OECD Urges Russia to Boost Inward Investment by Easing Foreign Ownership Rules

Russia should ease limits on foreign ownership in banking and insurance, domestic transport and energy industries and improve regulatory transparency to attract more investment, according to a new OECD report.

The OECD Investment Policy Review – Russian Federation: Progress and Reform Challenges reviews the progress made by Russia to attract more foreign investment over the last three years. Some progress has been made. The Tax Code is clearer, its new foreign exchange law has been brought more into line with OECD standards and a new code has speeded up customs clearance procedures.

But Russia can do more to make itself more attractive to foreign investors, the Review asserts. At present, lack of confidence in the way Russian courts enforce the law and corruption throughout the public sector continues to undermine investors’ trust in Russia’s legal system. Russia should do more to protect private property rights, tackle corruption and make contracts easier to verify and enforce, the OECD recommends.

Russia should:

- Create a level-playing field so foreign companies can compete with domestic firms in the privatisation of state-owned companies. Investors are concerned that privatisation held to date could be challenged in a court of law because existing privatisation laws are inconsistent and contradictory. The government should clarify the laws and the selection process for bidders.

- Reform the gas sector and improve the regulatory approval process. It should, in particular, relax restrictions on foreign ownership of shares in the natural gas monopoly, Gazprom, and the main electricity provider, United Energy Systems.

- Make the laws on foreign investment in the telecoms sector clearer. A 2003 law implies that foreign companies can invest in telecommunications operators but in practice the way licences are awarded and radio frequencies allocated remains opaque and deters investors.

However, corporate governance is improving in a number of areas; the government’s commitment to quickly adopting International Financial Reporting Standards is encouraging, the report notes.

But it is still difficult to find out who actually controls companies. Russia should streamline federal laws on disclosure, strengthen enforcement and put in place clear rules on mergers and acquisitions.

For further information or to obtain a copy of the report, journalists are invited to contact the OECD’s Media Relations Division (tel. 33 1 4524 9700 or news.contact@oecd.org).