

CIS LEGAL NEWSWIRE

COMMONWEALTH OF INDEPENDENT STATES

November 13, 2001

RUSSIA

Tariff on Gold Export Cancelled

On October 25, 2001, the RF Government Commission on Protective Measures in Foreign Trade, Customs and Tariff Policy (the "Commission"), headed by Alexei Kudrin, Vice Premier and RF Minister of Finance, issued a decision canceling the current 5% tariff on the export of gold. The tariff was established pursuant to RF Government Resolution No. 1364 "On Approving Customs Export Tariffs on Goods Exported from the RF Beyond the Territory of States that Are Parties to Treaties of the Customs Union," dated December 9, 1999. In effect, this tariff constituted an additional tax on the production of gold in Russia. Furthermore, as Minister Kudrin's press secretary Gennady Ezhov pointed out, the Commission's decision was also prompted by the fact that many Russian banks were exporting gold through other countries (mainly Belarus) to take advantage of the lack of tariffs between the countries that are members of the Customs Union. The Commission expects that a corresponding RF Government Resolution to cancel the 5% tariff will become effective on January 1, 2002. /E. Korotkova and A. Lebedev

Liberalization of Diamond Market May Be Forthcoming

According to various information published recently in the Russian media, a Presidential decree (the "Decree") concerning liberalization of the export of rough and cut diamonds is currently being prepared by the Presidential administration. As contemplated by the draft Decree, in addition to the Russian company ALROSA and Gokhran, the state body which oversees certain matters concerning precious metals and stones, other Russian producers of cut diamonds will be granted the right to export such diamonds without restrictions. The Decree would be an indication that Russia is abandoning its current single-channel system of supplying cut diamonds to the world market.

If the Decree is signed, the rules for export of rough diamonds may also change. Currently, while DeBeers is the exclusive purchaser of all exported Russian rough and cut diamonds, under the current trade agreement with DeBeers, which expires at the end of December 2001, Russia also has the right to sell 5% of rough diamonds allocated for export on the free market. The Decree provides that producers of cut diamonds would have the right to export diamond ore and rough diamonds in an amount not exceeding 15% of the value of all such ore and rough diamonds purchased by them in Russia (the value of such diamond ore and

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rough diamonds shall be determined at the time of export). The remainder must be processed in Russia, although diamond ore and rough diamonds of a lower quality may be sent abroad for processing on a tolling basis. If the Decree is issued, it is clear that additional regulations governing the procedure for such sales, as well as establishing the time periods for, and frequency of, such sales, would have to be promulgated.

According to the published calculations of some Russian analysts, if the Decree is issued, the value of Russian cut and rough diamonds that will flood onto the world market annually will be at least US \$120 million. Therefore, there have been internal discussions that liberalizing the export of Russian diamonds could destabilize the market. In fact, Gokhran has been very cautious in commenting on the possibility of adoption of the Decree, noting that the draft is still at a very preliminary stage. /E. Korotkova and A. Lebedev

Land Code Comes Into Force

On October 25, 2001, President Putin signed the Land Code into law after nearly a decade of heated debate. The Land Code came into force on the day of its official publication, October 30, 2001. As we have previously reported in the *CIS Legal Newswire* (see the July 17, 2001 and October 8, 2001 issues), the Land Code allows Russian citizens and foreigners to buy and sell commercial and residential land and establishes that up to 2% of Russia's 1.7 billion hectares of land may be sold. Among other things, the Land Code allows entities to contribute leasehold rights to the charter capital of a legal entity and prohibits privatization of buildings, including industrial complexes, without simultaneous privatization of the underlying land plots.

In general, the Land Code provides foreigners the same rights as Russian citizens with respect to land, with the only exception that foreigners will not be permitted to own land in certain federally-designated border regions and regions considered to be of strategic importance. Although this general ban is already effective, the specific regions have yet to be designated by a Presidential decree.

The Land Code establishes the purchase price of land in a range from 5 to 30 times the land tax rate, depending on the size of the city. According to current calculations of some analysts, even the highest price for land in Russia, which is projected to be inside Moscow's Garden Ring (*i.e.*, the city center) – 720,664 Rubles per hectare (approximately US \$2.43 per square meter) – is still below the current market value. The Moscow City Government has expressed concern over such potentially low prices for prime land and has reportedly been making efforts not to allow such land to be sold below market value. It is likely that the issue of ownership of land (*i.e.*, municipal versus federal ownership) will give rise to numerous disputes between the municipal and federal governments.

As a result of a compromise to ensure its passage, the Land Code does not cover agricultural land. It is expected that the RF Government will submit separate legislation on agricultural land to the Duma by the end of 2001. Until such legislation is adopted, agricultural land cannot be sold at all, with the exception of land in the Republic of Tatarstan and the Saratov Region, which have already passed laws allowing such sales. The Law "On Introducing the RF Land Code into Force" provides that, until relevant federal legislation is adopted, agricultural land transactions will be regulated in accordance with the laws of the respective federal subjects (*i.e.*, regions). /N. Menshikova

AZERBAIJAN

Azeri Parliament Approves Gas Deal

Recently, Azerbaijan's Parliament ratified an agreement with Georgia to transport natural gas from the Azeri offshore field Shah Deniz to Turkey through Georgia. As we discussed in the October 8, 2001 issue of the *CIS Legal Newswire*, under this agreement, Georgia would receive an initial fee of US \$2.50 per 1,000 cubic meters of gas, to be gradually increased to US \$5.00. The agreement also establishes that Georgia may receive some payments in kind. Georgia's Parliament has yet to ratify the deal, with debate expected to begin only in December.

Valeh Aleskerov, a top executive of the State Oil Company of the Azerbaijani Republic (“SOCAR”), was quoted in the local media saying that if Turkey’s gas market is liberalized, Azerbaijan could be forced to sell a portion of the gas from Shah Deniz elsewhere – including Europe. According to a sales agreement signed last year, Turkey has committed itself to buying all of the gas produced at Shah Deniz – 6.6 billion cubic meters per year – over a period of 25 years at fixed prices. If Turkey fails to perform under that agreement, Aleskerov claims that the BP-operated Shah Deniz consortium would be entitled to sell a portion of the gas elsewhere. /L. Agajanova

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