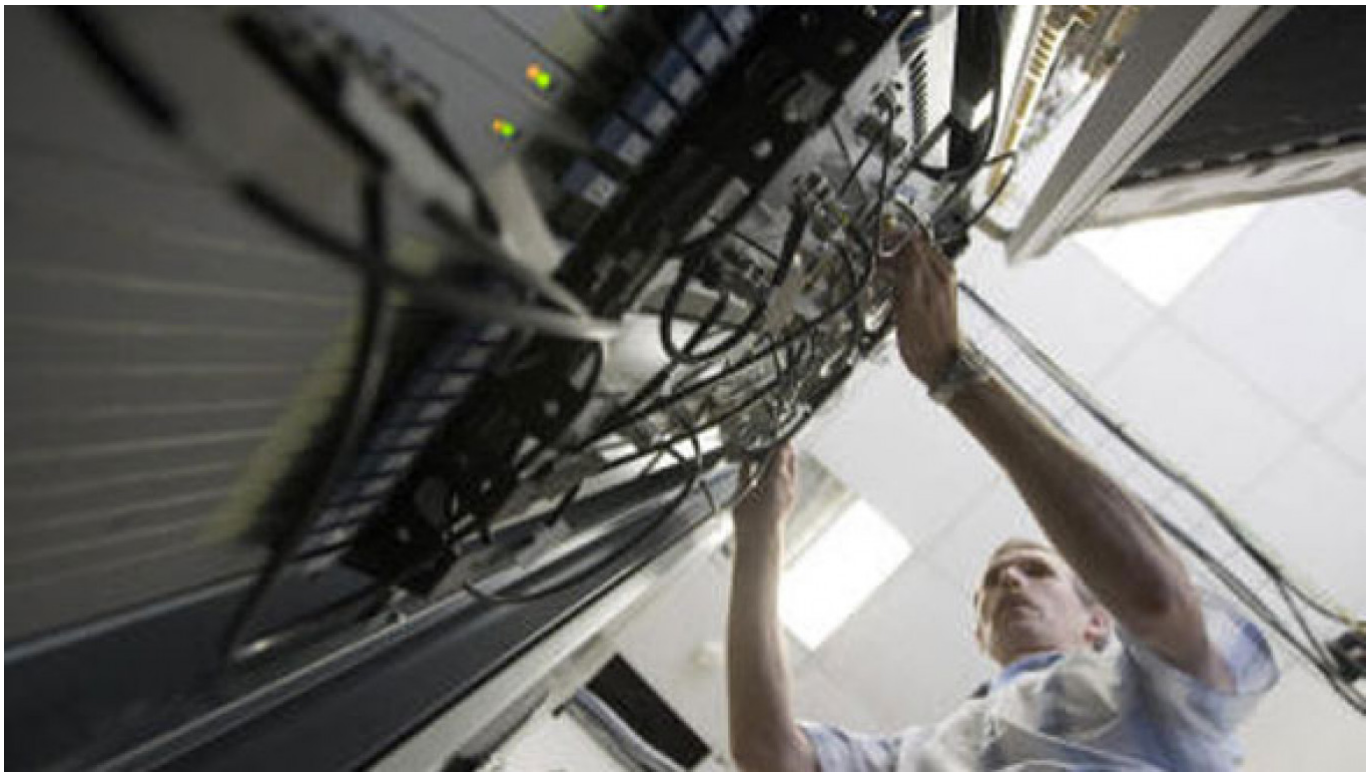
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IT Firms See Risks in State Regulation

By Irina Filatova

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Maxim Stulov

A highly contested law allowing the courts to block online resources suspected of having pirated content came into force on Thursday amid claims by domestic IT companies that ineffective government regulation is hampering innovation in the computer technology industry.

Senior executives at 33 percent of Russia's IT companies said poor government regulation was a key barrier for the commercial promotion of innovative technology in the country, according to figures provided by KPMG onWednesday.

The consulting company surveyed 33 IT firms earlier this year, including startups and market majors with the annual revenues of more than 1.5 billion rubles ($50 million). KPMG did not disclose the names of the participants.

A year ago just 19 percent of respondents were unsatisfied with the quality of the government

regulation.

The upward trend is not surprising, given recent initiatives by lawmakers, said Matvei Alexeyev, executive director at the Foundation for Assistance for Internet Technologies and Infrastructure Development.

The anti-piracy law aimed at fighting online copyright violations that began work on Thursday was preceded by legislation permitting the blocking, again without a court case, of websites promoting child pornography, suicide or drug use, which went into effect in November.

Both initiatives took immediate fire from the IT industry, with companies and lobby groups claiming that the legislation took no account of the the technological realities of the Internet.

Under the laws, all websites with a common IP address must be blacklisted.

However, the number of resources registered under one IP address can exceed 100, Alexeyev said, putting websites with legal content under threat of being blocked.

"It's like the police detaining all the residents of an apartment block instead of grabbing a criminal living in one apartment," he said.

The first law, targeting child pornography, suicide and drug use propaganda, has already plowed into the industry — hosting providers have lost 18 percent of their clients since it went into force, Alexeyev said. Introducing the legislation has resulted in an increasing outflow of online content developers who prefer to work abroad, he added.

"They are afraid that they may fall under the law at any time and have their website closed, regardless of whether it's legal or not," he said.

The government's crackdown on the online pirated content also poses significant risks to the IT industry, said Anton Malginov, head of the legal department at Mail.ru Group. The new law might even be ineffective in fighting online piracy, he said in e-mailed comments, since changing hosting providers and finding loopholes is an easy task for abusers.

Mail.ru Group was among the companies that signed an open letter highlighting the concerns of the IT industry over these risks, published shortly after the law was passed by the State Duma on June 21.

The legislation does not take into account the possibility of the legal use of the copyrighted content, said the letter, posted on the website of the Russian Association for Electronic Communications. It "provides wide opportunities for misuse and unfair competition," the letter said.

Search engines Yandex and Google Russia, holding company Afisha-Rambler-SUP, as well as RU-Center and Ozon.ru, were among those who signed the petition.

Industry players proposed a list of amendments to the law before it was considered by the State Duma, but not a single proposal made it to the final version of the text, Alxeyev said.

The number of legal acts regulating the Internet industry is steadily growing, Malginov said, but most of them do not take into account the technical details of the industry or the interests of the companies involved.

The result is negative feedback from IT companies. These expect lawmakers to focus on stimulating the industry by providing various benefits, he said, rather than throw up obstacles.

Non-balanced legal regulation could indeed damage the Internet market, Yandex said in e-mailed comments, adding that it mentions the shortcomings of the legislation in financial reports as a possible operational risk.

Another recent initiative by lawmakers that caused a fuss among industry majors is a proposal to block sites containing expletives. But this time, the Duma deputies seem to have come around to businesses' point of view.

Earlier this week, IT companies managed to persuade Duma Deputy Yelena Mizulina — the inspiration behind the ban — that the initiative would have no positive results.

"We secured a small victory at least," Alexeyev said.

Meanwhile some companies said they are satisfied with the existing regulation of the industry. While online content providers sit on a volcano, the rest of the industry has not seen any significant regulatory changes over the past year, said Vadim Tereshchenko, senior vice president at software developer ABBYY.

Many IT companies still enjoy various benefits, he said.

"Overall, the regime of work for the IT industry in Russia remains rather liberal, and I don't see any reason to say that the government is slowing its development down," he said.

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