I. The Russian Ruble Remains Insufficiently Convertible into the Currency of Other Countries to Consider Russia a Market Economy Country

A. Summary of Comment

The Russian ruble is not freely convertible due to the Russian Government's maintenance of extensive currency controls.

B. The Department's Standard

Under Section 771(18)(B)(i), the Department considers the convertibility of currency as evidence of whether a country is integrated with the world economy through access to world markets and foreign goods and the ability to purchase those goods.[1] Of particular significance is the convertibility of the country's currency for current account purposes, i.e., whether the currency can be freely converted to other currencies within the country in order to purchase imported goods and services.[2] The Department has also examined whether there are foreign exchange surrender requirements and whether the currency is convertible for investment purposes.[3]

C. The Russian Ruble Is Not Sufficiently Convertible to Indicate Market Economy Status

The Russian ruble is not a freely or fully convertible currency. The Government of the Russian Federation continues to impose restrictions that significantly limit convertibility. For example, unrestricted foreign currency transactions are permitted only for short-term import/export contracts (within 90 days) and loans for terms of less than 180 days.[4] For longer-term transactions, permission must first be obtained from the Central Bank of Russia (CBR).[5]

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[1] See Poland NME Memo at 10.
[2] See, e.g., id., Hungary NME Memo at 6; Latvia NME Memo at 6.
[3] See, e.g., Slovak NME Memo at 5; Czech NME Memo at 5; Latvia NME Memo at 6.
[4] See *Country Commercial Guide: Russia, FY 2001*, U.S. Department of Commerce, Ch. 8, "Trade and Project Financing," available at http://www.usatrade.gov/website/ccg/nsf ("DOC Guide").
[5] See *Annual Report on Exchange Arrangements and Exchange Restrictions, 2000*, International Monetary Fund, Russia chapter at 731, attached as Exhibit 1.

Further, the government requires residents engaged in export activities to repatriate all foreign currency earnings and surrender 75 percent of those proceeds for rubles within 7 days. Indeed, the current law governing foreign exchange, which came into effect on January 1, 1999, represents a more restrictive rule than that previously in effect, which, while restrictive, required that residents surrender only 50 percent of proceeds within 14 days.[6] In addition, exporters must sell their hard currency at specially authorized exchanges only, which prevents them from seeking the most favorable exchange rate available at commercial banks.[7]

These controls are in stark contrast to the rules existing in the Czech Republic, Slovakia, Hungary and Latvia at the time the Department decided to revoke their NME status. These countries did not have surrender requirements and few, if any, restrictions on the use of foreign exchange for domestic business transactions or international trade activities.[8] The currency controls maintained by the Russian Government, however, have obstructed the Russian economy's integration with the world economy, which is contrary to market principles. Given these facts, the Department must find that the Russian ruble is not sufficiently convertible to support a finding of market economy status.

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[6] See id.

[7] See The Economist Intelligence Unit report on Russia under "Forex Regulations" (June 5, 2001), *available at* Yahoo! Finance - International Finance Center.

[8] See Slovakia NME Memo at 4-5; Czech NME Memo at 5; Hungary NME Memo at 6-7; and Latvia NME Memo at 6-7.