation of the main types of agreements whose subject may by law be the intellectual property involved in an agreement on the civil-law sale of the exclusive right to the intellectual property; licensing agreement guaranteeing the presentation of the right to use the results of intellectual activity or the means of individualization.

Part four of the Civil Code of the Russian Federation established the grounds for significantly stricter measures of legal responsibility for the violation of copyright or allied rights. The sphere of criminal legal responsibility envisions grounds for the confiscation of equipment or materials used to violate the copyright law, with their subsequent destruction at the expense of the offenders. In addition, special administrative measures may be applied against organizations and entrepreneurs who operate without creating a legal entity — compulsory liquidation (the termination of the entrepreneur's registration). As part of additional protection guarantees, limits are set on the application of recovery of the exclusive right that belongs to the author or performer. The opportunity is created for placing a legal obligation on a publisher to start using a work of literature no later than a date set by a licensing agreement, with the violation of that deadline leading to agreement termination on the author's initiative, without publisher compensation for resulting damages, as well as the opportunity to seek from the publisher the full amount of royalties stipulated in the agreement.

In 2006, the issue of protecting intellectual property rights was considered in the adoption of other laws. Thus, the Federal Law «On Protection of Competition» has provided for measures protecting the results of intellectual activity under conditions of unfair competition. In particular, it presents a list of measures that are considered to be unfair competitive practices: the sale, trade or other form of transaction with a good, if at the same time the results of intellectual activity were used illegally, and similar means of legal entity individualization, as well as means of individualization of production, works and services; illegal acquisition, use and disclosure of information that is a commercial, work-related and other type of secret protected by law; the illegal acquisition and use of exclusive rights to means of individualization of a legal entity, and means of individualization of production, works and services.

The Federal Law «On Advertisement» has secured the requirement for adherence to Russian Federation legislation on copyrights and allied rights in the production, placement or distribution of advertising. In this legislation, the lawmaker identified the results of intellectual activity as «advertised objects», and prescribes to: protect the results of intellectual activity and the means of intellectualization of a legal entity, production, works and services; protect objects of intellectual property that become the inalienable part of advertisements for other goods, works and services; protect creative pieces covered by copyrights and allied rights that are used in advertisements; protect against unfair competition.

Special requirements and restrictions established by these federal laws also cover advertisement of the means of the individualization of goods, their producers or vendors. In particular, misleading advertising now covers advertising that contains false information about

exclusive rights. Advertising for a good has been banned as unfair if it uses a trademark or service mark that is identical, or similar to the point of confusion, to a trademark or service mark of another product.

The Federal Law «On Making Changes to Certain Legislative Acts of the Russian Federation» established a mandatory requirement for including in the name of a public association (non-governmental organization) the personal name of the citizen, as well as the symbol, covered by Russian Federation legislation protecting intellectual property or copyrights, as well as the full name of another legal entity a part of the proper name for state registration of a public association or non-governmental organization in documents establishing their use.

Changes were also introduced to the Tax Code of the Russian Federation that secure the new procedure for determining and recognizing the income and expenses associated with intellectual property assets.

In order to establish legal protection and the declassification procedure for secret inventions made in the Soviet Union, a federal law was adopted «On the Ratification of the Agreement on Mutual Protection of Inter-State Secrets in the Sphere of Patent Rights», aimed at introducing classified inventions for international legal use, and securing protection against the unsanctioned release of information about them.

Stricter measures are due to be introduced in 2007 on criminal responsibility for intellectual property violations. The State Duma is considering a draft federal law that proposes to increase to six years the upper limits of sanctions, in the form of incarceration, for such crimes.

The state's policy in the sphere of intellectual property is a component of the strategy for development of innovation — the creation of «an economy of knowledge». Many problems remain unresolved within the frameworks of this policy. The results of scientific and technical activity for their most part do not reach the stage of commercialization and efficient sale on either the domestic or foreign markets, and are not included on company balance sheets. The country lacks a system of control over the transfer of Russian technology to other countries, and there is a drain of both specialists and intellectual property to foreign countries that threatens Russia's technological independence and may undermine the country's defense potential. Measures on counteracting the drain of specialists and intellectual property holders to foreign countries remain undeveloped, even at this stage. Still unresolved are issues concerning the protection of the defense industry enterprises' intellectual property rights, which leads to the loss of unique state information resources, and the loss of rights to the results of scientific and technical activity.

All of these threats are with us today because specific intellectual property issues were neither studied nor resolved in the course of the transition to an innovative economy. A vivid example of pirating may be cited in the case of the illegal production and sale abroad of automatic Kalashnikov rifles, where 9/10 of the foreign market is occupied by pirated production. More than 30 countries are involved in these rifles' production. In all the years of this activity, not a single suit has been filed in defense of Russian interests.

According to program documents in the field of science and innovation development through 2010, one of the goals of state policy is identified as the creation of economic conditions for entry to market of competitive innovative production, in the interests of implementing the strategic national priorities of the Russian Federation. In Russia, on average, only 8-10 percent of the innovative ideas and projects are used, whereas that figure stands at 62 percent in the United States, and 95 percent in Japan. According to data from both the Accounts Chamber of the Russian Federation and Rospatent, the Russian patents authority, only two percent of the patents were employed in Russia's civil and legal circulation in 2005, and less than one percent — in economic circulation.

Amid relative growth in budget expenditures on research and development as well as design work — from 18 billion rubles in 2000 to 74 billion in 2006 — the means invested by the state in scientific research are being used highly inefficiently. Capitalization has remained very low over all these years in this sphere, since the Russian Federation's rights to intellectual property

have been secured on only 156 objects, including: the Atomic Energy Federal Agency (Rosatom) — 125 patents, the Ministry of Defense — three patents (in Great Britain, for example, its ministry of defense alone receives 50 new patents every year).

Over the past five years, the number of chief federal budget administrators, who receive appropriations for scientific and scientific-technical work, has grown according to legislation from 53 in 2000 to 76 in 2005. Under the current organizational structure, it is difficult to secure efficient state control in this sphere. A comparative analysis of agencies' authorities in the intellectual property sphere leads to the conclusion that these authorities are being duplicated, and in some cases — do not correspond to existing international practice.

Moreover, weak implementation of the function of protecting the state's right to intellectual property assets is the result of a lack within the federal bodies of executive power of specialists who could purposefully work on issues of securing these rights' protection. Russia is lacking a smoothly running system of collective management over copyrights and allied rights, which according to the legislation is an integral element in the mechanism for protecting copyrights and allied rights. Many types of copyrights and allied rights are not included in the collective management sphere. Adequate means of protecting intellectual property during the use of digital information, particularly over the Internet, have not been developed either in theory or practice.

In order to improve the efficiency of protection in the intellectual property sphere, it is essential to adjust the authorities and functions of bodies of executive power, and to coordinate their activity. The development of legislation in the sphere of scientific and technical creations is an instrumental condition for the accomplishment of the strategic goal — the creation of an innovation economy, or «an economy of knowledge», which was outlined in the addresses to the Federal Assembly for 2005 and 2006.

Nevertheless, the problems of intellectual property have not been properly included in any of the target-oriented programs of the past 10 years. It would be expedient to secure the implementation of the «Development of Intellectual Property in the Russian Federation for 2007-2012» project.

An analysis of the modern state of the intellectual property sphere in the Russian Federation allows to isolate the following main problems requiring immediate legislative resolution: protection of state interests in the intellectual property sphere; allocation of exclusive rights to the results of intellectual activity created through state orders; improvement to the system of state control and oversight over intellectual property; creation of a state accounting system for the results of intellectual activity; protection over intellectual property objects on the Internet; efficient protection of intellectual property, including from unfair competition, and the fight against pirating; improving the education level of specialists of highest and general qualification, who work in the intellectual property sphere.

In the Budget Address of the President of the Russian Federation for 2006, improvement of tax and customs authorities' work was identified as a task that plays a system-forming role in state development. At the same time, a clear inadequacy is currently apparent in the normative regulation process of administering budget revenues (financial administration).

A correspondence between expenditures and results is one of the most important indicators of financial administration efficiency. In this connection, it is essential to note a number of legislative problems whose time for solution has come. At present, the budget, tax and customs legislations are insufficiently interlinked on an ideological basis. In many ways, they are executed separately from each other and do not provide for a unified system of approaches to regulating the process of creating revenues for the budget system of the Russian Federation. For example, only a systemic analysis of all the legislative and subordinate acts of tax, budget and customs legislation allows for the identification of the full spectrum of participants in the budget process, and of their specific functions.

Meanwhile, the legal status of tax authorities is systemically regulated by two acts that have almost no connection to other acts in this sector — the Tax Code of the Russian Federation and

the federal law «On Tax Authorities of the Russian Federation».

Currently, in essence two different bodies of executive power administer tax revenues: the Federal Tax Service and the Federal Customs Service. The bodies, correspondingly, act on the bases of statutes in the Tax and Customs Codes of the Russian Federation, which do not fully agree with each other on either the principles or methods of regulation.

The full list of taxes and levies is determined by the Tax Code of the Russian Federation. The full list of customs fees is determined by the Customs Code of the Russian Federation. But at the moment, there is legislative uncertainty on issues of normative regulation for the payment procedure and administration of tax payments, because this procedure is regulated by two basic laws in mutually exclusive ways, on the basis of contradictory approaches to this regulation.

The best solution to this problem would be the unification of customs and tax payments under a single system of taxes and levies by means a systematic correlation of the corresponding statutes of tax and customs legislation, while at the same time preserving the specific nature of customs administration in relation to taxes and levies collected on goods moved across the customs border of the Russian Federation. However, this specificity must be preconditioned by special regulations in the text of the Tax Code of the Russian Federation.

At the same time, it is essential to eliminate the more glaring contradictions in the regulation of financial administration. Rules regulated by the Budget and Tax Codes of the Russian Federation on operations concerning cash receipts for the budget system of the Russian Federation, and concerning the accounting of deposits to accounts opened by territorial bodies of the Federal Treasury in the cash settlement centers of the Central Bank of the Russian Federation, do not fully correspond to the procedure stipulated by the Tax Code of the Russian Federation.

The introduction of a procedure for initial payment of taxes to the account of a single tax authority, similar to the procedure provided for by customs legislation, will help: provide a single procedure for the payment of taxes and customs duties; simplify for all sides the procedure for the return and accounting of excessive amounts submitted by payers; simply the very procedure of tax payments by eliminating the need for taxpayer to fill out numerous payment documents with vast amounts of various details; avoid the duplication of accounting of revenue payments made by each taxpayer by the Federal Treasury and the Federal Tax Service; reduce the outlays for all participants in the process of creating revenues for the budget system.

So that this approach does not violate the cash register unanimity principle (accounting all budget revenues on a single account of the Federal Treasury budget), individual precisions are required in the part on determining the definition of budget revenues within the frameworks of budget legislation. Under the modern tax system, tax receipts do not immediately turn into revenues for the state. From these sums, excessive tax and other payments must be returned as part of the implementation of taxpayer rights to receive tax breaks and similar items. In addition, as demonstrated by the enforcement practice of tax payment execution as well as other countries' experience, it is expedient to temporarily deposit certain types of receipts on the accounts of future taxpayer obligations.

Based on the need to create a systemic and non-contradictory regulation of fiscal payment rules, which must not only correspond to the state's interests but also to the constitutional status of the taxpayer, it would be expedient to preserve the principle of a unified system of taxes and levies and to drop the idea of regulating various fiscal payments in various legislative fields.

Most issues concerning taxes and taxation, regardless of which authority controls their payment, should be regulated by legislation on taxes and levies. However, statutes directly associated with financial administration should reflect the specific nature of how this process is organized, depending on the type of payment. Yet these regulations should also not touch the fundamental principles of taxation or create contradictions in the system of financial legislation.

Today, there is a clear need to develop and implement a simple and efficient mechanism for financial administration, on both a legislative level and in enforcement practice, which would

guarantee minimal expenditures for all its participants. The oil sector tax policy is currently aimed at maximizing federal budget cash receipts, thanks to a favorable world oil price environment, for the purpose of creating conditions for sector development. The main elements of tax regulation in the oil sector are the mineral extraction tax (herewith — MET) and the excise on oil products. And important role in non-tax regulation is played by customs duties.

The oil sector provides for a significant portion of federal budget revenues. Thus in 2006, the share of tax proceeds (including customs payments) from the oil sector represented 42.4 percent of all federal budget revenues. For the 2007 federal budget, this indicator has been set at 40 percent. At the same time, the forecasted budget receipts from MET and excise payments on oil products are expected to drop by 8.9 percent in 2007 compared to 2006, to 986.3 billion rubles. Receipts from export customs duties on crude oil and oil products are expected to grow in 2007 by 3.3 percent to 1,588 billion rubles. This is associated with an increase in the forecasted average price of oil, planned two-percent rise in oil production, and a 2.3-percent increase in oil export volumes.

The introduction in 2002 of a single MET rate pegged to the global price of oil for all taxpayers has led to a sharp increase in tax revenues for the budget system of the Russian Federation, and helped to add the oil price revenues to state receipts. In addition, this approach turned out to be an efficient method for fighting tax evasion through transfer pricing.

However, a single MET mechanism does not allow for the accounting of objective factors associated with the particular features of individual deposits (particularly, the production conditions, initial crude qualities, stages of field development, and territorial factors). For this reason, one of the negative consequences of applying a unified MET rate under conditions of high global oil prices has been the tendency for production being pursued at the most profitable subsoil deposits, at the expense of production on depleted fields in their late stages of development.

Today the MET, levied in part to help resolve the problem of creating renewable natural resources and compensating damages caused to the environment and the population in areas of oil extraction, is not helping achieve these goals. The amount of geological exploration work is being cut back, the ecological balance is not being restored in areas where oil extraction enterprises and refineries are located, and the health rate of these areas' populations is dropping.

The time has come to improve the tax mechanism for regulating subsoil users, first of all in the direction of differentiating taxation depending on the specific characteristics of the subsoil-use site. While differentiating the MET, it would be essential to:

- create investment conditions for developing oil resources in new oil and gas producing regions, where development is currently unprofitable and requires a significant infusion of capital investments and creation of new infrastructure, directly tied to the geographical and geopolitical factors of deposits in such regions;

- provide for the profitability of new deposit development in regions historically associated with the oil and gas industry but which have hard-to-recover reserves, and also have oil of lower quality and lower consumer price;

- take into account the environmental and climate conditions of the territory on which the deposit is located, as well as the its geographical location and geological development factors.

Adopted in 2006, the federal law «On Making Changes to Chapter 26 of Part Two of the Tax Code of the Russian Federation and Recognizing the Expiration of Separate Provisions of Legislative Acts of the Russian Federation» accomplishes its set goals. It established, from January 1, 2007, a zero MET rate for oil deposits located in the Eastern Siberian oil and gas province, until the accumulation of 25 million tons of produced oil at the subsoil site.

For oil deposits in their closing stages of development (developed by more than 80 percent), a reduced MET rate was introduced effective January 1, 2007. At the same time, the exact adjustment coefficient size will be determined separately for each subsoil site, depending on the level of deposit development established by method of directly counting the amount of oil produced.

However, the issue of MET rate differentiation for small and medium-sized oil companies

that do not export oil or do so in only small amounts (up to one-third of the total amount of production) remains unresolved. Amid high global oil prices, these carry a higher tax burden than the major exporters. In the meantime, the state's policy concerning subsoil users should be aimed at providing a harmonious development of all sectors of the oil production industry.

Throughout the entire course of market reforms, the issue of excise taxes on oil products remained only a matter of debate. The major Russian oil companies controlled the entire «producer — intermediary — retailer» chain, with its links often located in different regions of the country. Which legal entity of this chain held the official registration, and in which region was rewarded with excise payments, was decided by the companies themselves. This oil company policy resulted in the concentration of proceeds from excise payments on oil products in a small number of regions — by place of these oil products' production.

The employed mechanism of excise collection failed to promote the stimulation of production of high-quality oil products, and complicated tax administration. Established in 2003, the excise payment mechanism turned out to be inadequate, strengthening the monopolistic status of the major companies and failing to promote the equal distribution of proceeds between territorial budgets.

As practice showed, it appeared expedient to return to the practice of levying oil product excises on entities that manufacture oil products (oil-refining organizations). In this connection came the adoption of the federal law «On Making Changes to Chapter 22 of Part Two of the Tax Code of the Russian Federation and Certain Other Legislative Acts of the Russian Federation», which modified the mechanism of levying excises on oil products. From January 1, 2007, the practice was implemented that excise payments be made by the manufacturing enterprises (oil refining organizations).

An important problem for the budgets of the constituent entities of the Russian Federation is the uneven territorial distribution of proceeds from oil product excises. Currently, this problem is being resolved within the frameworks of budget legislation, with the introduction on January 1, 2004 of a mechanism for redistributing a part of the oil product excises between the constituent entities of the Russian Federation according to a developed criteria: 50 percent of the oil product excise revenues are distributed between budgets of the constituent entities of the Russian Federation to finance road works, as per regulations established by appendixes to the law on the federal budget. As a result, since 2004, only 10 percent of the excise proceeds have reached the territories' actual budgets.

It is also essential to review the regulations for the transfer to budgets of the constituent entities of the Russian Federation of tax revenues from the mineral extraction tax on crude oil. It would be expedient to establish a procedure for transferring 20 percent of tax revenues from the mineral extraction tax on crude oil to regional budgets.

The system of oil sector taxation is one of the most effective and flexible means of state influence on the dynamics of oil and oil product prices on the domestic market. Under conditions of a sharp rise in prices on the global oil market, the level of the tax burden on the oil industry has risen as well. Russia occupies one of the top spots in the world according to state collection of revenues from taxes levied on the oil industry (through taxes, export duties and other payments).

In the opinion of oil companies, the high level of taxation and the pegging of most its elements to the dynamics of global oil prices is one of the key factors behind the growth of oil product prices in the country. The creation of an efficient system of taxing oil production and the use of tax regulations in accordance with the goals of developing the oil sector would promote the creation of conditions for averting a crisis on the domestic market and lead to the stabilization of oil product prices.

Despite a rise in federal budget revenue tax receipts, the federal budget still receives significantly less than its full potential due to legislative framework loopholes, which dishonest taxpayers use to avoid paying taxes.