Section 4. The Real Sector of the Economy

4.1. Production of the microstructure[1]

4.1.1. Dynamics of the Russian economy in 2015: the effect of external and internal demand

The main factors behind development of the Russian economy in the past two years were as follows: shrinkage of external demand and depreciation of prices on Russia's main primary sector commodities which make up the basis of the export potential; weakening of domestic demand due to a drop in revenues of the economy and growth in costs; narrowing of the extent of imports which formed over one-third of domestic market resources; reduction of volumes of domestic and foreign capital investments.

Table 1

Dynamics of the main factors behind development of the economy in the 2009–2015 period, % of the previous period

	2009	2010	2011	2012	2013	2014	2015
GDP	92.2	104.5	104.3	103.5	101.3	100.7	96.3
Domestic demand, including:	85.3	108.3	108.8	105.5	100.5	101.3	89.7
Households' ultimate consumption	94.9	105.8	106.8	107.4	103.7	101.7	89.9
Capital investments	84.3	106.3	110.8	106.8	100.8	97.3	91.6
External demand	95.3	100.7	100.3	101.4	104.8	99.4	92.4
Average export prices	66.5	123.1	132.9	101.6	95.7	94.3	64.8
Average import prices	99.1	101.7	109.2	97.3	102.5	98.2	81.1
Consumer price index	108.8	108.8	106.1	106.6	106.8	109.1	112.9
Oil prices	63.4	128.7	139.3	101.0	97.2	90.9	52.9
Official rate (Rb/USD)	102.9	100.7	105.6	94.3	107.8	171.9	129.5

Source: The Rosstat.

In the 2009–2015 period, economic growth rates gradually fell, disparities in production and consumption consolidated, manufacturers' investment activities fell and imbalances between technological parameters of capital assets and investments in capital assets by the base type of economic activities increased. Development based on extensive utilization of the main factors reduced competitiveness of the Russian economy and dynamics of its development. Growth in investments in capital assets observed in H2 2012 failed to result in a higher return per unit of

[1] Author of this section: Izryadnova O. – Gaidar Institute for Economic Policy.

invested funds and labor. Expansion of domestic consumer demand prior to H2 2014 is related to growth in wages which exceeded a great deal the dynamics of labor efficiency.

Table 2

The main macroeconomic indicators of the socioeconomic development in the 2008–2015 period, % of the previous period

	2008	2009	2010	2011	2012	2013	2014	2015
GDP	105.2	92.2	104.5	104.3	103.5	101.3	100.7	96.3
Industrial production index	100.6	90.7	107.3	105	103.4	100.4	101.7	96.6
Production of primary products	100.4	99.4	103.8	101.8	101	101.1	101.4	100.3
Manufacturing	100.5	84.8	110.6	108	105.1	100.5	102.1	94.6
Agricultural products	110.8	101.4	88.5	123.0	95.2	105.8	103.7	103.0
Business volume in building	112.8	86.8	105.0	105.1	102.5	100.1	97.7	93.0
Capital investments	109.5	86.5	106.3	110.8	106.8	100.8	97.3	91.6
Retail trade volume	113.7	94.9	106.5	107.1	106.3	103.9	102.5	90.0
Volume of paid services to households	104.3	97.5	101.5	103.0	103.7	102.0	101.3	97.9
Foreign trade turnover	132.5	63.7	132.7	130.6	103.5	100.2	93.2	66.6
Export	134.6	63.7	132.1	131.3	102.3	99.2	95.1	68.2
Import	130.7	64.1	131.1	128.4	105.3	102.3	92.2	63.0
Consumer price index as of year-end	113.3	108.8	108.8	106.1	106.6	106.8	109.1	112.9
Industrial producer price index as of year-end	93.0	113.9	116.7	112.0	105.1	103.4	106.1	110.7
Households' real disposable cash income	102.4	103.0	105.9	100.5	104.6	104.0	99.3	96.0
Real accrued wages	111.5	96.5	105.2	102.8	108.4	104.8	101.2	90.5
Real size of granted pensions	118.4	110.7	134.8	101.2	104.9	102.8	100.9	96.2
General unemployment level, %	6.2	8.2	7.3	6.5	5.5	5.5	5.2	5.6
Balanced financial result	62.9	116.6	144.1	114.2	110.8	82.7	90.9	148.6
Labor efficiency	104.8	95.9	103.2	103.8	103.0	101.9	100.8	96.8

Source: The Rossta.

On the basis of the 2015 results, GDP amounted to 96.3% on the 2014 index and decreased for the first time after the 2008–2009 crisis. As compared to the 2008-2009 crisis, in 2015 GDP reduction was less dramatic and determined by differences in the dynamics of individual components of the aggregate demand over the past five years.

The common factor behind the situation of 2009 and 2015 was a drop in domestic demand, while the difference of the 2015 situation consisted in prevalence of positive dynamics of external demand. Such correlation of rates of external and domestic demand in 2015 was registered only during the acute phase (Q3 1998 – Q2 1999) of the crisis.

If in the 2010 – Q1 2013 period domestic demand grew at an advanced rate as compared to GDP and external demand, from Q2 2013 the situation changed – the dominating factor behind stagnation of the Russian economy was a sudden slowdown of growth rates of domestic demand. It was in the above period a trend of slowdown of consumer demand started to emerge. From H2 2014, the situation became much more complicated due to formation of radically new political and economic factors. Changes in the global market situation with a simultaneous introduction of sanctions and countermeasures had a great effect on the main parameters of functioning of the economy. In Q3 2014 and Q4 2014, the ruble exchange rate started to depreciate and the rate of inflation sped up with reduction of external demand. In Q4 2014, domestic demand was formed under the effect, on one side, of a sudden surge in feverish consumer demand initiated by households' higher inflation expectations, while, on the other side, by shrinkage of investment demand due to appreciation of credit resources with dynamic growth in the

key rate within a year from 5.5% (February 03, 2014) to 17% (December 16, 2014). That combination of factors determined the starting conditions of 2015.

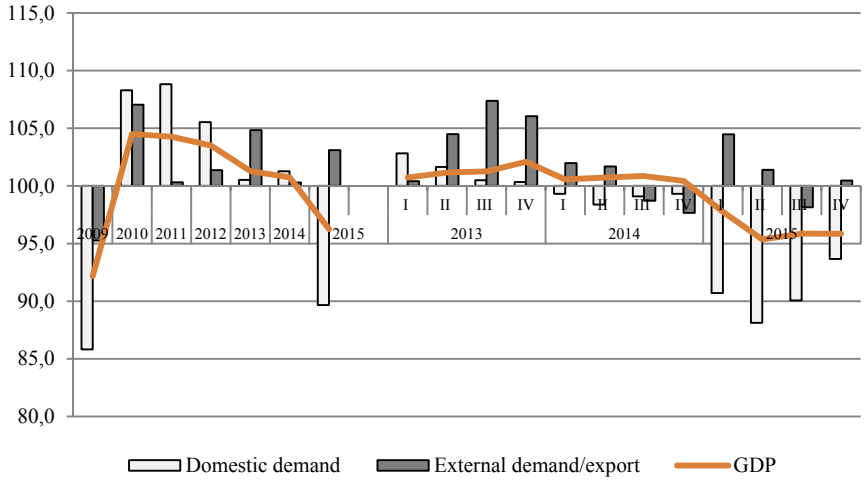

Fig. 1. GDP dynamics by components of domestic and external demand in the 2009–2015 period, % of the respective period of the previous year

Source: The Rosstat.

Table 3

Contribution of net exports to GDP in the 2011–2015 period (according to the SNA methods)

	2011	2012	2013	2014	2015
Current prices, billion Rb					
GDP	59698.1	66926.9	71055.4	77893.1	80412.5
net export	4854.4	4537.9	3988.4	5167.8	6511.3
export	16865.2	18324.8	18909.3	21464.2	23606.5
import	12010.8	13786.9	14920.9	16296.4	17095.2
% of result					
GDP	100	100	100	100	100
net export	8.1	6.8	5.6	6.6	8.1
export	28.3	27.4	26.6	27.6	29.4
import	20.1	20.6	21.0	20.9	21.3
% of previous year in comparative prices					
GDP		103.5	101.3	100.7	96.3
net export		80.8	113.2	119.3	171.8
export		101.1	104.6	98.0	103.1
import		108.7	103.8	93.2	74.4

Source: The Rosstat.

In Q1 2015, for the first time after the 2009 crisis a 2.2% drop in GDP on the respective period of the previous year was registered. Changes in the situation and prices on the global market had an adverse effect on the demand on Russian export goods. Limitations related to sanctions determined reduction and structural shifts in imports. In 2015, the monetary volume of exports of goods fell by 31.8%, while that of imports, by 37.0% as compared to 2014. Reduction of the exports of goods was justified by worsening of the global market situation: average prices on Russian export goods fell by 35.2% as compared to 2014. A drop in prices was partially offset by growth of 5.2% (according to the methods of the balance of payments) and 3.1% (according to the methods of the system of national accounts (SNA)) in physical volumes of exports.

The dynamics of imports is affected greatly by depreciation of the ruble, reduction of the economy's and households' revenues and restrictive measures introduced in respect of individual categories of goods. In 2015 a main factor behind a drop in import volumes of goods was reduction of 22.3% and 25.6% of physical volumes of import supplies according to the methods of the balance of payment and SNA methods, respectively, as compared to the previous year.

With the existing correlation between the rates and the pattern of the foreign trade turnover in 2015, Russia retained foreign trade surplus and its contribution to GDP dynamics grew to 8.1% against 6.6% in 2014.

Depreciation of the ruble exchange rate had an ambiguous effect on the Russian economy. On one side, it diminished the effect of external factors on individual sectors of the Russian economy, while on the other side it resulted in growth in production costs due to appreciation of imports of intermediate goods. Amid economic uncertainties, manufacturers' worsening expectations, inflation rate growth and limited options of replacement of lost external sources of funding, shrinkage of the domestic market consolidated.

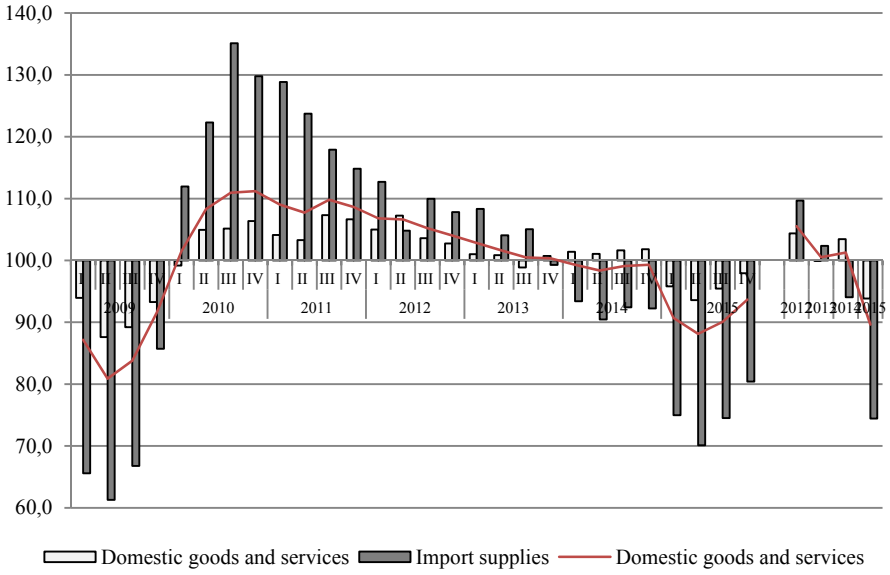

Fig. 2. GDP dynamics by components of domestic and external demand in the 2009–2015 period, % of the respective quarter of the previous year

Source: The Rosstat.

From the beginning of 2014, the dynamics of domestic demand was in the area of negative values, while in 2015 it was complicated by simultaneous drops in domestic production of goods and services and imports.

In 2015, a large-scale drop in imports determined structural changes in the domestic market: with reduction of consumer demand and depreciation of the ruble exchange rate the share of domestic goods in retail trade resources rose to 63% in Q3 2015 (59% a year before).

A large share of imports in the retail trade volume and the volume of intermediate consumption and capital investments made the balance of gross resources of the economy more dependent on changes in the foreign economic situation. In the pattern of imports, supplies of consumer and investment goods decreased more than those of intermediate consumption goods. It is to be noted that reduction of the share of consumer goods in the patter of imports can be

explained both by formation of import substitution as regards food products and a general drop in households' demand with advanced growth in prices on import goods as compared to domestic ones.

Table 4

The pattern of retail trade commodity resources in actual prices, %

	Retail trade commodity resources	including	
		domestic production	import
2014			
Q 1	100	57	43
Q 2	100	59	41
Q 3	100	59	41
Q 4	100	56	44
Year	100	58	42
2015			
Q 1	100	59	41
Q 2	100	66	34
Q 3	100	63	37
Q 4	100	61	39
Year	100	62	38

Source: The Rosstat.

Table 5

The pattern of imports by the functional mode of utilization (according to the methods of the balance of payments), % of the result

	Goods		
	consumer	investment	intermediate
2010	40.7	19.5	39.8
2011	36.6	21.4	42.0
2012	38.1	24.9	37.0
2013	37.6	24.3	38.0
2014	37,8	24,5	37,7
Q I	39,6	23,2	37,2
Q II	36,1	26,0	37,9
Q III	37,2	22,4	39,4
Q IV	38,4	25,5	36,1
2015	36,4	23,2	40,4
Q I	37,7	21,6	40,7
Q II	36,4	21,7	41,9
Q III	35,2	23,6	41,2
Q IV	36,4	23,2	40,4

Source: The Rosstat.

In 2015, the dynamics and pattern of imports of intermediate and investment goods were greatly affected by further slump in capital investments and shrinkage of demand on investment goods. Growth in the share of intermediate consumption goods reflected an insufficient level of localization of main production and components in the segment of production with a high share of industrial assembly.

A drop in capital investments resulted in a simultaneous decrease in demand on domestic and import capital goods and prompted development of negative trends on the domestic market. Further problems arose due to sanctions imposed on deliveries of individual types of technological equipment needed for implementation of investment plans of the primary sector and manufacturing industries, as well as infrastructure projects.

Slowdown of domestic production was justified both by low competitiveness of domestic goods and services as compared to import analogues and low efficiency of production in the segment of non-tradable goods and services as compared to export-oriented sectors of the

economy. In 2015, a 6.2% decrease in the output of goods and services for domestic consumption intensified a slump in production as compared to the previous year.

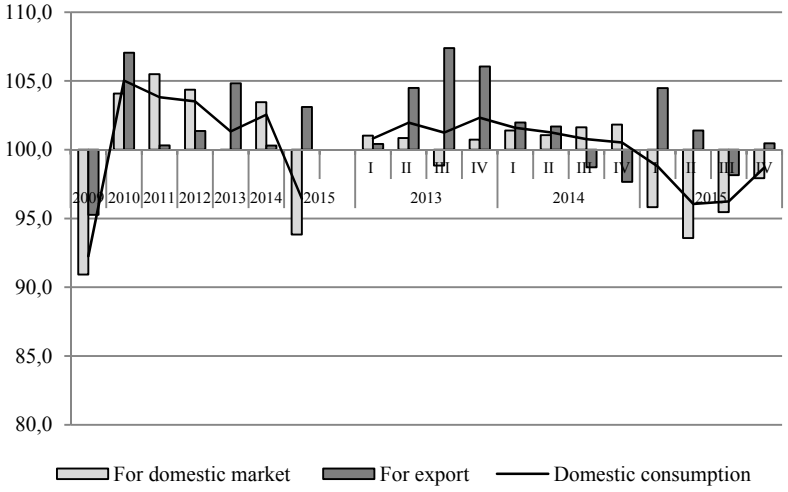

Fig. 3. Dynamics of domestic production of goods and services by components in the 2009–2015 period, % of the respective quarter of the previous year

Source: The Rosstat.

4.1.2. Utilization of GDP in the 2011–2015 period: consumer and Investment demand

The pattern of utilization of GDP was determined by a change in the ratios between ultimate consumption, gross savings and change in the net export contribution.

Table 6

The pattern of utilization of GDP in the 2011–2015 period, % of the result, in current prices*

	2011	2012	2013	2014	2015
Gross domestic product, including:	100.0	100.0	100.0	100.0	100
Expenditures on ultimate consumption	68.8	70.4	73.6	72.3	73.5
households	50.2	51.3	53.6	53.2	53.8
state government	18.2	18.7	19.7	18.8	19.3
Non-profit organizations rendering services to households	0.4	0.4	0.4	0.4	0.4
Gross savings	23.1	22.9	21.1	21.1	20.9
Gross accumulation of capital assets	20.0	20.2	20.2	21.4	22.0
Changes in inventories	3.1	2.7	0.9	-0.3	-1.1
Net export	8.1	6.8	5.6	6.6	8.1
Statistical discrepancies	0.0	-0.1	-0.4	-0.1	-2.5

* The data differs from the previous publications by the amount of change related to introduction of international methods of valuation of housing services, consumption of capital assets and reconciliation of the data on exports and imports with the data of the balance of payments.
Source: The Rosstat.

The specifics of 2015 consisted in a more dramatic drop in households' ultimate consumption as compared to the dynamics of capital investments. If in the 2010–2014 period the main factor which underpinned a positive trend of development of the Russian economy was households' consumption, in 2015 a drop in real income, a higher burden on households as regards

repayment of debts on loans and growing inflationary expectations resulted in a 10.1% reduction of households' ultimate consumption as compared to the previous year.

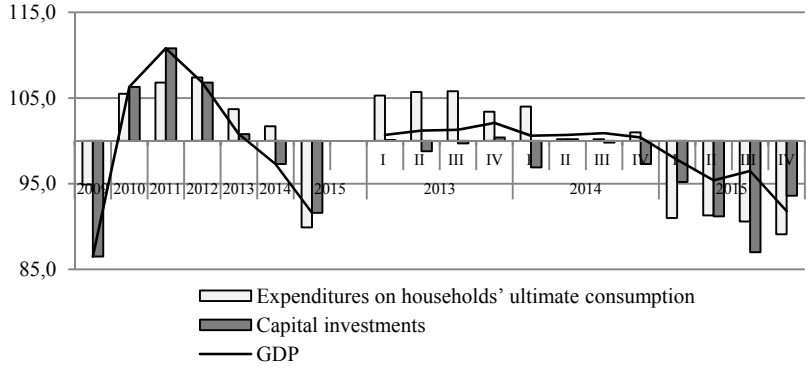

Fig. 4. The dynamics of households' ultimate consumption and investments in capital assets in the 2009–2015 period, % of the previous year

Source: The Rosstat.

Amid growing rate of inflation and economic uncertainties, changes took place in the consumer behavior model: the share of savings in households' incomes rose to 14.1%, including that in deposits and securities amounting to 6.5% (6.9% and 0.8%, respectively, in 2014). In 2015, households' interest in buying foreign currency amid dramatic depreciation of the ruble weakened a great deal and shifted to the area of organized forms of saving at credit institutions which raised interest rates on deposits from the end of 2014.

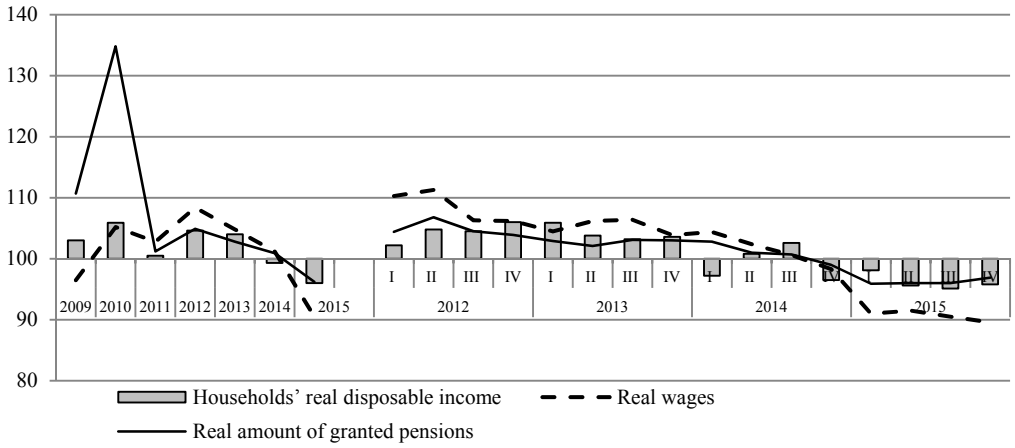

Fig. 5. Dynamics of households' real income in the 2009–2015 period, % of the respective period of the previous year*

* the quarterly data on households' revenues in the 2014–2015 period are preliminary and need be specified.
Source: The Rosstat.

With the existing GDP dynamics and utilization of the main factors of production, by 2014 the potential of further growth in labor remuneration costs was exhausted and in 2015 the dynamics of the main indices of households' standard of living was characterized by a gradual slowdown. In 2015, households' real disposable incomes fell by 4.0%, including monthly

average accrued wages (9.5%) and the average amount of granted pensions (3.8%). As labor remuneration has a dominating effect on the level of households' incomes (66.0% of households' incomes), a trend of further reduction of real wages – the trend emerged late in 2015 – is becoming a major factor which determines social parameters of households' standard of living in 2016. The situation is further complicated by the fact that in 2015 households' revenues from property and entrepreneurial activities fell, too.

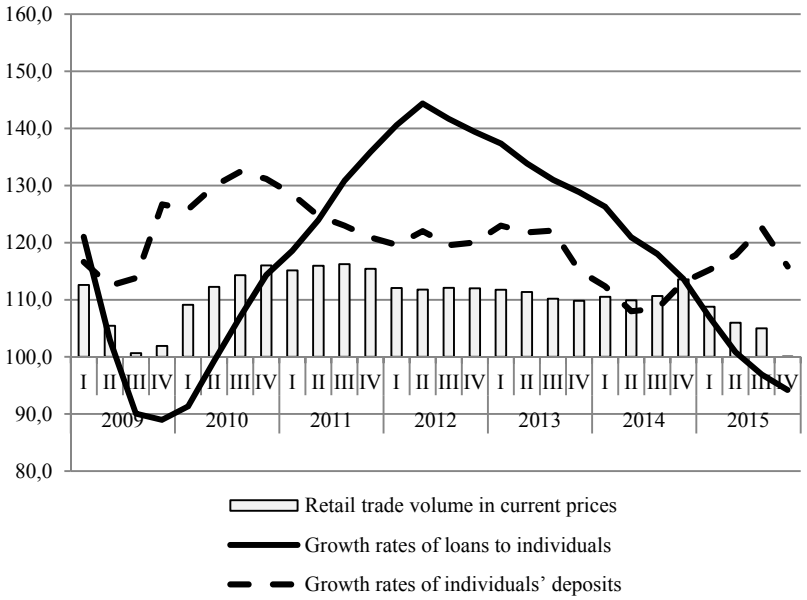

Fig. 6. Dynamics of loans to households and households' deposits in the 2009–2015 period, % of the respective period of the previous year

Source: The Rosstat.

In 2015, the retail trade volume and the volume of paid services fell by 10.0% and 2.1%, respectively, as compared to the previous year. Such a dramatic drop in the retail trade volume was neither observed in the 1999 crisis, nor in the 2009 crisis. In 2015, the share of households' expenditures on purchasing of goods fell by 3.1 p.p. as compared to 2014 and amounted to 54.5% of households' incomes.

Reduction of consumer demand was accompanied by shrinkage both of markets of food and non-food products. In 2015, the market of food products amounted to 90.8%, while that of non-food products, to 89.3% on the 2014 indices. Negative developments on the food market were registered from June 2014, while those on the non-food market, from the beginning of 2015. If before October 2014 the retail trade volume was underpinned by positive dynamics of households' revenues, in November 2014 – December 2015 the situation changed due to a sudden slowdown of growth in households' nominal income and high rates of inflation. In 2015, the consumer inflation index amounted to 112.9%, including 114.0%, 113.7% and 10.2% as regards food products, non-food products and services, respectively.

In 2015, in GDP dynamics by components of ultimate consumption the share of gross savings in GDP fell to 26.5% with the index of 31.2% in 2011. In 2015, gross accumulation amounted to 20.9% with the pattern changed. A drop in economic growth rates resulted in reduction of inventories. The share of gross accumulation of capital assets rose as compared to

the previous year, however, the unit weight of capital investments in GDP remained at the average level throughout the 2013-2014 period and amounted to 18%.

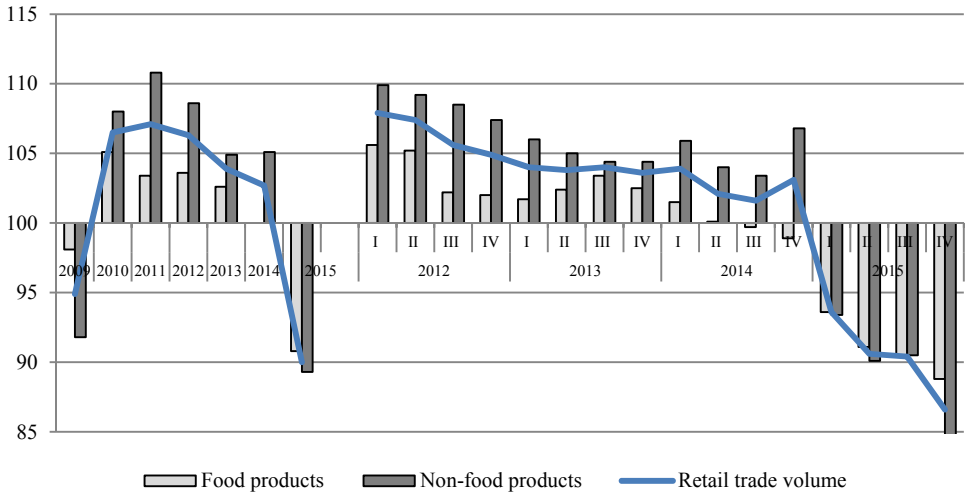

Fig. 7. The dynamics of the retail trade volume in the 2009–2015 period, % of the respective month of the previous year

Sourcer: The Rosstat.

The specifics of the Russian investment model consists in substantial volumes of savings whose major portion is not transformed into capital investments. A low level of transformation of gross national savings and gross accumulation into capital investments is a deep-rooted phenomenon of the Russian economy over quite a long period of time.

Table 7

The main indicators of the economy's investment potential in the 2011–2015 period, % of GDP

	2011	2012	2013	2014	2015
Gross savings	31.9	29.6	26.4	27.7	26.5
Gross accumulation of capital assets	20.0	20.2	20.2	21.4	22.0
Individuals' deposits as of year-end	19.9	21.3	23.9	23.8	27.1
Resources of Federal Fund as of year-end	1.3	1.2	2.7	3.7	4.5
Resources of National Welfare Fund as of year-end	4.5	4.2	3.8	3.7	6.5
Capital investments	18.5	18.8	18.7	17.8	18.1

Source: The Rosstat.

From Q3 2014, a slum in investment activities intensified due to a higher cost of credit resources, limitation of companies' access to borrowing on global financial markets and high geopolitical risks. In 2015, capital investments fell by 8.4% as compared to the index of the previous year.

The analysis of the pattern of utilization of GDP and capital account illustrates asymmetry in formation of domestic saving resources and utilization thereof for investment purposes. The Russian investment model is characterized by substantial volumes of savings whose major portion the economy fails to transform into capital investments.

4.1.3. The GDP pattern by sources of income

The development of the Russian economy is characterized by diminishing development potential which fact is underpinned by high loading of production capacities, lack of large-scale investments and a low level of unemployment. In addition to the above, long-term growth in production costs related to the tariff policy of infrastructure monopolies and advanced growth in wages as compared to labor efficiency make the situation even more complicated.

In the pattern of production costs, there is still high unit weight of material costs at the expense both of primary products and a fuel and energy component. Low efficiency of utilization of inputs is a major factor behind low efficiency of production and competitiveness of domestic goods on the domestic and foreign markets. Amid a drop in economic growth rates, in the 2014-2015 period the pricing policy was adjusted and determined the specifics of dynamics of financial performance of economic activities and efficiency indices. In 2015, production profitability grew by 2.5 p.p. as compared to 2014.

Table 8

Profitability of sold goods, products, jobs and services by the type of economic activities in the 2010–2015 period, %

	2010	2011	2012	2013	2014	2015
Total in the economy	**10,0**	**9,6**	**8,6**	**7,0**	**7,3**	**9,3**
Agriculture, hunting and forestry	9,1	9,1	10,7	5,2	17,4	21,3
Fishery and fish-farming	19,6	18,2	16,2	16,5	28,6	59,4
Mining	31,9	31,4	28,0	22,1	19,2	26,8
Manufacturing	14,8	13,2	10,7	8,8	9,9	12,4
Production and distribution of electricity, gas and water	7,1	6,4	3,9	4,4	3,7	5,5
Building	4,5	4,3	5,0	8,3	3,4	5,4
Wholesale and retail trade	8,3	8,9	6,7	6,5	6,1	7,1
Hotels and restaurants	6,2	5,9	5,9	6,0	4,4	5,8
Transport and communications	13,5	11,4	11,1	9,7	8,4	10,6
Communications	27,7	21,9	23,7	23,6	20,8	21,4
Financial activities	0,6	-0,3	0,8	0,5	1,5	0,5
Real-estate operations, leasing and provision of services	9,3	9,2	10,6	10,4	10,7	9,7
Public administration and military security; social insurance	12,8	6,8	8,3	7,8	10,3	11,7
Education	6,6	4,1	2,5	11,8	2,3	6,2
Healthcare and provision of social services	5,6	1,7	6,6	4,8	6,2	7,6

Source: The Rosstat.

Table 9

Indices of prices and tariffs in the 2010-2015 period, December on December

	2010	2011	2012	2013	2014	2015
Consumer price index	108.8	106.1	106.6	106.5	111.4	112.9
Industrial producer price index	116.7	112.0	105.1	103.7	105.9	110.7
Mining	117.1	126.3	109.3	107.0	98.4	109.8
Production of fuel and energy primary products	116.1	128.1	110.5	107.7	97.0	109.8
Production of primary products, except for fuel and energy	130.9	112.4	98.9	101.0	109.9	110.0
Manufacturing	116.9	108.3	103.2	101.6	108.5	112.2
Production and distribution of electricity, gas and water	113.8	105.1	107.0	108.1	104.5	109.3
Agricultural producer price index	123.6	94.9	110.8	102.7	114.1	108.5
Construction product composite price index	109.1	108.0	106.9	104.9	107.2	110.3
Cargo carriage tariff index	133.1	107.7	107.5	108.0	100.9	111.5

Source: The Rosstat.

In the 2010–2013 period, weakening of the dynamics of producers' prices and tariffs was justified by the objective to maintain demand on the domestic market. In 2014, the trend which prevailed for four years changed and producers' prices in industry and building started to grow dynamically. In 2015, prices in manufacturing industries rose by 12.2% and 21.7% as compared to 2014 and 2013, respectively. In 2015, in mining a 9.8% growth in prices made up for their drop in the previous year, while growth in prices amounted to 8.1% as compared to 2013. Building reacted to changes in investments by a 18.2% growth in prices in 2015 as compared to 2013. It is to be noted that growth rates of wages and salaries were more moderate than before. Advanced growth in manufacturers' prices, depreciation of the ruble and a relative decrease in labor remuneration costs had a positive effect on financial performance. In 2015, the share of the economy's gross profit amounted to 43.6% of GDP and exceeded by 2.5 p.p. the 2014 index.

Table 10

The pattern of formation of GDP by sources of income in the 2011–2015 period, % of the result, in current prices

	2011	2012	2013	2014	2015
Gross domestic product, including:	100	100	100	100	100
Labor remuneration of hired workers, including concealed remuneration and mixed incomes	43.9	44.2	46.1	44.8	45.4
Net incomes on production and import	14.6	14.7	14.2	14.1	11.0
Gross profit of economy and gross mixed incomes	41.5	41.1	39.7	41.1	43.6

Source: The Rosstat

With reduction in absolute terms of net taxes on production and imports from Rb 11.0 trillion in 2014 to Rb 8.8 trillion in 2015, the share of labor remuneration in GDP amounted to 45.5%. It is to be noted that with taking into account the trend – which prevailed from 2012 – of reduction of growth rates of production and labor efficiency and dynamic growth in nominal wages and salaries, in particular, in the public sector in the 2012-2013 period as compared to 2014, serious limitations on further growth in labor remuneration costs were formed. In the 2014–2015 period, further growth in labor remuneration costs was greatly limited by changes in the situation on commodity markets, appreciation of price and higher production costs.[1]

4.1.4. Dynamics and the pattern of production by the type of economic activities

Slowdown of quarterly dynamics of economic development during the past three years was accompanied by weakening of growth rates of industrial production, retail trade volume and building and investment activities. In 2015, for the first time after the 2008–2009 crisis a drop in the index of the physical volume of output by the baseline type of economic activities was registered as compared to the previous year with consolidation of the output downward trend by quarters. If in 2014 instability of indices of investment activities was partially made up for by positive dynamics of retail trade volumes and outputs of manufacturing and agricultural, in 2015 the situation became more complicated due to a simultaneous drop in consumer and investment demand with a slump in industrial production getting worse. In 2015, the industrial production index amounted to 96.6%, while the volume of jobs in building and the retail trade volume, to 93.0% and 90.0%, respectively, as compared to the previous year. An output drop

[1] For more information on the effect of structural factors, see Section 4.2.

in the real sector of the economy resulted in shrinkage of demand on infrastructure services. In 2015, only a 3.0% growth in output of agricultural products as compared to 2014 had a positive effect on the economic dynamics.

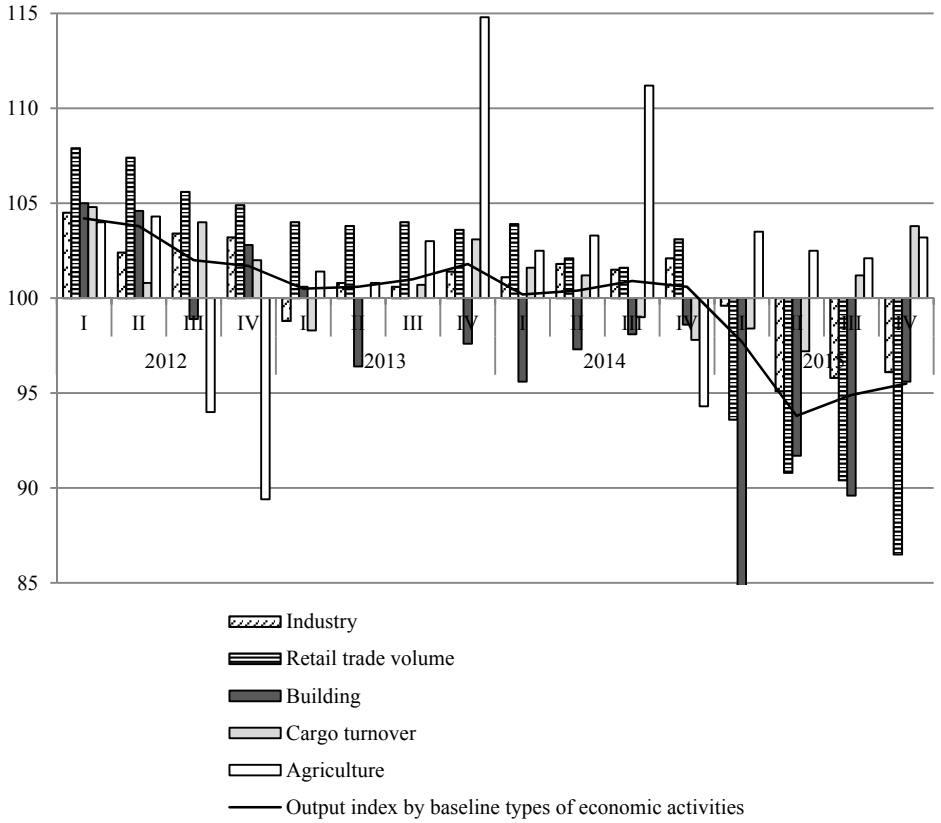

Fig. 8. Dynamics of baseline types of economic activities in the 2012-2015 period, % of the respective quarter of the previous year

Source: The Rosstat.

The specifics of 2015 consisted in a simultaneous drop both in trading and non-trading sectors of the economy (in the trading and non-trading sectors of the economy output amounted to 98.0% and 96.3%, respectively, as compared to 2014).

In 2015, for the first time after 2009 a drop in production of gross added value in the non-trading sector of the economy was registered as compared to the previous year. A drop in growth rates of added value in the non-trading sector of the economy was registered by all the aggregated types of activities under review. Due to a greater slump in building and investment activities, revenues from real-estate operations decreased dramatically. With a speed-up of negative quarterly dynamics taken into account, in 2015 reduction of the rates of wholesale and retail trade became more substantial. The above situation is related to a sudden shrinkage of households' demand on services due to a decrease in households' incomes and constriction of building and investment activities and related types of financial services.

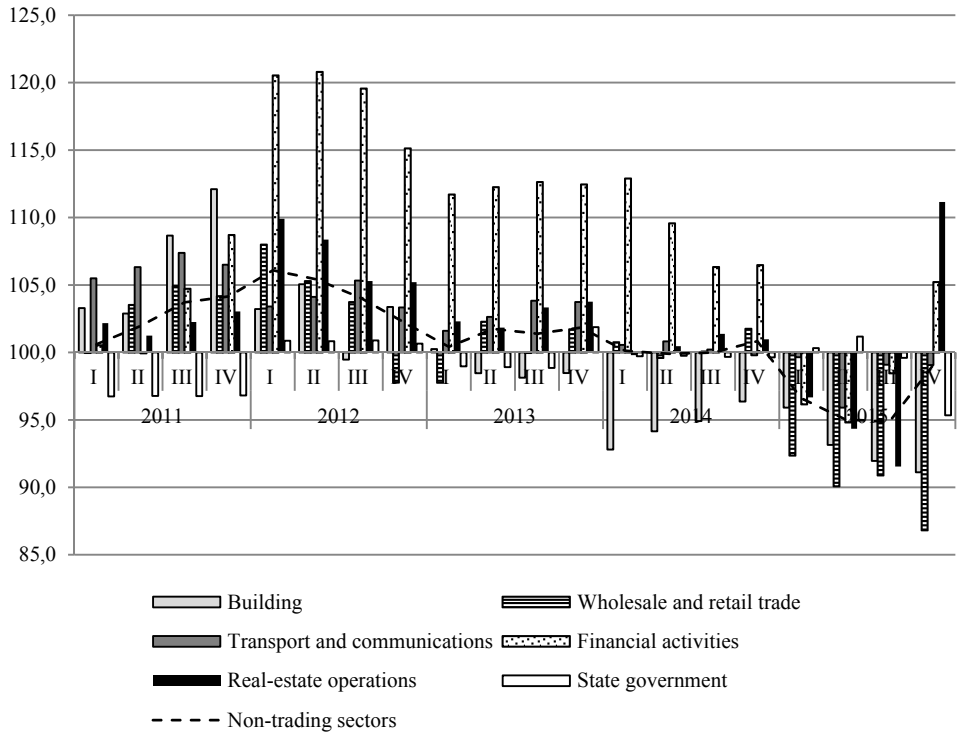

Fig. 9. Dynamics of gross added value in the non-trading sector of the economy in 2011-2015 period, % of the respective quarter of the previous year

Source: The Rosstat.

In 2015, the crisis in the Russian industry was characterized by a more dramatic slump in manufacturing amid relatively weak positive dynamics of production of fuel and energy primary products. Evidence of crisis phenomena by the type of economic activities points to a lack of domestic business restructuring processes aimed at formation of new competitive markets of domestic products. Having achieved the pre-crisis level, from H2 2012 the Russian economy demonstrated evidence of slowdown of growth. In that situation, domestic restrictions related to the fact that the economic pattern did not undergo substantial changes, while the potential of factors contributing to growth happened to be virtually exhausted had a particularly strong effect. From Q2 2013, a drop in output volumes was registered in manufacturing. In 2015, the industrial production index amounted to 96.4% against the index of 2014. In 2015, structural specifics of industrial dynamics as compared to 2014 were determined by sluggish growth in mining 100.3%) with a slump in manufacturing getting more dramatic (94.5%).

In 2015, year-on-year positive dynamics was registered only in the chemical industry (106.3%), production of charred coal and petrochemicals (100.3%) and the food industry (102.0%).

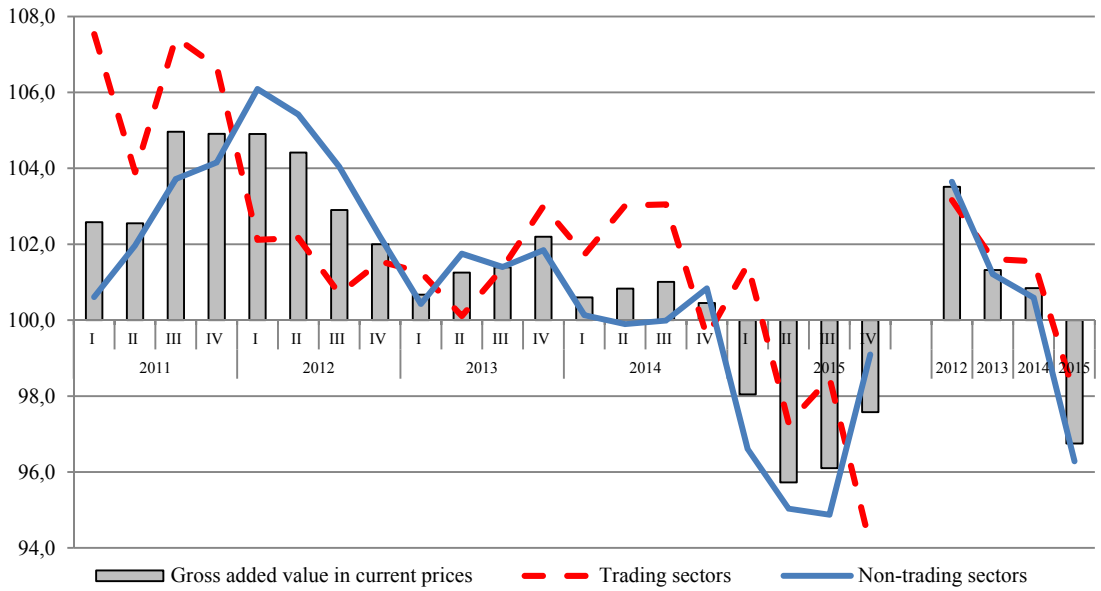

Fig. 10. Dynamics of GDP as regards the trading and non-trading sectors of the economy in the 2011–2015 period, % of the respective quarter of the previous year

Source: The Rosstat.

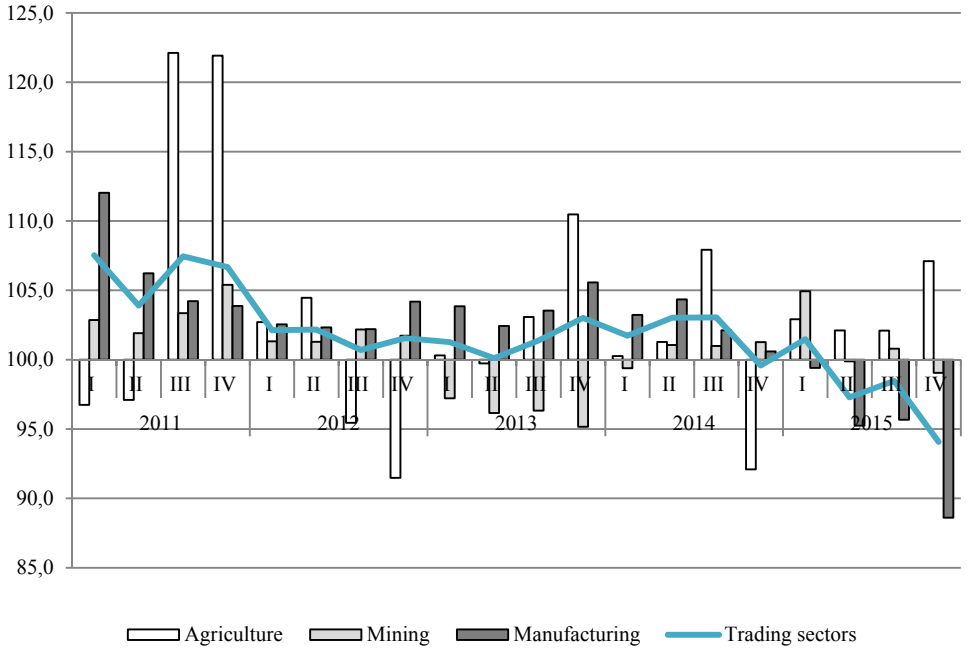

Fig. 11. Dynamics of gross added value in the trading sector of the economy in the 2011–2015 period, % of the respective quarter of the previous year

Source: The Rosstat.

Table 11

Indices of production by the main type of manufacturing in the 2010–2015 period, % of the previous year

	2010	2011	2012	2013	2014	2015
Manufacturing	110.6	108.0	105.1	100.5	102.1	94.6
Production of food products, including beverages and tobacco	103.2	103.9	104.1	100.6	102.5	102
Textile and sewing industry	108.8	100.8	100.7	104.3	97.5	88.3
Production of leather, leather articles and footwear	119.9	105.7	98.1	95.6	97.2	88.6
Woodworking and production of wood articles	113.4	110.2	96.2	108.0	94.7	96.6
Pulp and paper production, publishing and printing	103.1	106.5	105.8	94.8	100.4	93.7
Production of charred coal and petrochemicals	106.0	103.8	103.1	102.3	105.7	100.3
Chemical industry	110.6	109.5	104.1	105.4	100.1	106.3
Production of rubber and plastic articles	124.4	111.4	112.8	105.9	107.5	96.3
Production of other non-metal mineral products	114.5	107.4	110.7	98.0	101.8	92.2
Metallurgy and production of finished metal articles	112.4	107.0	104.8	100.0	100.6	93.5
Production of machines and equipment	115.2	111.1	102.7	96.6	92.2	88.9
Production of electric, electronic and optical equipment	118.9	111.9	106.4	99.0	99.5	92.1
Production of transportation means and equipment	127.2	117.2	110.3	102.2	108.5	91.5
Other industries	120.6	105.3	102.6	95.4	102.7	94.0

Source: The Rosstat.

In the current year, changes in the pattern of demand had a favorable effect on the dynamics of chemical production. Amid depreciation of the ruble, reduction of volumes of appreciated imports permitted chemical enterprises to expand on the one side the niche for domestic goods on the domestic market, while on the other side to build up export volumes in physical terms. The factor of import substitution influenced the most the dynamics of production of pharmaceuticals and household chemicals whose output in 2015 increased by 8.9% and 6.6%, respectively, as compared to the previous year. It is to be noted that in the mid-term prospect, pharmaceutical production has a growth potential thanks both to state support and higher investment attractiveness for Russian and foreign investors. In the past three years, over 10 new pharmaceutical plants have been put into operation with a simultaneous modernization of the existing capacities and acquiring by Russian producers of new competences and knowledge. Despite a complicated macroeconomic situation, cooperation with international companies is expanding: in St. Petersburg the Bayer Company signed a contract with the Polisan Company on production of three preparations in Russia; the Novartis Company is building a plant; in the Kaluga Region AstraZeneca, a Swedish-British pharmaceutical company opened up a local production (commercial output starts in Q1 2016), while Novo Nordisk, a Danish company built an insulin-producing, cartridge-filling and packing plant; in the Kirov Region an agreement was concluded with the Merck Company on localization of production at the Nanolek plant (euro 10m worth of investments).

In October 2015, a 4.1% growth in production of the main chemical agents as compared to the previous year was justified, in particular, by attainment by new petrochemical plants – which were put in operation in previous years – of projected capacities: two large polypropylene-producing plants – Poliom (the Omsk Region) and Tobolsk-Polimer (the Tyumen Region) - and RusVinil, a polyvinylchloride-producing plant (the Nizhny Novgorod Region).

As regards sectors of chemical production, it is to be noted that gradual recovery of varnish-and-paint production and artificial fiber production is observed. In 2015, unstable output dynamics of the above productions can be explained both by reduction of the domestic demand and lack of development alternatives with products being non-competitive on foreign markets even at lower prices.

In 2015, producer price index in the chemical industry amounted to 118.1% on the beginning of the year and exceeded producers' prices in manufacturing (111.2%). As a result, in January-November 2015 the balanced financial result in the chemical industry rose 15.5 times over. In that situation, in January-November a 9.5% growth in nominal wages in the chemical industry (8.1% in manufacturing) was a factor behind retention of personnel in that industry.

The problem of the Russian economy consists in a lack of a well-coordinated system of comprehensive measures aimed at modifying general business conditions; instead a target support of individual industries is practiced. If in the beginning the production of intermediate demand goods with a high share of export-oriented production reacted to appreciation of prices due to depreciation of the ruble by renewal of output growth, from April 2015 a drop in output in that segment of manufacturing was registered. An additional factor behind a further slump in the segment of intermediate demand goods was reduction of demand on domestic components and materials by industries of the investment complex. Reduction of output of domestic intermediate demand goods resulted in structural changes in the import: in 2015 the unit weight of intermediate goods in the total volume of imports rose as compared to the previous year.

A decrease in production and imports of capital goods was justified by low investment demand. In 2015, in engineering the index of domestic production of machines and equipment amounted 88.9%, the index of production of electric, electronic and optical equipment, to 92.1% and that of production of transportation means, to 91.5%. In 2015, the index of production of building materials amounted to 92.2%, while in metallurgy, to 93.5% as compared to 2014.

A decrease in output volumes in metallurgy was the result of shrinkage of metal consumers' demand, particularly, on high value-added products both on domestic and foreign markets, as well as a drop in global prices virtually on all ferrous and non-ferrous metals. However, it is to be noted that domestic metallurgy as a highly competitive industry has a great potential of growth. Large projects which liquidated shortages of individual types of products and contributed to import substitution have been completed.

In 2015, a year-on-year index of production of petrochemicals amounted to 100.4%. A 2.7% decrease in oil refining volumes as compared to the previous year was determined by structural changes in exports in favor of growth in physical volumes of crude oil exports.

4.2. Decomposition of Russia's GDP growth rates, 2015–2016[1]

Russia's officials made multiple statements in 2015, saying Russia had hit the bottom of its recessionary valley. For example, a few top members of Russia's government and representatives of the Russian business community (in particular, First Vice-Prime Minister Igor Shuvalov and Sberbank CEO/Chairman German Gref) said in May 2015 the current crisis in Russia had reached its peak and the economy was expected to see some recovery. In late 2015, Russia's Minister of Economic Development Alexey Ulyukaev said the recession was over and the bottom was hit. At the same time, Russia's Ministry of Economic Development (MED) and some other international organizations – such as Bank of America, JP Morgan, IMF and World Bank – upgraded (not for long though) their 2015 forecast for Russia. The Ministry of Economic Development made similar statements, in particular in July and October 2015. Andrei Klepach, Chief Economist of Vnesheconombank, questioned these statements, noting in late August that the bottom was still to be reached, and he expected Russia to continue facing a

[1] Author of this section: Drobyshevsky S. – Gaidar Institute for Economic Policy, Kazakova M. – Gaidar Institute for Economic Policy.

downturn in investment and construction sectors, while budget and consumer demand ceased to be the drivers of positive growth rates in economy. As early as December, Herman Gref predicted that Russia's economy would face a downturn in 2016, and then it might "decay" unless across-the-board reforms are undertaken.

In November 2015, Russia's Ministry of Economic Development released an updated forecast for the socio-economic development in Russia for 2015–2016, which affords a basis for drafting the 2016 federal budget. The forecast includes baseline, conservative and target scenarios.

The baseline scenario for 2016 "describes the basic macroeconomic parameters of economic development against the backdrop of conservative trends towards changes in external factors, and a conservative fiscal policy in place."[1] For example, this scenario expects GDP in 2016 to pick up 0.7% from 2015 (in other words, the economy is expected to come out of the recession at weak positive growth rates), the yearly average Urals crude price to stay at $50 a barrel, fixed investment to drop 1.6% year-on-year, the number of employed to change insignificantly. Hence, the baseline scenario for 2016 relies on the assumption that the Russian economy continues to follow the current trends, and that no other economic growth drivers are expected to emerge.

Russia's Ministry of Economic Development noted that the conservative scenario expects Russia to face extremely troublesome global economic trends (the yearly average Urals crude price is down to $40 a barrel), investment to drop further (6.4% over 2015) and consumer demand to weaken, inflation rate to hike and some other economic sectors (industry and retail sales) to be driven by negative dynamics. In other words, this scenario expects Russia's consumer sector and investment to be hit hardest. The conservative scenario of economic development in 2016 is therefore worse than the other scenarios, and it expects GDP in 2016 to drop 1.0% over 2015.

The target scenario, which is more optimistic, aims to comply with the Executive Order of the President which requires the economic authorities to ensure that the Russian economy enters a path of growth equal to the world's average long-term growth and is steady in the long term, and to achieve a macroeconomic equilibrium on the back of low inflation rate and enhanced labor productivity. This scenario actually suggests switching to a new model of economic growth based on optimizing and enhancing the effectiveness of federal budget expenditures and revising state programs in order to achieve the target parameters of the socio-economic development of Russia. The target scenario expects economic growth rates in 2016 to increase 2.3% from 2015, fixed investment to resume growth (up to 3.1%), inflation rate to be low (4% or less), and labor productivity to increase. The Ministry of Economic Development highlighted some factors that would "contribute most to accelerating economic growth rates in 2016–2020:

- growth of investment in production expansion and production infrastructure;
- growth of investment in boosting exports of non-primary commodities and stimulating exports of high-tech products;
- increase of the total factor productivity by boosting investment in innovation sectors of economy;
- introducing resource and cost saving measures, including labor costs and natural monopoly tariffs;

[1] http://economy.gov.ru/minec/about/structure/depmacro/20151026

– SME development, creating better conditions for entrepreneurship, and some other factors."[1]

The scenarios of Russia's socio-economic development for 2016 contain forecasts for oil prices, fixed investment dynamics and the number of population involved in the economy, which let us decompose, using our own algorithm, the forecast GDP growth rates under the foregoing three scenarios of economic development of Russia. We used a method based on breaking down macroeconomic indicators into structural, foreign-trade and cyclical components (business cycles and random shocks) to see the effect of the key factors on GDP growth. This method is applied in developed countries (OECD), and we modified it to capture the specifics of the Russian economy, that is, heavy dependence on foreign trade terms approximated through the dynamics of global oil prices.[2]

Rosstat published in late January 2016 the preliminary results of 2015[3]: GDP fell 3.7% from 2014 (in absolute terms, this is slightly less than MED's official forecast); fixed investment dropped 8.4%; global Brent crude prices in 2015 averaged $52.4 a barrel, according to IMF.[4]

Fig. 12–15 show the 2015 actual, structural and foreign-trade growth rates of GDP in Russia, as well as the cyclical component (i.e., the sum of the components of business cycles and random shocks), and the three scenarios forecasting the development of the Russian economy for 2016.

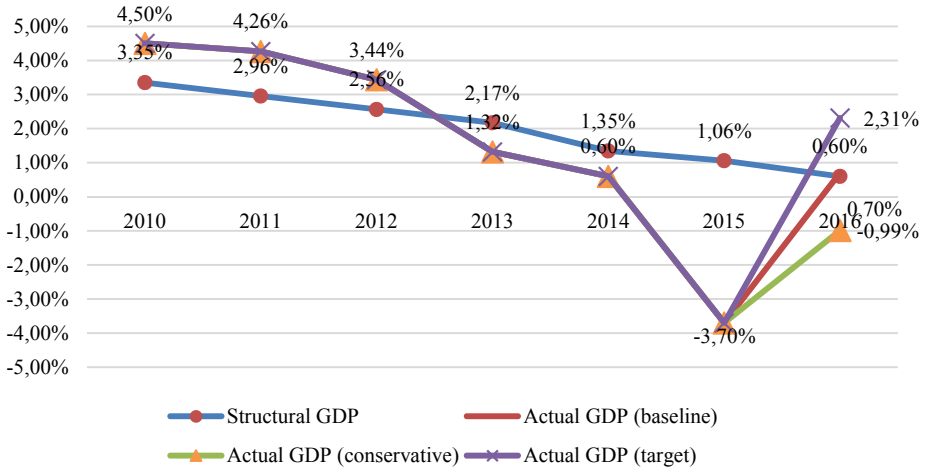

Fig. 12. Year-on-year actual and structural growth rates of GDP in Russia, 2010–2016 (all the forecast scenarios)

Sources: Rosstat, Ministry of Economic Development, IMF, own calculations.

[1] http://economy.gov.ru/minec/activity/sections/macro/prognoz
[2] The method of decomposing Russia's GDP growth rates, as well as our interpretation of the results obtained, are described in detail in *Sinelnikov-Murylev S., Drobyshevsky S., Kazakova M. Decomposition of Russia's GDP growth rates in 1999–2014. Ekonomicheskaya Politika [Economic Policy]. 2014. No. 5. PP. 7–37, as well as* http://iep.ru/ru/publikatcii/7125/publication.html.
[3] http://www.gks.ru/bgd/free/B15_00/Main.htm
[4] http://www.imf.org/external/np/res/commod/index.aspx

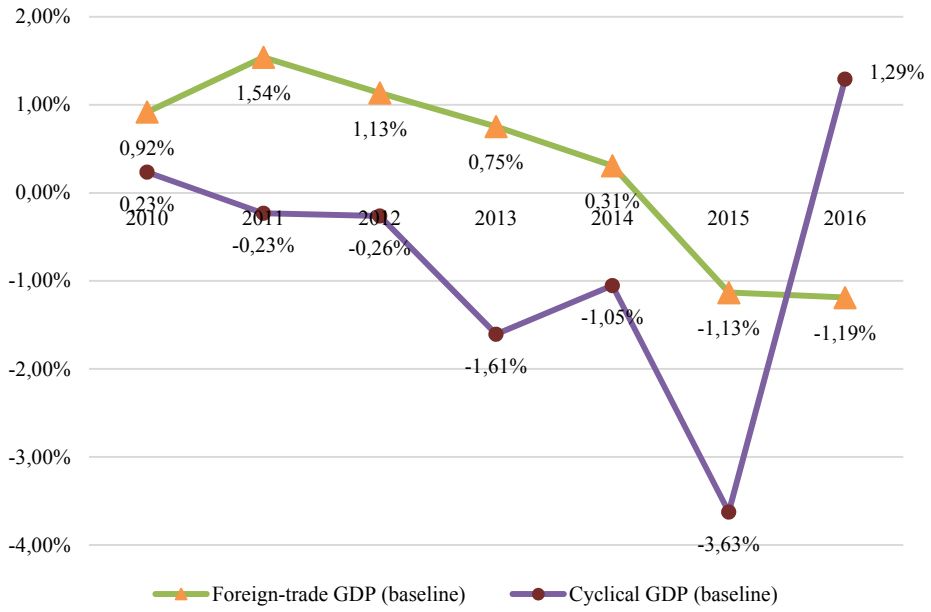

Fig. 13. Year-on-year foreign-trade and cyclical growth rates of GDP in Russia, 2010–2016 (baseline scenario)

Sources: Rosstat, Ministry of Economic Development, IMF, own calculations.

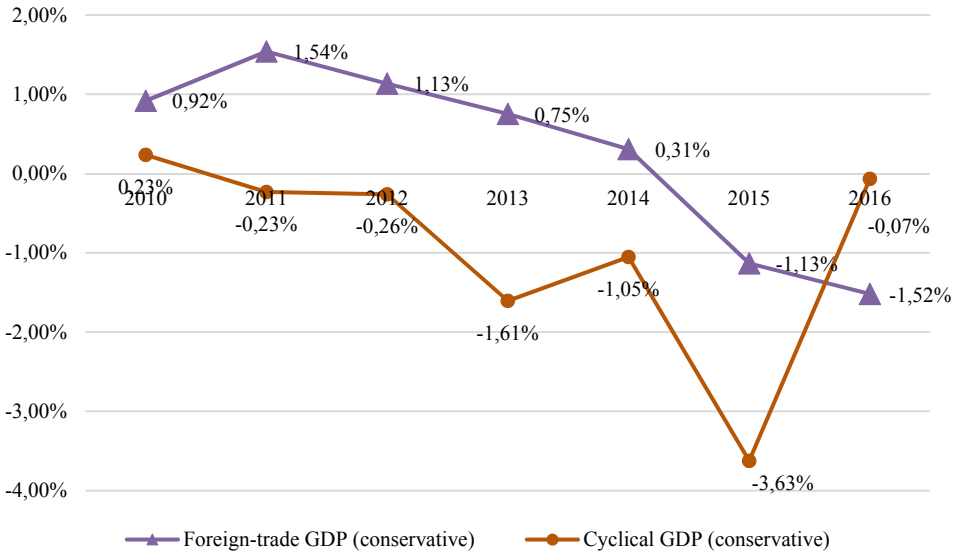

Fig. 14. Year-on-year foreign-trade and cyclical growth rates of GDP in Russia, 2010–2016 (conservative scenario)

Sources: Rosstat, Ministry of Economic Development, IMF, own calculations.

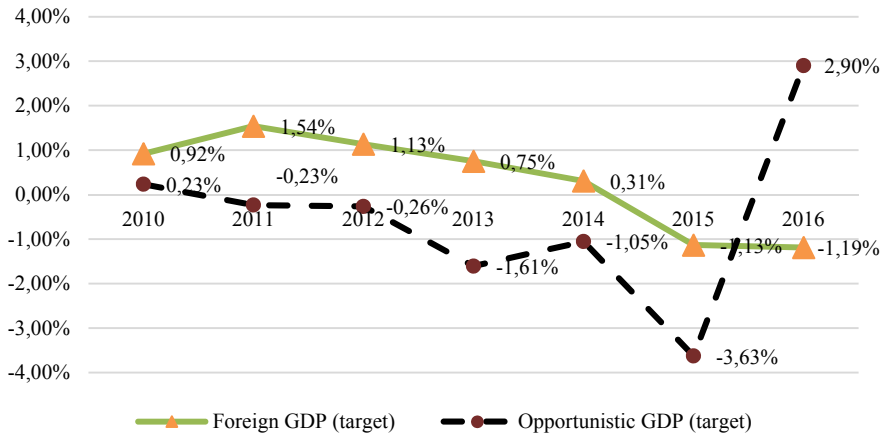

Fig. 15. Year-on-year foreign-trade and cyclical growth rates of GDP in Russia, 2010–2016 (target scenario)

Sources: Rosstat, Ministry of Economic Development, IMF, own calculations.

We estimate that in 2016 the forecast structural component of GDP growth will continue to decline under all the scenarios (from 1.1% in 2015 to 0.6% in 2016, see *Fig. 12*). Just like in prior years, this is determined by the negative dynamics of fundamental growth factors (a reduction in the number of economically active population due to demographic trends and in the volume of capital due to its retirement amid negative investment dynamics), as well as a decline of total factor productivity.

With oil prices in the 2015–2016 scenarios being lower than average long-term prices ($80–85 a barrel, see *Fig. 16*), the foreign-trade component of Russia's GDP growth rates in 2016 is expected to become negative under all the scenarios (-1.2% under the baseline and target scenarios, and -1.5% under the conservative scenario).

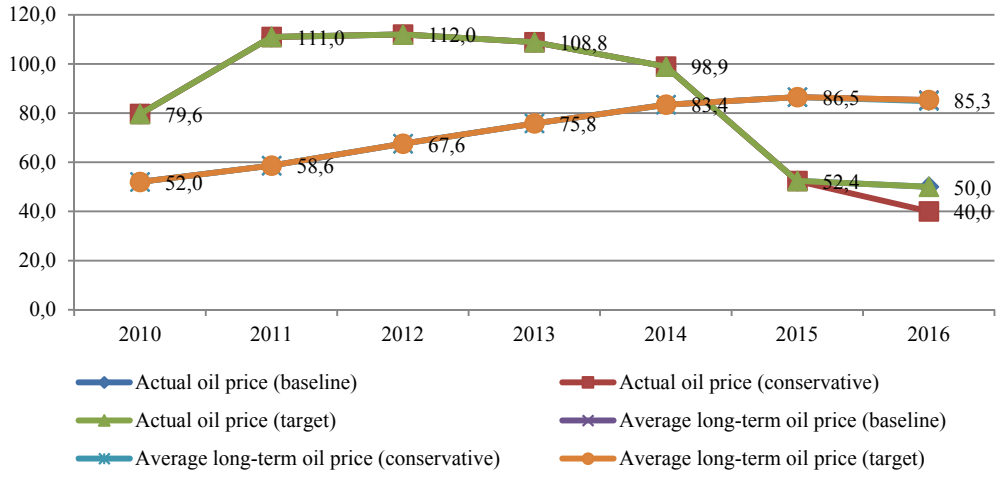

Fig. 16. Actual and average long-term Brent crude prices, US dollars a barrel, 2010–2016 (forecast)

Sources: IMF, own calculations.

The cyclical component of Russia's GDP growth rates in 2015 is still negative, whilst the cyclical downturn was possibly deepened by a negative shock estimated 2.5–3.0 percentage points of GDP growth. This shock is a combination of the adverse effects of Western economic sanctions and Russia's countersanctions, increased uncertainty and risks in economy amid an extremely volatile ruble, increased inflation and limited access to capital markets.

Continuing with the decomposition of Russia's GDP growth rates in 2016, it is worthy of note that the forecast GDP growth rates for Russia may hold true under the three scenarios amid relatively low oil prices and no growth of the total factor productivity, provided that the cyclical component increases sharply, from -3.8% in 2015 to 2.9% in 2016 under the best-case scenario and from -3.8% in 2015 to -0.07% in 2016 under the worst-case scenario. The cyclical component may see such growth, provided that the cyclical GDP accelerates abruptly on the back of the "died-down" negative shock of 2015, or assuming that the economy remains at the bottom of the business cycle – a marked positive shock – whose nature seems uncertain.

At the same time, our results (and, accordingly, conclusions) are based on the 2000-2014 model-based estimates of the total factor productivity (see *Fig. 17* and *18*) and hence model-based Russia's GDP structural growth rates facing a steady downtrend (see *Fig. 12*).

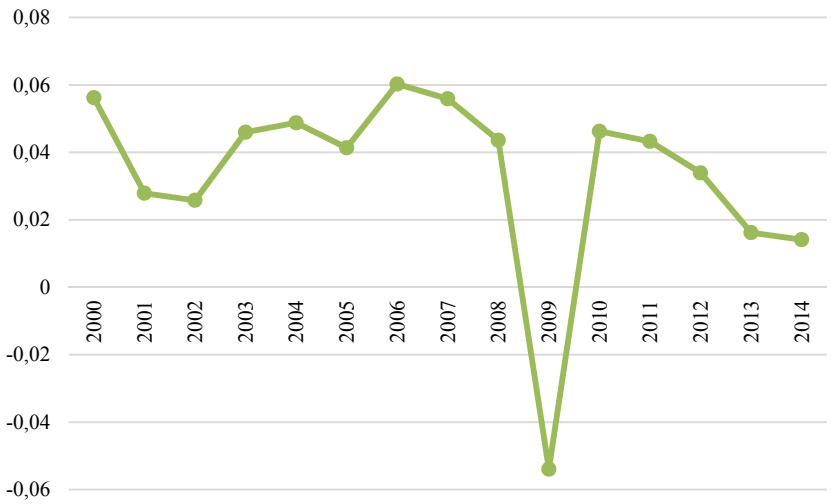

Fig. 17. Total factor productivity of Russia's economy, percentage points YoY, 2000–2014

Sources: Rosstat, Ministry of Economic Development, IMF, own calculations.

Supposing that the dynamics of total factor productivity has changed and Russia's structural GDP growth rates have stopped declining (e.g., due to a boost in competitiveness of the domestic production sector after the ruble's devaluation or economy's enhanced performance, during the current crisis, on the back of a few bankruptcies, nonmanufacturing cost cuts, partial labor saving and "clean-up" of the banking system), then a part of the 2016 forecast growth of GDP may be attributed to this very component. In this case, the dynamics of the cyclical component (within a range of -1.5 and 2.0 percentage points of GDP growth) seems logical in the context of the died-down negative shock of 2015 and the progressive movement towards the upward phase of business cycle (in the target scenario – boosting the cyclical component by switching to a new model of growth). The econometric data of the change in structural growth rates can

only be assessed by adding new actual annual observations of GDP, i.e., in at least 1–2 years, in the simulated series.

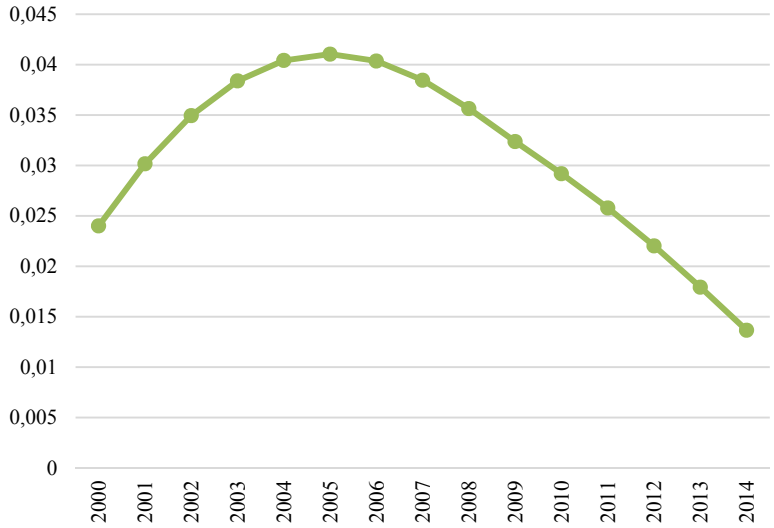

Fig. 18. Total factor productivity of the Russian economy (smoothed), percentage points YoY, 2000–2014

Sources: Rosstat, Ministry of Economic Development, IMF, own calculations.

The results of decomposition of Russian economic growth rates provide a way of estimating an output gap of the Russian economy for 2015–2016, which in 2015 turns negative due to a negative contribution of the foreign-trade and cyclical components, the latter has been negative for five straight years since 2011) amid decreasing structural growth rates. Note that the output gap is still negative in 2016, even under the MED's best-case (target) scenario (see *Fig. 19*).

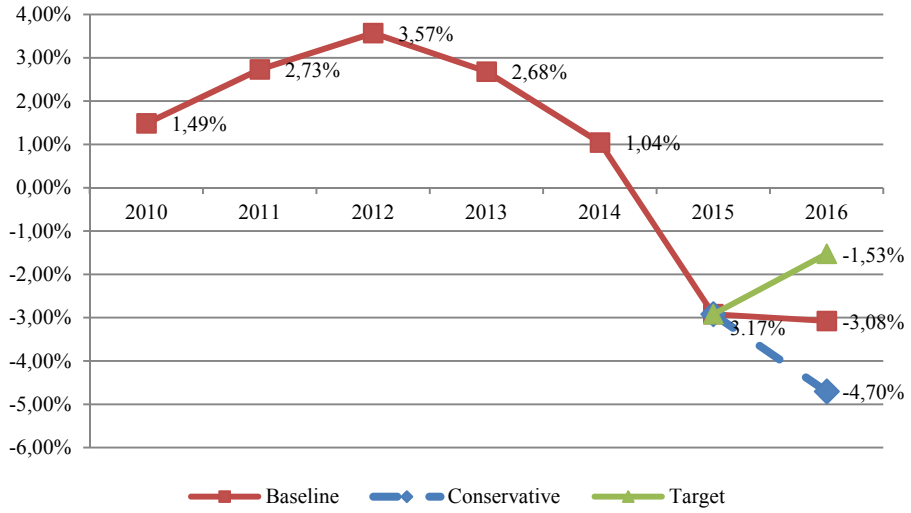

Fig. 19. Output gap in Russia (%), 2010–2016 (forecasted under the three scenarios)

Sources: own calculations.

Thus, the actual output for 2015–2016 is below the potential output in all the scenarios. In terms of economics, incentive monetary and fiscal measures may have a positive effect on the economy in at least the short term. However, structural rates stemming from fundamental growth factors and total factor productivity should be increased first in order to accelerate economic growth rates in a longer term. In modern economic environment, this implies making foreign capital and foreign direct investment available for Russian companies, increasing investment from Russian companies, and relaxing the limits on available labor resources.

The above listed measures will enhance the efficiency of using production factors (i.e., TFP will grow). Good institutions is the only way of stimulating new production factors and structural reforms (including diversification of the economy and making it a less resource-based economy), and investment in the economy (transport infrastructure, social protection, etc.) will accelerate economic growth and ensure that steady growth rates are maintained in the long term. Note that no such changes are assumed under the scenarios, except for the target scenario, of Russia's Ministry of Economic Development.

Today, it is widely believed that Russia was hit by crisis before 2014, and external political developments turned the spotlight on the internal problems accumulated during past periods, including the "fat" period between 2000 and 2007. Indeed, an intriguing picture was observed over the past few years: on the one hand, global oil prices stood at a very high level until late 2014 ($102 a barrel on average in the period between 2010 and 2014); on the other hand, not only did economic growth rates see no growth after the crisis of 2008–2009, but they also began to slow down steadily, from 4.5% y-o-y in 2010 to -3.7% in 2015.

The collapse of oil prices in late 2014 stirred a discussion on how Russia's economy will be functioning amid low oil prices. Weakly positive growth rates that followed the economic overheating of 2008 were maintained on the back of favorable terms of trade, although their role was declining progressively, but now high oil prices will contribute less than before to growth. Anyway, is there a chance for Russia to take a different track and cease to be an "oil-dependent state?"

On the one hand, economic growth can be accelerated by undertaking serious structural reforms and by switching, at least in part, the focus from the extracting sector to other higher value-added sectors. On the other hand, bad institutions (high level corruption, politicized judicial and law enforcement systems, weak protection of property rights, inefficient system of public administration) hamper reforms and lead to useless (in terms of economic development) spending of natural resource revenues.

Ultimately, speaking of possible ways of developing the Russian economy, a few scenarios may be outlined. The first scenario assumes a status quo is maintained, that is, the economy depends heavily on terms of trade while the oil-and-gas and industrial sectors are kept down. This scenario assumes no slump, but rather a slow stagnation or a weakly positive growth (about 0.5%) while the crude oil price is on the rise.

The second scenario assumes Russia will undertake structural reforms by adopting the practice of major developing economies (such as Brazil, India or China). This scenario assumes the economy is diversified and aimed at achieving high growth rates in the long term. In other words, energy export revenues can be spent to either maintain or improve the current state of economy.

Under the third scenario, Russia may benefit from its resource-dependence by counting on upgrading the oil-and-gas sector (as a reminder, this sector is not less (if not more) innovative

than, say, manufacture of cell phones). Thus, the "resource curse" may be turned into a blessing for this country.

4.3. Russian industrial enterprises in 2015 (on the basis of business surveys)[1]

This section is prepared using the data of monthly business surveys conducted by the Gaidar Institute for Economic Policy (IEP) among managers of industrial enterprises since September 1992. The surveys are conducted on the basis of the European harmonized methodology and encompass the entire territory of the Russian Federation. The size of the panel is around 1,000 enterprises, which employ over 13% of the total number of employed in industry. The panel is biased towards large enterprises in each of the selected branches. The rate of response to questionnaires ranges from 70% to 75%.

The business survey questionnaire contains quite a small number of questions (not more than 15-20). They are of qualitative rather than quantitative nature. The simple formulation of questions and answers allows the respondents to fill in the forms quickly and without consulting any documentation. It is essential that the respondent at each enterprise is an executive of the highest level possible who is fully aware of the situation at the enterprise and is directly involved in its management.

When analyzing the results of business surveys a specific derivative indicator is used which is termed "balance." The balance is calculated as the difference between the percentage of respondents who answered "will grow" (or "above normal") and the percentage of respondents who answered "will decrease" (or "below normal"). The resulting difference allows to present the distribution of answers to each question by one figure with "+" or "-" sign.

The balance is interpreted as the first derivative or the rate of the process. If the balance of responses to the question about expected change in prices has the "+" sign, it means that in the near future average prices will grow (e.g. the prevailing number of enterprises reported their intention to raise prices). For instance, the increase of balance from +10% to +17% over a month implies that average prices in industry will grow at a higher rate as the prevalence of enterprises anticipating their growth became more convincing. A negative balance is the sign of future reduction of average prices (more enterprises intend to cut their prices). The changing of the balance from -5% to -12% is interpreted as greater intensity (rate) of price decline.

4.3.1. Year 2015: was there an industrial recession?

Year 2015 has been labeled as a crisis one for the Russian economy. However, the majority of indicators describing changes and the state of Russian industry are barely similar to the crisis developments on the 1990s or 2008-2009 crisis. Moreover, part of the indicators failed to demonstrate manifestation of any crisis changes in 2015. Analysis of a representative set of business surveys' indicators, the majority of which are absent from the set of indicators used in state statistics, and a part – in similar surveys carried out by other organizations, hardly allows us to call 2015 a recession year *for Russian industry*.

First of all, let us analyze the dynamic of aggregate indicators used by the Business Surveys Laboratory of the Gaidar Institute for Economic Policy in order to provide a composite assessment of Russian industry. By the end of 2015, three such indicators were compiled: Industrial

[1] Author of this section: Tsukhlo S. – Gaidar Institute for Economic Policy.

Confidence Indicator, Forecast Indicator, and Industrial Adaptability Indicator. First two indicators are calculated on a monthly bases and the third one – on a quarterly basis.

Industrial Confidence Indicator[1] has demonstrated that the initial (January) assessments of the situation in Russian industry labeled year 2015 as a recession one were far from critical ones. The indicator has remained in the positive zone and even has improved its value in comparison with November-December last year. However, February value of the indicator demonstrated optimistic responses of enterprises regarding the situation in Russia industry at a marked decrease. The indicator dropped 5.5 points and was negative following three months of being sustainably positive in the course of the currency and credit shocks. In March, the February decline of the indicator haltered – the aggregate indicator moved up by mealy 1.7 points and turned out to be around zero mark. Thus, industry has managed to avoid critical reduction of confidence, which was definitely expected to happen by the authorities and experts. In April, this IEP indicator demonstrated an obvious improvement in enterprises' assessment of the situation unfolding in Russian industry. The Industrial Confidence Indicator has parted from around zero mark of Q1 2015 and has reached in the context of recession not bad levels of late 2014 due to growth of some components and non-deterioration of other. Aggregate assessments obtained in May 2015 still considered a recession year demonstrated still more solid rebound of the industry from the shock it found itself at the turn of the year. The indicator went on growing even amid flat demand and small fluctuations of assessments of stocks of finished products. However, in June, enterprises' managers, finally, noticed certain crisis developments in Russian industry. However, that was true to actual movements of book orders (part of Confidence Indicator) and actual movements of output (out of the indicator). Negative changes of these two indicators have resulted in the growth of dissatisfaction of current sales volumes. However, other components of the Indicator have not suffered sharp crisis changes. As a result, the aggregate indicator although negative but so far failed to approach its worst intercrisis values (see *Fig. 20*). July 2015, failed to add clarity to the assessment of the current situation in Russian industry. The months' results failed to produce both an obvious deterioration of the situation and obvious bottom out. The Industrial Confidence Indicator remained at the former notably negative level but without further downward trend. Such situation again forced experts and officials yet again in 2015 to review both assessments of the actual state of affairs in industry and their vision of its future.

The August share of surveys' results showed continuation of negative trends in Russian industry and further adjustment of enterprises to those trends. In August 2015, the Industrial Confidence Indicator demonstrated a symbolic increment albeit hovering about zero. September assessments of the situation in this sector produced rather not bad results amid the crunch period. The industry steadily was overcoming the period of minimum change of traditionally observed by the official statistics of volume terms preserving at the same time a steady control

[1] The indicator is built as the simple arithmetic average (differences in responses) to four questions from the IEP's monthly business questionnaire:

1) Actual change of demand, balance = % growth – % decrease;
2) Assessment of book orders, difference of responses = % above normal + % normal – % below normal;
3) Assessment of stocks of finished products, balance = % above normal – % below normal, opposite sign;
4) Output projections, balance = % growth – % decrease.

Balances of questions 1 and 4 are seasonally and calendar adjusted. The indicator can range from -100 to +100. A positive value of the indicator implies the prevalence of positive estimates. A negative value of the indicator means that negative estimates prevail. Lowering of the indicator value is the sign of deteriorating situation while its growth – the sign of ameliorating situation.

over stocks of finished products and demonstrating satisfaction with sort of crisis low volumes of book orders. In October, the IEP's Indicator lost three points but remained in the positive area. Such negative movement of the aggregate indicator was due to a drastic decrease of only one component – satisfaction with current book orders' volume. This fact was quite characteristic of the situation in Russian industry. In November, it continued adjustment to the protracted 2015 recession. The IEP Industrial Confidence Indicator moved up by symbolic two points, stayed in 'plus' and again surprised experts traditionally judging about the state of Russian industry by output volumes, which are barely informative in current context. By the end of 2015, the Industrial Confidence Indicator overcame a significant negative change: it lost 3.5 points and crossed into negative area.

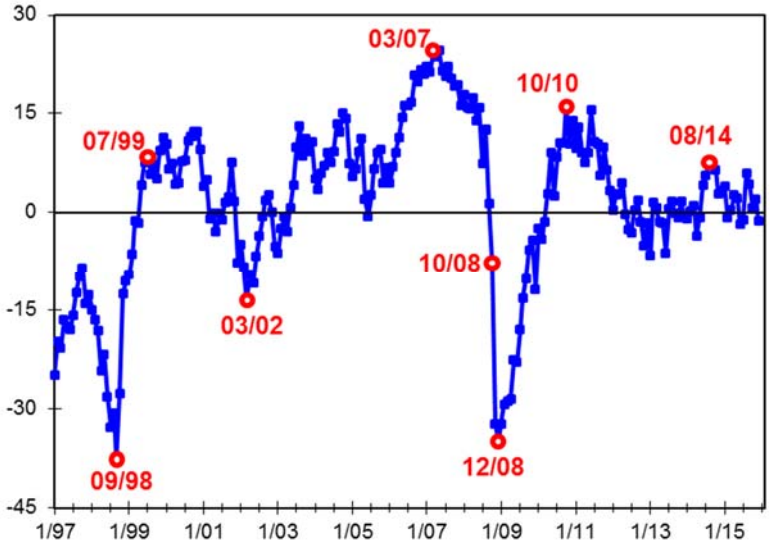

Fig. 20. IEP's Industrial Confidence Indicator 1997–2015

Thus, the Industrial Confidence Indicator showed features of 2015 recession. First, in the past year the indicator's values were in the narrow interval between -2 to +5 points, i.e. no sharp changes of the indicator were registered. Second, nothing similar to recognized crisis of 1990s and 2008-2009 crisis took place in Russian industry in 2015. The Industrial Confidence Indicator fell to below -30 points during those crises and in 1996, it decreased to -41 points. The worst values of the indicator for 2015 turned out to be superior to the minimum levels of inter crisis period of 2010-2014, which were obtained in 2013 and were inferior by -6 points. Third, 2012-2015 local maximum of the Indicator was registered in August 2014, which seems to be a watershed month when the Russian economy was drawn into the long promised 'second wave of recession'.

At the turn of 2015, in the wake of turmoil on financial and currency markets as well as amid proactive actions taken to the authorities to develop anti-crisis measures the **Industrial Projection Indicator**[1] posted a downward trend, which, by the way, failed to result in complete loss

[1] The indicator is the simple arithmetic average of the balances (in percentage points) of the answers to three questions from the IEP's monthly business questionnaire: a) projections for change of demand for the products of enterprise, balance = % growth – % decrease; b) plans of output change, balance = % growth – % decrease; c) plans of employment change, balance = % growth – % decrease. Balances are cleared of seasonal and calendar factors. The indicator can range from -100 to +100. A positive value of the indicator implies the prevalence of positive

of confidence in the sector. In March-May, the Indicator stabilized at the minimum positive values. Solely in June, the Indicator was negative: pessimistic expectations in industry, finally, prevailed over confidence. However, it happened in minimum volume and only for a month. Already in July, the Indicator moved up 2 points and again turned positive. In August, the Indicator went up by another 2.5 point and following September halt continued growing through the end of the year. As a result, (according to final 2015 data) according to enterprises' projections was the worst month of the year. However, the June Indicator's value barely differs from zero, indicator's decrease over H1 2015 (7.4 points) is insignificant in comparison with its decrease (51 points) prior to 2008-2009 crisis. By the end of the year, all losses incurred over H1 2015 were offset. The Indicator came to a level of maximum values registered in 2013-2015. Thus, there were no extraordinary changes in the aggregate Industrial Projections Indicator in 2015 (see *Fig. 21*).

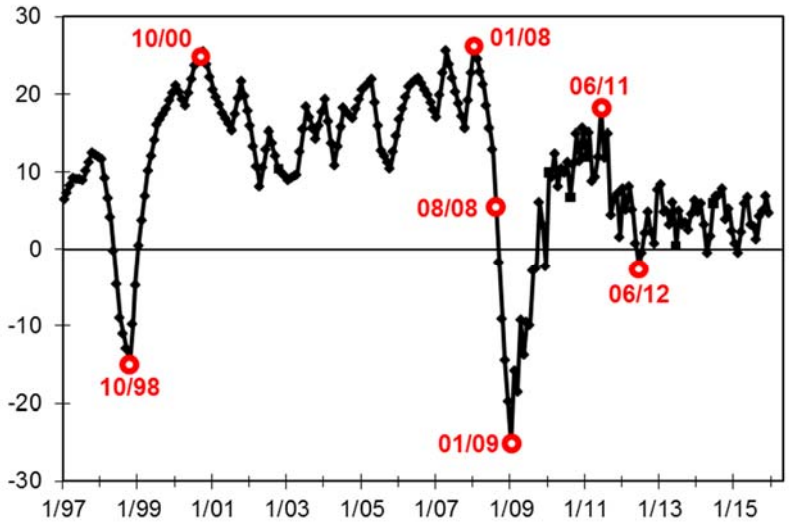

Fig. 21. Industrial Projections Indicator, 1997–2015

The **Industry Adaptability (Normality) Indicator**[1] provides the final assessment by enterprises of the crisis year of 2015.

First, the year 2015 has not seen any crisis abnormal in Russian industry as a whole. The indicator steadily preserved high values the latest of which was equal to all-time high of 72% registered in Q3 2007 and Q2 2012. Russian industry was not in the mood of panic regarding emotionally most difficult Q1 2015 compared to the Russian authorities and observers' sentiments. We can draw an unusual conclusion that the industry long ago and steadily came to

plans (estimates). A negative value of the indicator means that negative plans (estimates) prevail. Lowering of the indicator value is the sign of deterioration of expectations while its growth – the sign of amelioration of plans (forecasts).

[1] The Indicator is the arithmetical average of the balances (in percentage points) of the answers to the questions about six components: order books, stocks of finished products, stocks of raw materials, available production capacities, current employment, financial and economic state of enterprises. Gaidar Institute for Economic Policy has been analyzing a set of these assessments since 1994. The Indicator is compiled on a quarterly basis. The Adaptability Indicator (normality) shows the level of adaptability of Russian industry to current economic conditions. In other words: to what extent current operating conditions for Russian industry are considered normal.

terms with the slow rolling dynamic of recent years. Moreover, the Indicator shows that since late 2010, Russian industry *constantly* retained high resilience for adaptability to unfolding economic conditions of each quarter of that period. During these 5 years, the Indicator was in the range of 68-72%. Maximum three months reduction came to 2 points and 'worst' values of the indicator (68%) were obtained by far from crisis 2015 but in late 2013 – early 2014.

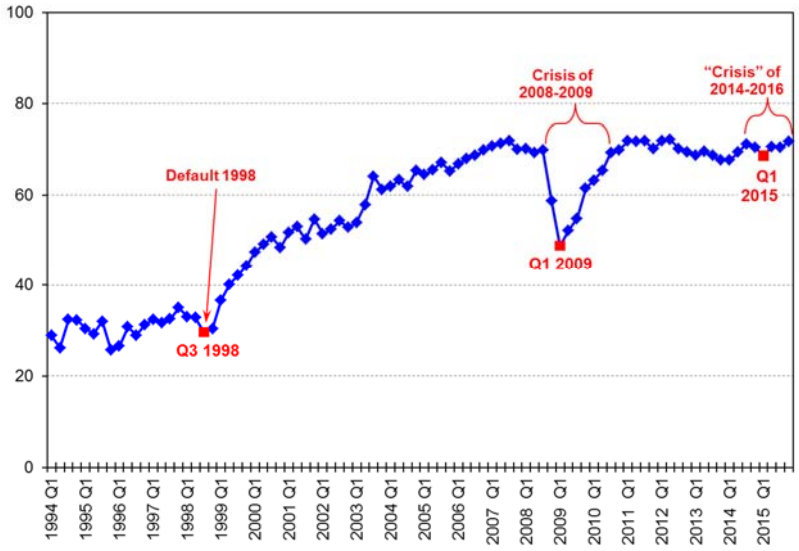

Fig. 22. Russian Industrial Adaptability Indicator, 1994–2015, %
(share of enterprises assessing their indicators as "normal")

Second, the crisis of 2008-2009 has turned out to be more painful for the industry. Then this indicator lost 21 points over two quarters and its recovery took one and a half years long. In other words, businesses required 1.5 years in order to come to terms with the new economic conditions.

Third, the Indicator managed to reach its all-time high only after 1998 default. Prior to that event, Russian industry resided in a state of high 'abnormality' where not more than one third of producers managed to adjust.

However, along industrial branches adaptability to the current recession of 2015 differs in principle. Metallurgy, chemical industry and food industry demonstrate high (80%) level of normality is their assessments of the current situation while light industry and construction materials industry are at the other end. Especially the light industry, which undergoes the current crisis as painfully as the crisis of 2008-2009. Consequently, devaluation of 2014-2015 failed to become a lifesaver for this industry. Machine building enterprises occupy an intermediate place with 70% of the adaptability level to the current recession. At the height of the last crisis, the Industrial Adaptability Indicator decreased to 46%. The recovery has taken 7 quarters.

Calculations show that the adaptability level grows with the increment of factory size. During 1994-2015, very large enterprises reached 75% of adaptability level whilst small and medium enterprises managed to reach not more than 63% (see *Fig. 23*).

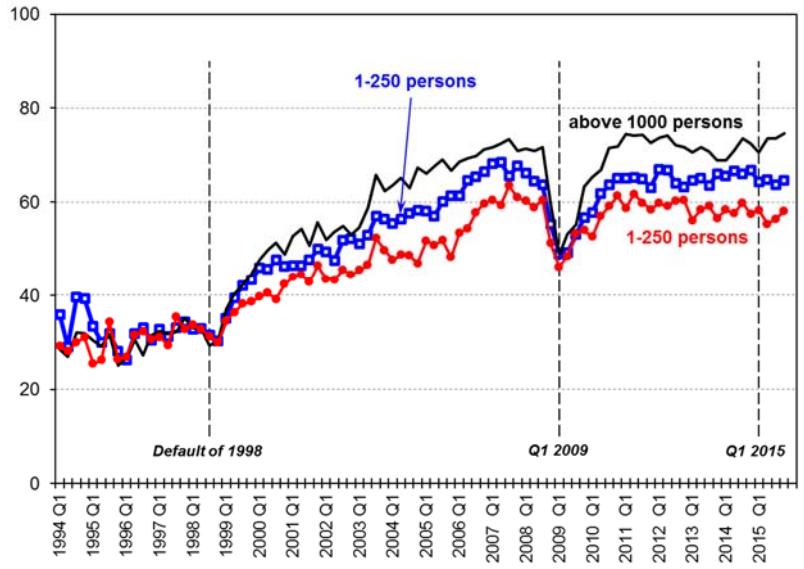

Fig. 23. Adaptability indicators along size of enterprises 1994–2015, %
(share of enterprises assessing their indicators as "normal")

Significant deviations in the Industrial Adaptability Indicator along factory size were registered, as a rule, during relatively good state of the industry. During crunch periods, the level of adaptability of businesses of all sizes decreased to around similar level. For example, in Q1 2009, the Industrial Adaptability Indicator for small and medium producers constituted 46%, for large and very large enterprises – 49%. Similar picture was observed prior to 1998 default when the difference in the adaptability did not exceed, as a rule, 3 points. With the recovery of Russian industry, enterprises' divide increases due to much superior results obtained by large enterprises and traditionally less high – by small and medium producers.

Year 2015 has not seen critical decrease of the adaptability level in a single group of enterprises under analysis. Group indicators were falling in 2015 by not more than 3 points against the previous quarter, following which the Indicator could recover. Final (average) value of 2015 Indictor was below 2014 value by 1 point for small and medium enterprises, by 2 points for large and, and on the contrary, very large enterprises demonstrated the Indicator's growth by 2 points. In 2015, there was no convergence of economic situation assessments: very large enterprises showed 73% adaptability (average for 4 quarters of the year), small and medium enterprises – 57% adaptability.

Therefore, industrial enterprises of all sizes have gone through 2015 recession without critical losses.

4.3.2. Movement of major indicators of Russian industry in 2015

First data regarding the state of Russian industry boasted of few crisis features reported in 2015. Actual movements of demand and output, assessment of stocks of finished products, plans of hiring workers were habitual for January and even looked promising in the wake of panic. The latter, by the way, affected projections of demand, output, and investment plans, which failed to gain traditional for the turn of the year confidence. Industry pricing policy and terms of bank corporate lending, on the contrary, reacted decisively to the authorities' policy.

Dynamic of demand in January 2015 showed traditional for the turn of the year path: the balance of responses decreased to values commonly registered during a month with first ten days of national holidays. That is why, seasonal adjustment demonstrated unchanged rate of the indicator's deviation around previous levels even with a symbolic improvement compared to December. Therefore, industry did not see any critical decline of demand then. This development received a fair assessment by businesses, the majority of which considered unfolding sale volumes as normal in early 2015.

However, demand projections failed to recover to the common for the turn of the year confidence levels due to panic raging on the currency and financial markets as well as public anti-crisis activity of the authorities. The industry began waiting for the promised recession. It started to get ready for it.

Exactly this way looked the management policy of stocks of finished products in Russian industry. Since H2 2014, assessment of balances of stocks showed minimum surplus (+2… +5 points) and in 2015, the first value of the indicator was already negative. In other words, producers' responses 'below normal' started to dominate over responses 'above normal'. However, overall majority of managers (over 70% in November 2014 – January 2015) considered their stocks as 'normal'. Consequently, projected critical worsening of the output dynamic would have been partly flattened out by a deficit of stocks of finished products at 14% of businesses.

Sure enough, industrial production plans reflected the fact that producers expected deterioration of the output movement. According to initial data, January 2015 plans went up to only +20 points while during previous years they reached +30…+40 points. Seasonal adjustment showed deterioration of January projections balance by 5 points against the previous months and by 11 points – to the three-year maximum registered in September 2014.

As expected, 2015 commenced with a considerable price hike. However, its value turned out to be non-traditional at all due to foregone reasons: balance of changes became a four-year maximum. Moreover, solely indictor's growth of January 2011 (when authorities raised the rate insurance contributions) exceeded the outcome of January 2015.

As anticipated, enterprises' investment plans in January 2015 remained at the level of five-year minimum, whereinto they literally crashed in December 2014. Not a single branch of Russian industry projected Investment growth.

In January 2015, the industry had a chance to assess the magnitude of previous measures taken by the RF Central Bank regarding corporate lending terms to the real sector of the economy. Minimal average lending rate in rubles hiked to unprecedented heights of around 20% per annum not observed during recent 5 years of monitoring. Although in November 2014, the lending rate totaled 14% and in February 2014 – 12.3%. In January 2014, aforementioned lending rate was good enough for 70% of producers that was the share of enterprises, which considered credit availability as 'normal' or 'above normal'. In January 2015, credit availability indicator fell to 45%.

In February, recovery of book orders failed to reach customary levels, which resulted in surplus growth of stocks of finished products in the context of exceeding output over demand. Herewith, projections of book orders remained at their minimum since 2009. Apprehension was gaining momentum regarding output and investment plans. While corporate lending terms and conditions were getting tougher.

However, slack sales movement has failed to lead to a significant adjustment in assessment of current book orders volume. The share of responses 'normal' still exceeded the share of responses 'below normal'. Therefore, even decreased sales volumes in the wake of the currency

and lending shocks and unfolding anti-crisis measures undertaken by the government were acceptable for the majority of Russian enterprises.

In Q1 2015, the industry retained an intensive growth of costs. In the intervening three months production costs growth rate went up by another 16 points (growth over Q4 2014 came to 22 points), reached +51 points and totaled seven-year maximum, i.e. production costs did not register such intensive growth since early 2008. However in Q2 2015, the industry planned to halt growth of this indicator. Plans to curb production costs growth to a large extent were explained by a turn in the movement of factory prices. Following the four-year maximum registered in January, price growth rate down by 5 points in February. Price projections made by the industry, which hiked in December-January to nearly inter-crisis maximum level, also began falling in February.

In February, investment plans crumbled by another 12 points reaching the bottom level since October 2009. Just for September 2014 - February 2015 investment projections balance lost 45 points. Surveys failed to register such sharp fall of this indicator ever (its monitoring commenced solely in May 2009).

Another record is also impressive: the share of responses with plans to decrease investment reached 50% in the industry as a whole in February 2015. Producers considered shortage of own funds as a major hindrance to the investment because precisely profit remains the major source of investment in Russian industry. Nevertheless, the RF Central Bank monetary policy stripped producers of another classical source of investment – bank lending. At the turn of 2015, nearly half of Russian industry considered high lending rate as an impediment to investment. In 2014, barely 21% of producers reported this fact and in 2013 – 19%. The picture is completed by the assessment of hardships related to obtaining a bank loan even where the offered lending rate is acceptable for the producer. Other barriers related to obtaining an investment loan in this case were increased by banks in 2015 by nearly twofold (from 10 to 19%). Foreign exchange policy of the regulator enhanced downward pressure of another significant factor for Russian industry – prices on equipment. Following the ruble's devaluation, Russian producers have to pay through their noses for foreign made equipment. For many businesses investment import substitution is impossible due to the fact the required equipment is not built in Russia. Another part of Russian buyers of foreign machines and equipment will be unable to refuse to purchase it due to the fact that domestically manufactured equipment considerably differs in quality from the foreign analogues (quality-price ratio). As a result, in 2015, 42% of enterprises (in 2013 – 34%) consider high prices on equipment and on construction and installation works as a negative factor for investment.

However, results of Q1 2015 clearly turned out to be positive against the backdrop of pre-crisis panic of late 2014 – early 2015. The industry managed to avoid crisis production slump in spite of slow demand recovery following January holidays. The latter development was not acceptable for the considerable part of businesses, which judging by assessments of stocks of finished products, exercised a steady control over demand and supply balance. Commenced slowdown of price growth, decrease of the lending rate and March turning point in the negative trend regarding investment plans all looked positive amid the authorities' crisis rhetoric.

In the context of unfolding (or declared) dismissals in other sectors of the economy and amid slowdown of wages growth, Russian industry as a whole received more chances to resolve their personnel issues. According to the data of IEP surveys, even in early Q1 2015, (when panic mood overwhelmed all economic agents) quarter of industrial enterprises came short of workers required for securing current production volume and 15% of them were expecting its retention

in the short term taking into account projected order books changes. In this context, positive employment dynamic reported in March 2015 (i.e. excess of the share of recruitment responses over the share of lay-offs responses) seemed quite logical. It should be noted that such situation was not registered in the industry during three years, i.e. solely in early 2012 the industry managed to increase the number of workers in the sector. However, forthcoming wage growth in other sectors of the economy (especially in the budget one) stripped industry of its competitiveness on the labor market and led to a steady decrease of the headcount number in the sector, which resulted in the current shortage of personnel at 37% of businesses.

Obviously, non-catastrophic results of Q1 2015 turned around the negative trend in the investment plans of Russian industry. Following the six-month period of downward trend and decrease of expectations balance to the lowest level since the end of 2009, in March 2015 this indicator improved by 10 points. One of the reasons for the turning point in the sentiments in Russian industry was a sharp decline of satisfaction with the production investment volumes. Solely, 42% of businesses assessed investment in Q1 2015 as 'normal' following 55% normal assessments of investment in Q4 2014.

Termination of tightening of credit conditions for the industry (see *Fig. 24*) was another positive signal reported in March. First, the lowest bank rate for businesses began falling at last. In March, it decreased by 1 p.p. following an all-time high of 20.8% in rubles per annum posted in February. Second, general corporate lending terms and conditions stopped tightening. In March, unavailability of corporate loans for producers stopped growing and even decreased by barely 2 p.p. following the February level of 45% the share of producers, who assessed their accessibility to credits as 'below normal'. This value was an all-time high since October 2009 when the indicator was falling following the crisis hike to 65% registered in December 2008.

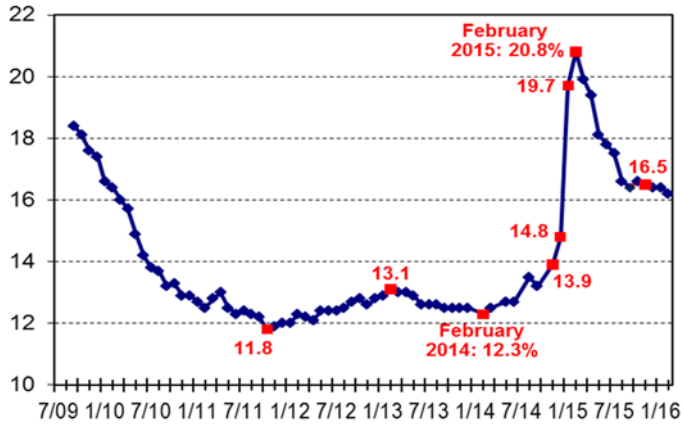

Fig. 24. Average minimum bank rate on ruble loans, 2009–2015, % per annum February

In April, Russian industry again avoided critical downturn in demand and production while retaining steady control over stocks of finished products, further slowdown of price growth and drastic positive review of their sales and production plans. In this context, satisfaction with order books remained low, however, strange as it may appear, it was better than during similar months of 2013 and 2014. Hereby, the industry even amid powerful crisis rhetoric of both authorities and experts did not succumb to the official panic mood. Change of key taken by the authorities who were very happy with Q1 results registered in the economy as a whole and in the industry, seems significantly affected businesses. The latter order books projects measured

in April took a sharp hike following staying at the 69-months bottom during three months. Similar turning point was true of the production projections. In April, surveys registered their drastic positive development. As a result, this indicator reached its 44-months minimum. Previously (in October 2014 – March 2015) it was declining reaching 40-months minimum. Assessments of stocks of finished products have confirmed the high level of exceptionally unclear economic outlook. The share of responses 'normal' remained at the all-time high, assessments balance of 'above normal' and 'below normal' remained around zero mark. Corporate lending conditions continued recovering following December shock. In April, the level of loans unavailability responses declined to 35% after reaching post-crisis maximum of 45% in February. Average minimum ruble bank rate moved down by another 0.5 p.p. and reached 19.5% per annum.

In May, industrial production showed a more positive dynamic than demand, which led to a deterioration of assessments of stocks of finished products. Balance moved up by 8 points reaching +6 percentage points. Although May value of assessments balance was the worst for the previous 12 months, its absolute value was not catastrophic for 2011-2015. This value was perceived rather than a small loss of businesses' control over balance of demand and supply following a very successful management of stocks during shock periods of late 2014 and panic rhetoric of the authorities of early 2015. At the same time, the vast majority of enterprises assessed their stocks as 'normal': in May 2015, this indicator reached all-time maximum (of all 23 years of monitoring) (see *Fig. 25*).

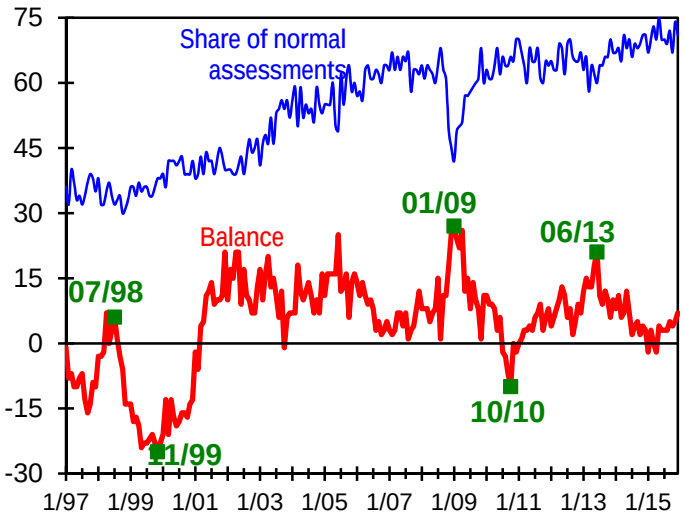

Fig. 25. Assessment of stocks of finished products, 1997–2015, %

In May, the industry continued its pricing policy characteristic of the previous months aimed at scaling down its price growth. Balance (rate) of growth fell by another 12 and reached +2 p.p. Such moderate growth of factory prices the surveys did not register since early 2014. Balance (rate) of production costs in Q2 2015 crashed to record 40 points: from +53 p.p. to +13 p.p. However, sharp slowdown of production costs and factory prices growth in Q2 affected sales little. In this context, projections of book orders and production stopped gaining confidence. The May investment plans improved but remained within the corridor where they were staying for six months: from December 2014. Barely 16% of businesses planned to increase investment in production in the coming months against 39%, which wanted to reduce investment.

Terms and conditions of corporate lending continued recovering slowly. According to the assessments of industrial borrowers, normal availability of loans went up in May by several points and reached 43%. Following regular CBR decision on the key rate, the ruble bank rate shrank to 18% per annum.

Stocks of finished products still failed to demonstrate any signs of the unfolding crisis or even of its prospects. The industry regularly alerted by the authorities and experts over a year kept stocks under control. Their assessment balance did not hike (as it happened in late 2008 – early 2009) nor went drastically low (as it was following 1998 default or in H2 2010). Since July 2014, the indicator remained in a very comfortable for producers interval -2...+5 points with stable and total (66%-75%) predominance of responses 'normal'.

At the beginning of H2, Russian industry was slowly drawn into the 'bog' of a slow rolling recession. However, not a single major indicator demonstrated changes expected in line with the previous crises developments. This is confirmed by the demand satisfaction assessments: the share of responses 'below normal' went up to 53%. Such insignificant level of demand dissatisfaction in the wake of announced recession speaks at least about a number of its features. First, prolonged drawing into recession together with powerful PR-campaign conducted by the authorities aimed at the preparation for the recession allowed businesses to implement preventive measures and psychologically get ready to the demand and output decrease. Second, producers do not perceive highly moderate scale of reduction of the aforementioned indicators as a critical one, following a relatively recent across-the-board recession of late 2008. Third feature (or is we can say – weakness) of the current recession was instability (uncertainty) of industrial demand projections. In 2008, this indicator began drastically falling since September, reached maximum in December 2008, and already in January equally sharply went up. In 2015, the situation is different. Sluggish recovery of the initial demand projections registered in Q1 2015 (mainly due to panic) after the seasonal adjustment looked as expectation of sales contraction. However, absence of recession at the turn of the year added confidence to Q2 expectations. Fourth feature of the slow rolling industrial recession of 2015 one can consider the absence of any problems experienced by businesses with stocks of finished products. Assessments of stocks along the scale 'above normal', 'normal', and 'below normal' show a steady control of producers over demand and supply balance even amid high uncertainly. On average in industry, surplus of stocks nearly totally counterbalances by their shortage. To note, at the height of 2008-2009 crisis balance hiked to +27 points. All-time high of the indicator comes to +28 points, which was registered in January 1996.

The year 2015 signified an investment crisis for the industry especially in H1. However, by mid-2015 investment plans of Russian Industry stabilized at -20 points following four months of fluctuations (search for adequate to current conditions investment strategies) in the interval of -36..-26 points. However, even minimal values of investment plans of the current 'crisis' year (-36 points) significantly exceed minimal values (-58 points) posted in H1 2009 (monitoring of the indicator commenced from May) and consequently do not take into account the period of maximum panic of that crisis, which as in this case fell for the beginning of the year.

Other indicators, according to businesses assessments, have not undergone crisis changes. This fact allowed producers to 'highly assess' both demand for their products and stocks of finished products. In August, satisfaction with demand in Russian industry went up straight by 10 p.p. and reached 59%. The industry, thus, yet again managed to 'take a breath' in the context of constantly accelerated tensions and expectation of across-the-board and instantaneous recession of November 2008. Assessments of stocks of finished products reduced the feasibility of

catastrophe scenario in Russia industry along traditionally monitored by authorities and experts indicators.

In August, businesses reported significant reduction of ruble loan bank rate. Its average minimum value contracted over a month by 1 p.p. and reached 16.5% per annum. During three previous months, the rate decrease came to barely 0.6 points. As a result, general availability of loans (taking into consideration not only rate value) increased in August by 5 p.p. and came to 51%: the number of businesses that consider its availability as normal. Therefore, the indicator's growth following the crisis minimum (34% as of March 2015) reached 17 p.p. Average value of this indicator for the inter-crisis period (April 2010-August 2014) equals 70%.

September showed high ability of Russian industry to come to terms with the recession of 2015. Slow rolling negative demand dynamic as before satisfied the majority of producers and allowed them to continue steady control over stocks of finished products. Major crisis indicator for responses 'above normal' demonstrated in the crisis 2015 a surprising consistency and by far non-crisis level. September survey registered production growth, which was not buttressed by revision of producers' plans and projections. In 2015, production plans of the industry did not exceed their values for 2012-2014. Even panic of Q1 failed to decrease the indicator's balance down to (pre)crisis level. However, its best values failed to give an impression that the industry wished to bottom out the current slow rolling recession. Consequently, in the autumn Russian industry did not see grounds for transition to a positive and sustainable dynamic of production.

Nevertheless, in October, Russian industry decided to retain production growth. However, a limited set of indicators of official statistics does not allow assessing all peculiarities of the situation where Russian industry found itself making another attempt to recover from recession. Data on sales of industrial products were not so optimistic as the data on production dynamics. In October, initial indicator's balance outright fell by 11 points against modest values of July-September. Seasonal adjustment showed reduction by 2 points: not so critical against the backdrop of previous values of the year but obvious inadequate to the latest production developments. Such situation stopped satisfying Russian industry. In October, satisfaction with order books fell by 10 p.p. to 46%. Businesses definitely needed greater volumes of order books in order to maintain production growth.

Projections of order books, which were formulated by producers neither inspired confidence. Following the crash of the indicator in Q1 2015 due to the panic on the currency market and expectations of a crisis of 2008-2009 type, demand projections balance increased to zero level and remained in the interval of -3..+2. In other words, no fundamental changes in demand expectations on the enterprises' level took place including in September-October. Solely production plans demonstrated moderate positive dynamic following the July crash of the indicator. However, in September-October they increased solely to the level of Q2 2015. Consequently, there were no special (post-crisis) expectations for the output growth in the industry. Although, there were no crisis demise of this indicator either.

By the way, businesses were still ready to take risks and refused to revise stocks of finished products even amid exceeding demand changes in output. Assessment of socks balance remained in a small and far from crisis 'plus' since May 2015. Its 2015 maximum value of +5 p.p. did not look ludicrously low after +12 p.p. which was 2014 maximum, +21 p.p. – 2013 maximum, and crisis maximum of 2009 of +27 p.p. To note, this indicator did not decline in 2015 into a significant 'minus' as it happened in 1997, 1999-2000 and 2010 when the industry did

not really trust unfolding then demand growth and preferred to hold insufficient (even according to proper assessments) stocks of finished products.

In October, decrease of the bank lending rate finally terminated (see *Fig. 24*). The ruble lending rate stabilized at 16.5% per annum waiting for the RF Central Bank Board decision on the key rate on October 30. However, during August-October creditors and borrowers searched for a compromise on other terms of lending under a fixed rate. This was reflected in instability of aggregate assessments of loans availability, which showed fluctuations in the range of 43% to 52% after a rare stability registered in May-June, brief growth and prolonged decline of the indicator during previous months.

In November, flat demand made businesses hold back production growth at the current high confidence in production plans and without revision of assessments of stocks of finished products. However, frustration with the sales volumes remained far from classical crisis of 2008-2009 when the share of responses 'below normal' reached 80%. Herewith, demand projections were unlike the crisis ones. During entire H2, they remain (after seasonal adjustment) around zero, i.e. expectations of the sales growth are counterbalanced by expectations of their reduction, which, to note, is quite adequate the current economic situation. They are characterized by the authorities as stability. "The situation in the economy and financial system is sufficiently stable," – said Dmitry Medvedev speaking before the participants of CEO Summit APEC on November 17, 2015.

Despite flat demand and assessments zero balance regarding its change production plans after the July crash were gaining confidence. Major hike of the indicator fell for August (5 p.p.), than its values were growing by 1-2 points monthly and hit +22 balance points by November, which was four-year maximum of the indicator. Thus, the industry retained the wish to bottom out from the current recession, including at the expense of price decrease on its products even in the wake of continuing costs growth.

Still to the end of 2015, Russian industry failed to demonstrate statistically indisputable output growth. Sluggish demand, which resists revival attempts made by producer's price decrease, by ruble's depreciation, and by import substitution, resulted solely in deterioration of assessments of stocks of finished products and negative revision of output plans by businesses. Production plans, which were gaining confidence in August-November and which finally hit by far non-crisis four-year maximum, in December fell by 4 points and triggered new and 'unpleasant' trend in the movement of indicator.

Terms of corporate lending to the industry stabilized at the end of 2015 together with the CBR key rate. Average minimum ruble bank rate averages 16.5% per annum. Aggregate availability of loans (taking into account all terms of borrowing) during the period of fixed rates (both CBR and commercial banks) demonstrated obvious but damped fluctuations. Eventually, average availability of loans in August-December of 2015 constituted 48% following stable 46% level registered in May-July.

Capacity of Russian industry to service current loans in 2015 was sustainable and sufficiently high (did not go below 80%). During the crisis of 2009, this indicator fell to 52%.

* * *

Monitoring of the representative set of indicators of the IEP business surveys allowed to reveal *peculiarities of 2015 recession in Russian industry. First*, during the year dynamic of

major indicators (demand, output, and prices) differed by uncharacteristic for the previous crises and unexpected for observers sluggishness. *Second*, psychological preparation for 2015 crisis commenced several year before when the term 'second wave of crisis' was coined. These developments have formed *third feature* of 2015: Russian industrial enterprises without serious consequences have overcome this crisis year, which is reflected by *assessments* of demand, stocks of finished products, employment, production capacities, and financial and economic situation. *Fourth*, single manifestations of the crisis of 2015 for Russian industry were the hike of bank lending rate and crash of investment plans. At the same time, actual investment volumes in 2015, the majority of businesses assessed as sufficient due to expected demand changes.

4.4. Industrial production dynamics in particular sectors of industry[1]

Russia's real economy continued throughout 2015 to accommodate itself to new terms of trade and a new geopolitical context, both of which rendered the dynamics of domestic market's key indicators less stable and less foreseeable.

To make sure that sectoral dynamics are interpreted correctly, analysis of time series in the short term should be attended with seasonal and calendar adjustments. In order to be certain that the available dynamics of industrial production indicates that a period of downturn (or growth) is over, recovery (or slowdown) processes are afoot, monthly series should be decomposed into calendar, seasonal, irregular and trend components.[2] It is the changes of the trend component that should be analyzed in order to provide a substantial interpretation of sectoral trends.[3]

Rosstat publishes adjusted values of the industrial production index as a whole, not furnishing industry-specific production indices; the Gaidar Institute has been making such calculations since earlier in 2015.[4] *Fig. 26* presents the dynamics of the industrial production index, and the

[1] Authors of this section: Idrisov G. – Gaidar Institute for Economic Policy, Kaukin A. – Gaidar Institute for Economic Policy, Ponomarev Yu. – Gaidar Institute for Economic Policy. The authors thank Marina Turuntseva and Olga Morgunova for their invaluable help with this material.

[2] See Bessonov V.A., Petronevich A.V., Seasonal adjustment as a source of false signals // HSE Economic Journal, Vol. 17 (2013), No. 4, pp. 554–584.

[3] The values of industrial production indices as a whole and of its components within a certain period of time are classical time series, so various methods of their analysis have to meet the eligibility requirements. In particular, interpretation of changes of raw values of such indicators may result in potential errors. For example, the increase of the post-downturn value of any series in question may not only reflect certain fundamental causes but also, e.g., the calendar effect: worked hours in various months (and at various industries) may vary considerably due to the difference in the number of weekends and public holidays, which naturally has an effect on production volumes, too. It is common practice to perform a so-called calendar adjustment so that the foregoing effects are considered while analyzing time series. See Idrisov G., Kaukin A., Morgunova O., Turuntseva M. Industrial downturn: worse than desired, better than it seems to be // Real-time monitoring of the economic situation in Russia. Trends and challenges of socio-economic development, No. 5 (March) 2015.
Besides the calendar component of time series, there is the seasonal component. Production volumes in many industries are distributed unevenly for various months and seasons. For instance, the bulk of production volumes in agriculture fall for obvious reasons on summer and fall seasons, and the bulk of thermal and electric power are produced in winter, etc. Seasonal variances of production volumes are cyclical, and like calendar variances they can be separated from raw values of time series in order to avoid misinterpretations of the changes observed. See Bessonov V.A., Petronevich A.V., Seasonal adjustment as a source of false signals // HSE Economic Journal, Vol. 17 (2013), No. 4, pp. 554–584.

[4] See, e.g., Idrisov G., Kaukin A., Morgunova O., Turuntseva M. Russia's industry bounces off the bottom // Real-time monitoring of the economic situation in Russia. Trends and challenges of socio-economic development,

trend component of the index. From the data presented it transpires that Russia's economy in 2014–2015 managed to avoid falling as deep as it sank during the crisis of 2008–2009.

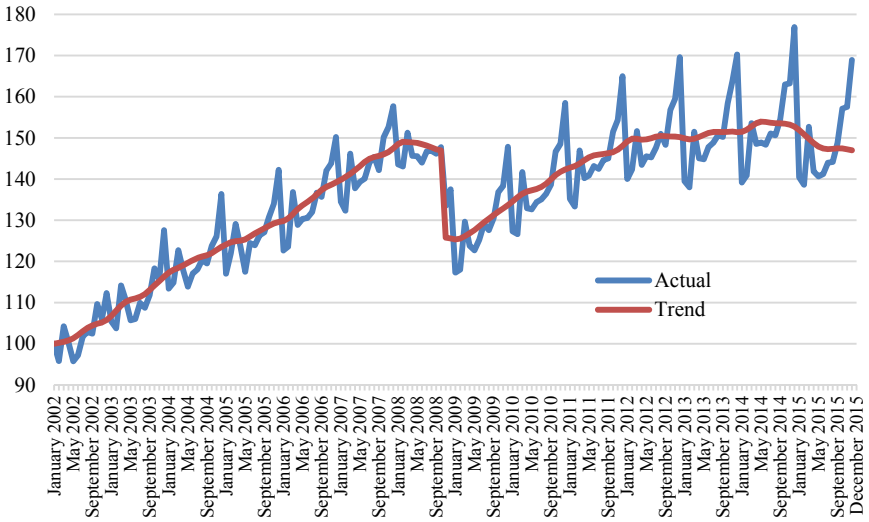

Fig. 26. The dynamics of industrial production index in 2002–2015 (January 2002 = 100)

Sources: Rosstat, own calculations.

One of the key issues, which throughout 2015 were in the focus of industry-specific analysts and government authorities, was the timing of passing the "bottom" for the economy as a whole and industries in particular. The issue of understanding the current stage of economic development is, indeed, of high importance for managing, inter alia, expectations and for pursuing a short- and medium-term economic policy. However, it should be realized that passing the "bottom" (i.e., taking a new growth path) is linked to that of which macroeconomic context can be regarded as equilibrium at least in the short-term perspective. Perceptions of new equilibrium parameters (first of all, the global crude price and the exchange rate) for the Russian economy, as well as respective expectations as to the prospects for industrial production dynamics, underwent some changes in 2015.

4.4.1. Late 2014/early 2015 (March–April): uncertainty and polarization of industries

A new economic context (first of all, terms of trade) was viewed as temporal in late 2014/early 2015, economic agents built their expectations on having to wait for some time

No. 15 (November) 2015; Idrisov G., Kaukin A., Morgunova O., Turuntseva M. Two poles of Russia's industry // Real-time monitoring of the economic situation in Russia. Trends and challenges of socio-economic development, No. 12 (September) 2015; Idrisov G., Kaukin A., Morgunova O., Turuntseva M. Industrial downturn worsens: trends turn into reality // Real-time monitoring of the economic situation in Russia. Trends and challenges of socio-economic development, No. 9 (June) 2015; Idrisov G., Kaukin A., Morgunova O., Turuntseva M. Industry: trends are worse than data // Real-time monitoring of the economic situation in Russia. Trends and challenges of socio-economic development, No. 7 (April) 2015; Idrisov G., Kaukin A., Morgunova O., Turuntseva M. Industrial downturn: worse than desired, better than it seems to be // Online Monitoring of Russia's Economic Outlook. Trends and Challenges of Socio-Economic Development, No. 5 (March) 2015.

until the period of economic and geopolitical tensions is over. That period was characterized by contracted investment, some recovery of industrial production on the back of falling imports from Ukraine, as well as Western sanctions and Russia's countersanctions. In the period between December 2014 and March 2015, Russia's export crude saw its price fall smoothly from $68 to $52 a barrel,[1] thereby triggering negative expectations as to which way the economic situation would develop. The industrial sector embarked on revising its development plans in the face of Russia's ruble drastic slump, unlikely prospects of quick improvement of external conditions and internal demand, restricted access to foreign loans, and the onset of industrial and consumer inflation.

As a result, Russia's industrial sector was divided into "positive" and "negative" poles in late 2014/early 2015. In terms of production dynamics, the "positive" pole (which includes industries that contribute about 35% to the overall industrial production index) was assessed positive as a whole (the manufacture of food products, other nonmetallic mineral products (incl. construction materials), rubber and plastics products, metallurgy, and the manufacture of chemicals and chemical products) largely due to recovery of industries benefiting from replacing goods imported from Ukraine (as a result of profound rift between Russia and Ukraine), disrupted regularity of the pace of production processes of Ukrainian enterprises, introduction of sanctions, increased competitiveness in external markets due to ruble's devaluation, as well as favorable external economic conditions. The opposite or "negative" pole (a contribution about 17% to the overall industrial production index) comprised sectors such as the manufacture of textiles and wearing apparel, pulp, paper and paperboard, leather, machinery and equipment, means of transport, electrical equipment, whose output was indicative of a downturn due to the price growth of foreign intermediate goods and equipment (which is a major problem facing most import-led industries), overall decline of demand due to a drop in buyers' income, and economic agents' negative expectations amid uncertainty and falling access to loans.

The foregoing trends are shown in *Fig. 27*.

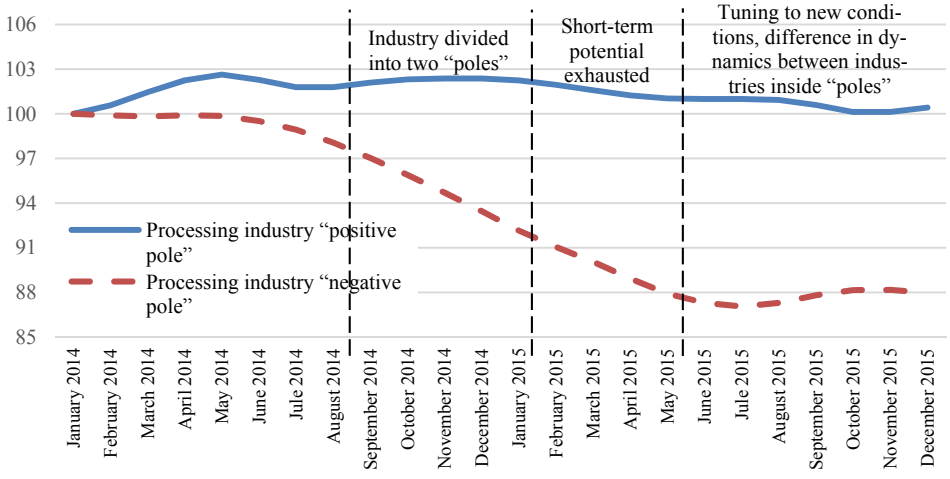

Fig. 27. The dynamics of "positive" and "negative" poles in Russia's processing industry in 2014–2015 (January 2014 = 100)

Sources: Rosstat, own calculations.

[1] The data released by Russia's Federal Customs Service.

Despite some kind of recovery of some sectors of Russia's industry in late 2014/early 2015, they saw their growth rates begin falling as early as March-April 2015. This holds true for the manufacture of food products, rubber and plastics products, as well as metallurgy. The manufacture of chemicals and chemical products was the only industrial sector to see its production grow steadily in Q2 2015. Actually, the change in the dynamics of industrial production was an evidence that import replacement potential had been exhausted for industries that managed in late 2014 to benefit from a weakening ruble, sanctions and favorable external economic conditions. A further growth required structural changes, higher quality of goods, that is, the competiveness of such goods should be enhanced through internal rather than external factors.

4.4.2. April–September 2015: building new expectations and gradual economic stabilization

By the mid-2015, the crude price and, accordingly, the ruble's exchange rate against the US dollar faced more stable dynamics, and they even bounced back to the level seen in January 2015. During that period, economic agents built their new expectations for long-term equilibrium macroeconomic parameters, as was also reflected in the forecast of Russia's Ministry of Economic Development, on which a federal budget bill was drafted. The Ministry of Economic Development fore in May that in 2015 the ruble's yearly average exchange rate would be 60 rubles per dollar (53 rubles per dollar by 2018), and the Urals crude yearly average price would be $50 a barrel.[1]

Russia's industrial sectors that were hit most by the changes in terms of trade began in Q2 2015 to dampen the fall which varied in pace. For example, in terms of volume, the manufacture of leather and means of transport stabilized, whereas the manufacture of pulp, paper and paperboard, means of transport, electrical equipment, etc. continued to fall, at lower paces, though. Production volumes of these sectors were stabilized due to common factors (less dependence on imported raw materials and component parts) and some specific factors.

By September, the dynamics of industrial production of some sectors was an evidence that industrial production passed the lowest output. The bulk of the growth of the industrial production index at that period was attributed to sectors such as the fuel and energy sector, the manufacture of food products (partial replacement of imported products, a slight increase in demand, e.g., growth of demand for agricultural raw materials[2]), the manufacture of coke and refined petroleum products, chemicals and chemical products (import cuts amid simultaneous growth of domestic manufacture of a wide spectrum of goods of the industry: household chemicals, pharmaceutics, crop protecting agents[3]; there were sufficient capacities available (first of all, manufacture of polymers) to compete successfully with imported goods).

Approximately in the mid-2015, an important trend began to manifest itself (see *Fig. 28*) as a visible growth of the trend component of the extracting series (a contribution of about 34% to the overall production index). As this took place, a fall of the index in early 2015 and the following recovery growth were driven by changes in the production of fossil fuels. Production

[1] Scenario-based conditions, basic parameters of the socio-economic development forecast for the Russian Federation and the ceiling of prices (tariffs) of services provided by infrastructure sector companies for 2016 and the planning period of 2017 and 2018 // Ministry of Economic Development of Russia, May, 2015

[2] Ministry of Economic Development notes growth rates increase in the manufacture of food products // IA Regnum, July 31, 2015 [http://regnum.ru/news/1947866.html]

[3] Chemical industry takes advantage of import replacement factor. RIA Rating, July 10, 2015 [http://riarating.ru/comments/20150710/610662472.html]

volumes of other commercial minerals (metal ores, raw materials for construction, and the manufacture of chemicals and chemical products) remained unchanged throughout the entire period under review, which can possibly be explained by the fact that these types of products are neither exported nor processed in Russia, especially by sectors facing a relatively favorable conditions during the crisis (the manufacture of chemicals and chemical products, metallurgy, construction sector), which makes them less sensitive to exchange rate and external economic conditions.

The decline in the extraction of fossil fuels, which began in early 2015, was triggered by the effect of delayed[1] fall of actual ruble denominated prices of Russia's crude exports (and the falling market value of global dollar-denominated crude prices) against the ruble's devaluation. As this took place, there was no decline in supplies, and ruble-denominated prices began to recover as early as the middle of the spring season, which collectively resulted in growth and gradual stabilization of the trend component of the production index of this industry. Lukoil CEO Vagit Alekperov[2] said producers can increase their output with oil prices staying near $50 a barrel, because, first, the bulk of the costs in the industry are expressed in rubles and, second, it is the state, not oil companies, whose revenues (crude export duty) are hit most by the decline in crude prices.

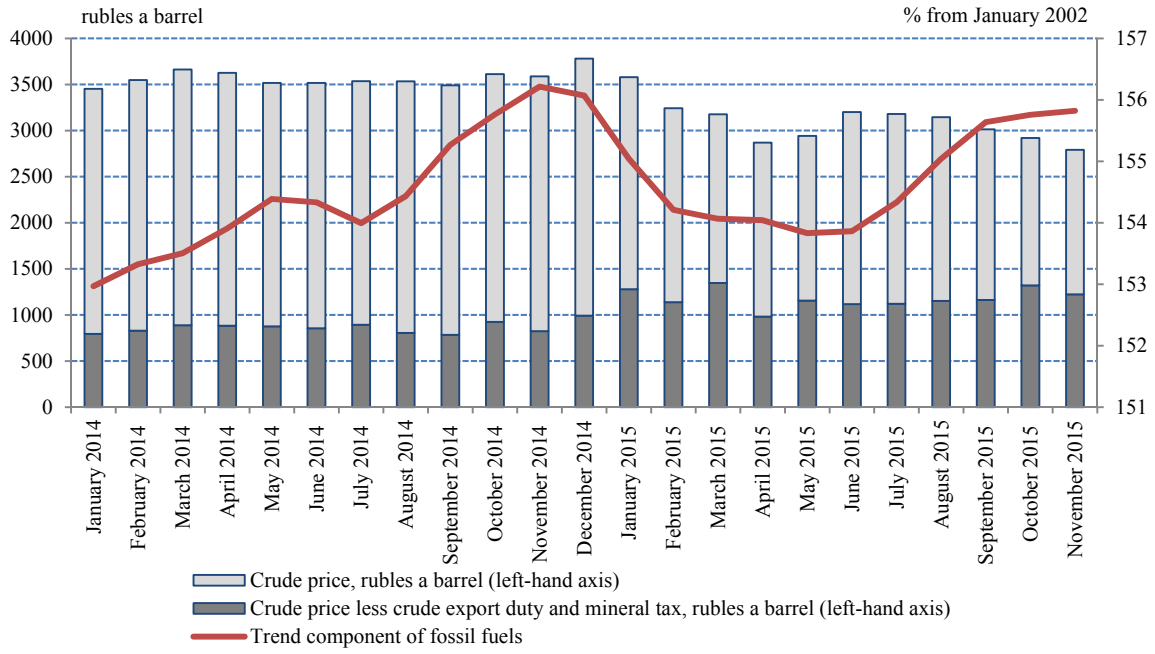

Fig. 28. The dynamics of Russia's export crude price, and the trend component of the mineral production index in 2014–2015

Sources: Rosstat, own calculations.

[1] The delay is actually explained by a new policy of the Bank of Russia, which has abandoned its managed exchange rate policy.

[2] See, e.g., an interview with Vagit Alekperov: Chinese loans are most expensive in the world. *Vedomosti*, September 6, 2015 [http://www.vedomosti.ru/business/characters/2015/09/07/607751-kitaiskie-krediti-samie-dorogie-v-mire]

The described dynamics of industrial production indices allowed one to draw conservative assumptions that Russia's economy may resume growth by the end of 2015, unless terms-of-trade shocks strike again.

4.4.3. October–December 2015: worsening macroeconomic context and a new round of downturn

Terms of trade passed a new downturn phase in Q4 2015. The macroeconomic context again stripped Russia's economy of a long-term target for oil prices and ruble's exchange rate. Experts slashed their forecasts, some of which predicted the value of the US dollar would be equal to 75 rubles, and the crude would be traded at $40 a barrel.[1] The expectations were reinforced by the dynamics of crude oil prices and of exchange rate during the last months of the year, and the fall continued in early 2016.

Like earlier in the year, the 2015 year-end context will inevitably affect production volumes of fossil fuels, but there will be a delay (provided that crude prices fail to recover, e.g., if oil-producing countries reach an agreement).

A new fall of global oil prices and the following (in late 2015) depreciation of the ruble seem to have a smaller scale effect than in late 2014, yet the effect was visible on the dynamics of the manufacturing sector (see *Fig. 29*).

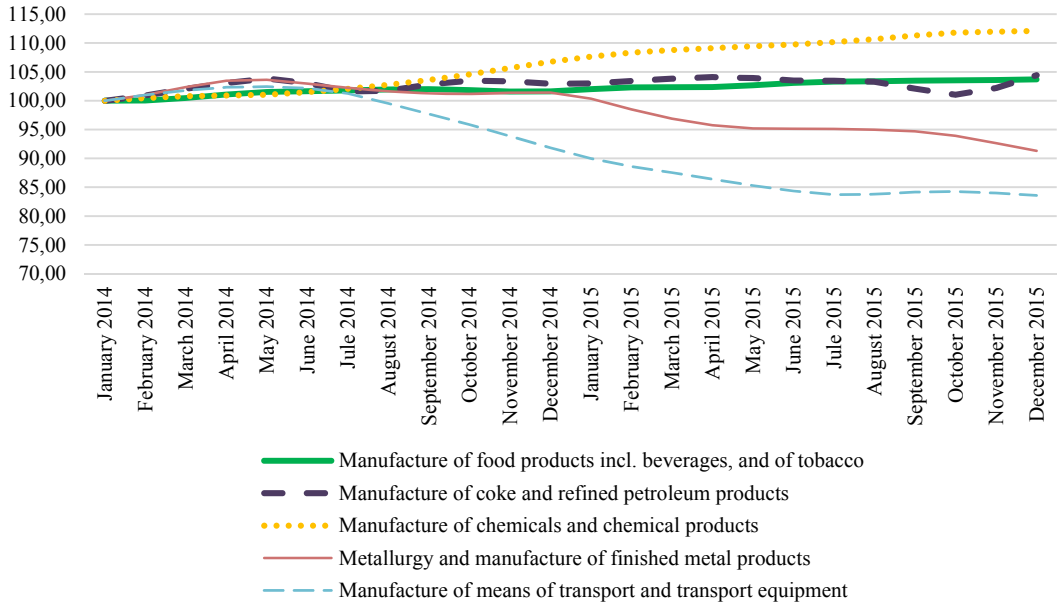

Fig. 29. The dynamics of trend components of the processing industry's key sectors in 2014–2015 (January 2014 = 100)

Sources: Rosstat, own calculations.

There may be two reasons the effect of terms of trade on the Russian economy in late 2015 was weaker than that at the end of 2014. First, in late 2014, the market was driven not only by the ruble's devaluation and falling oil prices, but it was also affected by Western sanctions and

[1] Economists predict ruble's weakening continues after key rate cut. RBC: October 26, 2015 [http://www.rbc.ru/finances/26/10/2015/562e29e19a794753623969a6]

Russia's countersanctions, the worsening situation in Ukraine and heightened uncertainty about the nature (temporal or permanent) of the oil price shock observed. Under the circumstances, the basket of factors as a whole had no strong effect on further dynamics of production volumes. Second, the past year saw businesses somehow adapt to new conditions, or rather to unstable environment, thereby affecting the H2'15 production indices.

Unlike the situation which developed immediately after the onset of the crisis in the fall season of 2014, no growth was seen in late 2015 in sectors that managed to take short-term advantage of favorable external economic conditions or increased competitiveness with partly sanctioned foreign-made products. Instead, growth was seen in industries that, first, are feebly dependent on foreign raw materials, second, have traditionally thick domestic market for their products or, third, compete successfully in external markets, taking advantage of the squeezed share of ruble-denominated costs of dollar-denominated finished products, and of a noncritical gap in quality between them and their competitors. Among the sub-sectors in the manufacturing sector the manufacture of coke and refined petroleum products (domestic market, cost cuts), chemicals and chemical products, and rubber and plastics products, woodworking (domestic and external markets, cost cuts) fit into this group.

Industries whose 2015 year-end production volumes continued to decline are first of all characterized by their being heavily dependent on imported raw materials and component parts (the manufacture of textiles and wearing apparel, electrical equipment), and by being sensitive to falling global and domestic economic growth rates (metallurgy). The other industries moved to some kind of new equilibrium production level, and they do not expect any serious changes to happen in the short term. *Table 12* presents drilled down values of the trend components of production indices by key industry.

Production volumes of Russia's manufacturing and extracting sectors kept falling by the end of 2015, as seen in *Fig. 30*. The economy may pass a "second bottom" of downturn in the short term, provided that the terms of trade remain intact.

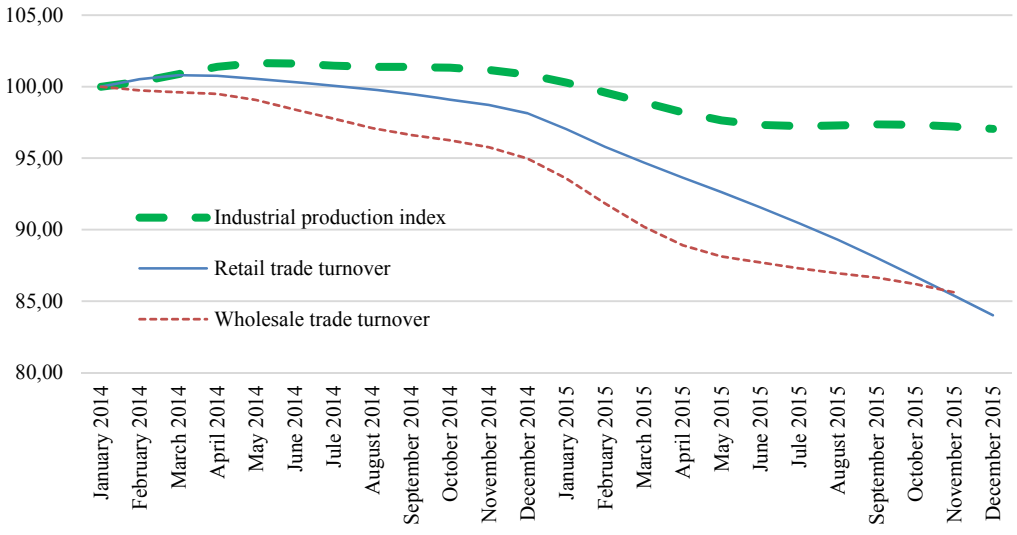

Fig. 30. The dynamics of trend components of economy sector indices in 2014–2015 (January 2014 = 100)

Sources: Rosstat, own calculations.

4.4.4. Wholesale and retail trade: protracted fall

Note that the dynamics of industrial production is indeed important indicator of the state of economy, although industrial production accounts for about 26–27% of gross value added. It is therefore important that other major sectors of economy are considered, too.

For example, the turnover of wholesale and retail trade, whose collective share of gross value added is traditionally about 20%, continues to decline (see *Fig. 30*) as it did during the entire period under review. A similar trend is observed in the construction sector, real estate transactions, and in the provision of related services.

The rapid weakening of the ruble since late 2014 (except some short periods of time) and throughout 2015 forced down turnover volumes of wholesale and retail trade. As a result, the Q1'15 total retail trade turnover decreased by 18% from Q4 2014, and later, in 2015, the wholesale and retail trade turnover dropped, despite some growth in nominal terms, by an average of 9% and 10% year-on-year, respectively. Additionally, non-network trade formats were responsible for the bulk of the fall in the 2015 trade turnover (near 77% of the total retail trade in 2014), because major retail networks delivered a positive financial performance throughout the entire period and at year's end.

Below listed are the key factors responsible for the decline in trade turnover volumes in 2015:

- decline of real disposable income by 4% from 2014;
- growth of consumer prices by 12.9%. In early 2015, retail prices of certain food and non-food products increased considerably largely due to the exchange rate pass-through to prices. In specific cases prices were driven up by a speculative growth, which was the reason supervisory authorities initiated inspections of the retail trade sector. At the same time, in Q1 2015 major retail networks announced a 2-month price freeze on basic socially desirable products in order to stabilize the food market;
- cut in consumption of durable goods because the bulk of purchases were deferred to early 2014/late 2015, when a feverish demand was afoot.

* * *

The 2015 production dynamics of Russia's industries were determined by terms of trade and geopolitical tensions (which emerged a year earlier and worsened the long-standing problems facing the Russian economy): the ongoing fall of oil prices and exchange rate, the effect of Western sanctions and Russia's countersanctions, actual wind down of economic cooperation with Ukraine, overall slowdown in global economic growth, heightened uncertainty. At year's end only a few sub-sectors of the processing sector and the fuel and energy sub-sector of the extracting sector managed to advance towards a small growth, whereas the other industries continued to fall or stagnated.

Table 12

Trend component of industrial indices in 2014–2015 (January 2014 = 100)

	2014											
	January	February	March	April	May	June	July	August	September	October	November	December
Industrial production index	100.00	100.35	100.88	101.40	101.65	101.61	101.47	101.38	101.38	101.33	101.17	100.85
Extraction of commercial minerals	100.00	100.23	100.47	100.78	100.99	100.90	100.71	100.84	101.13	101.32	101.63	101.71
Manufacturing	100.00	100.37	100.82	101.22	101.37	101.27	101.10	100.92	100.76	100.49	100.08	99.59
Electricity, gas and water	100.00	99.97	99.95	99.93	99.92	99.89	99.87	99.86	99.84	99.82	99.80	99.78
Manufacture of food products, including beverages, and tobacco	100.00	100.03	100.46	101.08	101.51	101.64	101.76	101.94	101.99	101.82	101.57	101.62
Manufacture of textiles and wearing apparel	100.00	99.53	98.31	97.71	97.17	95.53	92.65	89.28	87.15	86.28	85.34	83.86
Manufacture of leather, articles of leather, and manufacture of footwear	100.00	100.86	100.81	99.75	98.09	96.59	95.33	93.94	92.47	91.06	90.01	89.10
Woodworking and manufacture of articles of wood	100.00	98.52	98.28	98.18	97.40	96.87	97.11	97.33	97.89	98.58	98.70	98.25
Manufacture of pulp, paper and paperboard	100.00	99.85	99.87	99.23	98.07	97.00	95.96	95.02	94.29	93.83	93.61	93.30
Manufacture of coke, refined petroleum products	100.00	100.90	102.06	103.08	103.84	103.03	101.59	101.74	102.81	103.48	103.37	102.97
Manufacture of chemicals and chemical products	100.00	100.47	100.80	100.89	101.06	101.48	102.07	102.78	103.59	104.56	105.69	106.76
Manufacture of rubber and plastics products	100.00	103.48	107.68	110.28	111.50	111.94	111.57	111.02	111.96	113.65	114.39	112.84
Manufacture of other nonmetallic mineral products	100.00	100.81	101.87	102.80	103.15	102.99	102.77	102.53	102.21	101.69	101.35	101.05
Metallurgy and manufacture of finished metal products	100.00	100.99	102.36	103.47	103.64	102.96	102.23	101.63	101.27	101.19	101.37	101.39
Manufacture of machinery and equipment	100.00	98.74	98.19	98.54	99.04	98.77	98.13	97.56	96.81	95.76	94.47	92.71
Manufacture of electrical, electronic and optical equipment	100.00	99.83	99.76	99.77	99.86	99.97	100.06	99.95	99.53	98.78	97.87	97.05
Manufacture of means of transport and transport equipment	100.00	101.01	101.79	102.33	102.45	102.18	101.25	99.54	97.71	95.88	93.88	91.86
Other industries	100.00	100.45	100.18	100.21	100.51	100.48	100.33	99.65	98.07	96.05	94.39	93.31
Extraction of fossil fuels	100.00	100.23	100.35	100.61	100.93	100.89	100.67	100.96	101.50	101.83	102.12	102.03
Extraction of commercial minerals, except energy-producing products	100.00	100.15	100.42	100.66	100.77	100.76	100.78	100.79	100.78	100.85	101.07	101.34
Retail trade turnover	100.00	100.52	100.80	100.76	100.55	100.31	100.08	99.80	99.48	99.09	98.72	98.14
Wholesale trade turnover	100.00	99.75	99.61	99.49	99.08	98.41	97.76	97.10	96.62	96.25	95.77	94.98

Cont'd

	2015											
	January	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**
Industrial production index	100.28	99.60	98.91	98.21	97.64	97.33	97.24	97.29	97.36	97.34	97.21	97.05
Extraction of commercial minerals	101.29	100.92	100.79	100.68	100.62	100.75	101.06	101.45	101.79	101.88	101.79	101.82
Manufacturing	98.86	98.05	97.22	96.34	95.63	95.21	94.94	94.81	94.78	94.68	94.51	94.36
Electricity, gas and water	99.75	99.72	99.70	99.68	99.66	99.64	99.62	99.60	99.58	99.57	99.56	99.55
Manufacture of food products, including beverages, and tobacco	101.99	102.29	102.33	102.36	102.65	103.07	103.30	103.36	103.45	103.53	103.58	103.67
Manufacture of textiles and wearing apparel	82.24	81.13	80.58	80.62	81.42	82.72	83.69	83.93	83.25	81.81	80.20	78.93
Manufacture of leather, articles of leather, and manufacture of footwear	87.98	87.05	86.38	85.44	84.34	83.62	83.67	84.59	85.39	85.14	84.83	85.03
Woodworking and manufacture of articles of wood	97.97	97.75	96.26	94.19	92.93	92.59	92.79	93.43	93.97	93.89	94.05	94.55
Manufacture of pulp, paper and paperboard	92.69	91.86	91.17	90.93	91.05	91.31	91.60	91.87	92.04	92.01	91.74	91.41
Manufacture of coke, refined petroleum products	103.01	103.42	103.82	104.11	103.94	103.52	103.46	103.29	102.10	101.04	102.20	104.43
Manufacture of chemicals and chemical products	107.65	108.34	108.79	109.12	109.44	109.77	110.17	110.68	111.31	111.80	111.99	112.13
Manufacture of rubber and plastics products	109.20	105.87	103.36	101.92	102.58	104.25	105.20	106.53	108.74	109.53	109.42	110.04
Manufacture of other nonmetallic mineral products	100.21	99.15	97.86	96.24	95.08	94.25	93.03	91.98	91.30	90.63	90.02	89.47
Metallurgy and manufacture of finished metal products	100.34	98.50	96.89	95.75	95.19	95.14	95.10	94.98	94.71	93.90	92.63	91.32
Manufacture of machinery and equipment	90.42	88.33	86.68	85.17	84.11	84.02	84.79	85.86	86.94	87.77	88.10	88.16
Manufacture of electrical, electronic and optical equipment	96.24	95.40	94.63	93.85	93.03	92.25	91.47	90.71	90.07	89.56	89.12	88.63
Manufacture of means of transport and transport equipment	90.00	88.61	87.56	86.42	85.30	84.35	83.73	83.79	84.17	84.26	83.99	83.58
Other industries	92.49	92.02	91.42	89.77	87.60	85.82	84.68	85.05	86.91	88.82	89.92	90.10
Extraction of fossil fuels	101.36	100.81	100.72	100.70	100.56	100.58	100.89	101.36	101.75	101.82	101.87	102.14
Extraction of commercial minerals, except energy-producing products	101.49	101.54	101.60	101.64	101.73	101.86	101.99	102.15	102.30	102.37	102.32	102.25
Retail trade turnover	97.03	95.79	94.69	93.64	92.62	91.55	90.45	89.30	88.03	86.73	85.38	84.02
Wholesale trade turnover	93.57	91.83	90.21	88.91	88.13	87.71	87.30	86.95	86.65	86.20	85.62	

4.5. Investment in fixed assets[1]

4.5.1. Conditions and factors of investment activity

The crisis of 2008-2009 determined main structural changes in the formation of investment resources during post-crisis period up to 2015. Easing of economic growth rates was accompanied by a contraction of the share of gross savings in GDP from 30.2% in 2008 to 22.9% in 2014 and 23.1% in 2015 (*Table 13*). During 2010-2013 investment in fixed assets constituted around 20.0%. In 2014, owing to a reduction of revenues in the economy the share of investment in fixed assets fell to 17.8% and in 2015 came to 18.1% of GDP.

Table 13

Main characteristics of investment resources in 2008–2015, % to GDP

	2008	2009	2010	2011	2012	2013	2014	2015*
Gross savings	30.2	21.1	26.4	29.5	27.2	23.2	22.9	23.1
Gross fixed assets formation	22.3	22.0	21.6	21.4	21.9	21.8	20.6	16.2
Investment in fixed assets	21.3	20.6	19.8	19.7	20.2	20.3	17.8	18.1
Gross profit and other mixed income	32.7	30.7	32.6	31.0	33.9	33.0	32.4	30.8
Consolidated budget revenues	38.8	35.0	34.6	37.3	37.7	36.9	37.5	37.4
Budget funds for investment	3.4	3.4	2.8	2.9	2.8	2.9	2.5	2.1
Including at the expense of federal budget funds	1.3	1.8	1.4	1.5	1.5	1.5	1.3	1.2

*) Preliminary data.
Source: Rosstat.

Characteristic feature of the 2009-2015 Russian investment model consists in a decreasing norm for the transformation of gross national savings into fixed investment. If in 2008, the investment purposes accounted for 71.0% of gross savings and 95.0% of gross saving in fixed assets, then in 2015 these indicators came to 63.0% and 90.0%, respectively.

While analyzing volume, dynamics and structure of resource sources for financing investment, it is important to monitor changes in the investment potential of institutional sectors. In 2010-2015, the share of non-financial corporations and households was growing in the structure of investment resources and the share of the state sector was decreasing (*Table 14*).

Table 14

Structure of investment resources across institutional sectors, % to total

	2008	2009	2010	2011	2012	2013	2014	2015
Investment resources, total	100	100	100	100	100	100	100	100
Corporations	40.7	52.2	51.6	45.7	48.9	54.3	59.5	68.0
Including:								
Non-financial corporations	33.7	36.8	46.1	41.0	42.7	45.4	54.3	61.2
Financial corporations	7.0	15.4	5.5	4.7	6.2	8.9	5.2	6.8
Non-profit organizations servicing households	0.4	0.3	0.5	0.5	0.5	0.6	0.1	0.1
Households	28.2	68.3	46.2	30.7	31.5	36.1	32.1	31.7
Public administration	30.7	-20.8*	1.7	23.1	19.1	9.0	0.0	0.3

*) Negative value arose due to excess of capital transfers cost conveyed by state agencies to other sectors of the economy over its savings.
Source: Rosstat.

The sector of non-financial corporations forms the majority share of the economy's investment resources. Easing of the economic growth dynamics in 2009-2015 was accompanied by the instability of indicators of the financial results of economic activity and limited saving of

[1] Author of this section: Izryadnova O. – Gaidar Institute for Economic Policy.

the investment resources. In 2014, balanced financial result constituted 63.4% of indicator a year earlier, which became one of the factors restricting the scale of the investment resources for the coming year. Amid decrease of economic growth rates and increased investment risks the non-financing sector responded with buildup of deposits whose rate of return was steadily increasing from 2009 and by late 2014 average weighted deposit rate for organizations hit 14.83% and exceeded the rate of annual inflation and composite price index on capital goods. Aside from that, behind the increased propensity of enterprises and organizations to save was the growth of credit resources cost from 5.5% (February 2, 2014) to 17.25% (December 16, 2015). In 2015, the impact of these factors remained and enhanced the fall of investment in fixed assets in the construction sector (*Table 15*). In the course of 2015, key rate was cut five times – to the level of 11.0% (August 3). However, it had no effect on the state of economic activity in construction and investment complex because as before possibilities to replenish working assets were limited by high cost of credit resources. Dominant source of investment resources in the Russian economy are own assets of enterprises and organizations.

Dynamics of investment resources have been significantly affected by the negative shift in the situation with the attraction of foreign investment in Russian economy. After more than twofold decrease of direct foreign investment in Russian economy in 2009, despite positive dynamics during subsequent four years there was no recovery of their volume to pre-crisis level. Russia's ratings downgrade and increasing risks have negatively told on the investment behavior of foreign investors. With the imposition of sanctions and restriction of borrowing on the external market direct foreign investment in the Russian economy in 2014 shrank threefold. By the period-end for 2016 constituted less than 20% of the indicator a year earlier. In 2014, Russian direct investment abroad shrank by 35% against 2013 amid increased contraction in 2015 to 62,1% against the of the previous year (*Table 15*). Thus, simultaneous decrease of direct investment in the Russian economy and reduction of revenues from the investment activity abroad was the factor for contraction of investment resources not only in 2015 but determined starting conditions for 2016.

Table 15

Financial conditions for investment activity in 2010–2015

	2010	2011	2012	2013	2014	2015
GDP in % to previous year	104.5	104.3	103.4	101.3	100.6	96.3
Investment in fixed assets, in % to previous year	106.3	110.8	106.8	100.8	98.5	91.6
Volume of work in construction, in % to previous year	105.0	105.1	102.5	100.1	97.7	93.0
Commissioning of fixed assets, in % to previous year	93.4	129.0	108.7	101.0	97.3	n/a
Key rate (year-end), %	-	-	-	5.50	17.25	11.0
International reserves of the Russian Federation (year-end), USD billion	479.4	498.6	537.6	509.6	385.5	368.0
Net inflow (-) / outflow (+) of capital by private sector, USD billion	30.8	81.4	53.9	61.6	153.0	56.9
Price indices, in % December-on-December						
Consumer prices on goods and services	108.8	106.1	106.6	106.5	111.4	112.9
Producers' prices on industrial goods	116.7	112.0	105.1	103.7	105.9	112.4
Prices on building products (composite index)	109.1	108.0	106.9	104.9	107.2	110.3
including						
Construction and installation works, %	109.6	109.3	108.3	104.3	104.6	104.1
Machinery and equipment	106.1	105.6	103.9	103.1	112.3	120.1
Official rate USD/Russian ruble (by year-end) RB/USD	30.48	32.20	30.37	32.73	56.26	72.88

Source: Rosstat.

Table 16

Dynamics of direct investment. Balance of payments transactions. USD million

	2008	2009	2010	2011	2012	2013	2014	2015
Direct investment	-19120	6697	9448	11767	-1766	17288	35051	16734
Abroad	55663	43281	52616	66851	48822	86507	57082	21575
In Russia	74783	36583	43168	55084	50588	69219	22031	4839

Source: Bank of Russia.

4.5.2. Material and productive resources of investment activity

One of the factors, which determine the character of investment activity in 2014-2015 was a firm reduction of efficiency of fixed assets usage. Dynamics of commissioning of fixed assets is significantly lagging behind the investment dynamics. Volumes of unfinished construction are growing. Indices of operation efficiency of the construction and investment complex are falling (*Table 17*).

Table 17

Commissioning of fixed assets per 1 ruble of investment across main types of economic activity. Annual average prices. Kopecks *

	2008	2009	2010	2011	2012	2013	2014
Total	65.1	80.6	68.6	80.5	80.8	82.4	80.9
Agriculture	70.0	88.9	101.2	102.0	81.1	81.5	84.5
Fishery, fish-farming	70.8	76.1	142.8	99.2	94.1	82.8	127.8
Extraction of raw materials	74.6	118.1	67.4	77.9	81.6	86.0	70.9
Manufacturing industries	63.7	78.4	67.8	77.3	69.7	79.5	79.0
Production of electricity, gas and water supply	51.9	57.4	60.3	89.5	87.8	89.5	88.0
Construction	49.8	55.5	41.0	72.2	66.2	51.7	51.6
Wholesale and retail trade	81.0	99.0	83.9	101.7	78.4	73.4	114.5
Transport and communications	59.9	65.5	44.5	69.7	77.6	67.3	71.5

*Data for 2015 will be available in late 2016.
Source: Rosstat.

With change in business climate, the share for spending on purchase of machinery and equipment began shrinking with increasing share of spending on construction of buildings and facilities (*Table 18*).

Table 18

Composition of investment in fixed assets across types of capital stock 2010—2015 (less small businesses and parameters of informal activity), % to total

	2013	2014	2015
Investment in fixed assets	100	100	100
including:			
Housing	6.1	6.6	5.9
Buildings (less residential) and facilities	50.2	48.9	50.3
Machinery, equipment and means of transport	35.1	34.6	32.8
Other	8.6	9.9	11.0

Source: Rosstat.

High level of wear and tear of fixed assets, unfavorable age structure of the part of machinery and equipment represents a tight constraint of economic growth. Amid prolonged downward trend in the share of gross savings in fixed assets, GDP underwent a disruption of the normal cycle of the renewal of fixed assets. With existing level of saving in fixed assets in GDP, the investment activity was limited by the functions of maintenance of accumulated potential. Positive fact during the recent years was the change of proportions of main funds by types with

outstripping growth of fixed assets in manufacturing industries against extraction of raw materials and production of electricity, gas and water supply. Highest share in the composition of fixed assets of the Russian economy has been taken by fixed assets of transport and communication (27.1%), transactions with real estate, lease and provision of services (24.8%), extraction of natural resources (10.6%). By early 2015, manufacturing industries accounted for 8.5% of fixed assets of the economy.

Insufficient volume of commissioning of fixed assets in order to ensure their renewal is also attested by the ratio between commissioning and depreciation of fixed assets. Taking into consideration the difference in prices, the cost of annual commissioning of new machinery, equipment and means of transport barely offsets their annual depreciation. Furthermore, it is obviously insufficient to overcome observed during a prolonged period the trend of aging machinery and equipment.

Comparison of output indices movement and characteristics of labor and capital utilization demonstrate that while technical and economic features of productive facilities are decreasing, the industry was subject to "tradeoff" of inputs. High level of employment of manual labor and labor on outdated equipment allowed to offset the shortage of investment resources but at the same time resulted in technological stagnation of production. Shifts in structural characteristics of utilization and renewal of fixed assets have been accompanied by a reduction of the return of capital productivity ratio and increment of capital-labor ratio. Across types of economic activity and certain years ratio of utilization of labor and capital indices rather significantly differed and were determined both by structural and business environment factors.

In 2009-2015, major factors, which hampered the investment activity of organizations were flat demand, high interest rates as well as uncertain economic situation. The share of businesses indicating the shortage of own funds as a restriction for their economic activity remained high but stayed at average values during recent five-six years.

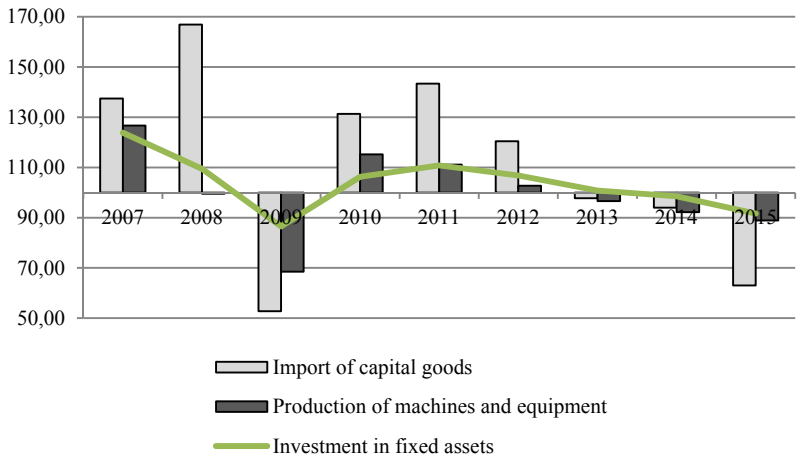

Fig. 31. Dynamics of domestic output of machine-building complex, import of machinery and equipment and investment in fixed assets in 2007–2015, % to previous year

Source: Rosstat.

The Russian machine-building complex regarding the development rates is lagging behind the dynamics of investment in fixed assets (*Fig. 31*). The shortage of domestic production of

capital goods over a prolonged period was compensated for by import of machines and equipment. Procurement of foreign made equipment was advantageous for businesses for a score of reasons: owing to its low price, high quality, and envisaged after sale service. In the course of 2012-2014, the share of import of machines and equipment was gradually falling. In the economy as a whole, insufficient supply of new types of equipment was hampering replacement of the outdated and consumed assets, which negatively affected economic growth rates. From 2013, simultaneous contraction of imports and manufacture of capital goods enhanced the downward trend of investment in fixed assets. The 2015 situation was plagued by the retention of ramifications of 2009 acute crisis in domestic manufacture of machines and equipment.

4.5.3. Investment in fixed assets by type of ownership

In the course of 2010-2015, private enterprises retained growth rates of the nominal investment volumes and offset the instability of the investment activity performed by state owned and municipal enterprises. In 2015, the share of private property came to 46.2% of the total volume of investment in fixed assets and moved up by 1.8 p.p. compared to 2014.

The investment crisis developing in the state owned enterprises has taken a protracted character and has reflected low efficiency of their performance. If at the initial stage of emerging market economy the underdevelopment of the institutional structure in the short-term was partially compensated by utilization of the main factors of production then while resolving issues related to maintaining long-term growth increase of efficiency of the subjects of the investment process was getting paramount importance.

Participation of state enterprises and organizations in financing investment in fixed assets was declining from 19.1% in 2014 to 18.3% in 2015. However, one should bear in mind that the Russian economy still has s considerable share of mixed types of ownership both with state participation and private business. This enhances the uncertainty of the investment process mechanism and presupposes accelerating efforts aimed at optimization of the institutional structure and reduction of state participation in the economy and implementation of privatization programs.

Gradual weakening of the state companies' economic activity in 2012-2014, which was followed by an absolute decrease of investment in 2015 by around 21.4% from a year earlier, exerted negative impact on the investment processes.

Crises of 2008-2009 and 2014-2015 greatly affected the level of economic activity in the segment of foreign companies. In 2010, foreign companies' investment constituted 63.3% of the indicator for 2008. Recovery of the positive dynamics of foreign companies' investment in 2011-2012 was replaced by their decline during subsequent three years against general dynamics of investment in fixed assets in the Russian economy.

Investment strategy of the state effective in 2009-2015 proceeded from the recognition of big business as a major driver of national modernization and global competition. In recent years, the state was fully engaged in creation of state holding companies in aerospace, shipbuilding industries, and rail transport and oil sector. Another way of state participation in the investment process as a driver and source of financial resources was development of public-private partnership.

Crises of 2008-2009 and 2014-2015 enhanced disproportions in public investment management underlying inadmissibility of increased state participation policy and upscale of public investment in the wake of budget deficit in the absence of efficient mechanism for increasing return on investment.

Main factors, which determine the level of economic activity in Russia still remain: inequality of rights of market agents; excessive influence and inefficient regulation of state and monopolistic sectors; lack of radical measures aimed at the restructuring of old companies, which receive state support; high barrier to entry for new companies; weak development of public-private partnership instruments aimed at stimulating investment and creation of new highly-productive work places.

4.5.4. Features of financing investment in fixed assets

Slowdown in rates of economic growth have determined enhancement of commitment to usage of own funds of enterprises for financing investment projects. The share of enterprises' own funds used for investment purposes moved up from 41.0% in 2010 to 45.7% in 2014 and to 55.1% in 2015 (*Table 19*).

Contraction of volumes and share of raised funds in the sources of financing was accompanied by a change in their structure. State demand for goods and services of Russian enterprises has been maintained via realization of planned investment projects in the sphere of transport, telecommunications, etc. realized within Federal Target Programs and Federal Target Investment Program. In line with the priorities of state investment, the investment funds have been allocated on modernization and development of strategically important for the country facilities of industrial infrastructure, as well as implementation of investment projects on introduction of modern technologies for the production of competitive goods at enterprises of machine-building complex as well as carrying out works for ensuring security of power engineering, transport, waterworks and forestry facilities. The share of budgetary funds in the sources of investment funding in 2009-2013 constituted around one fifth of the total volume of fixed investment.

Table 19

Structure of investment in fixed assets by funding sources (less small businesses and investment non-observable by statistical methods), % to total

	2009	2010	2011	2012	2013	2014	2015
Investments in fixed assets, total	100	100	100	100	100	100	100
Including by funding source:							
own funds	37.1	41.0	41.9	44.5	45.2	45.7	55.1
raised funds	62.9	59.0	58.1	55.5	54.8	54.3	48.9
Including:							
bank credits	10.3	9.0	8.6	8.4	10.0	10.6	7.8
among them the credit granted by foreign banks	3.2	2.3	1.8	1.2	1.1	2.6	1.9
borrowed funds of other organizations	7.4	6.1	5.8	6.1	6.2	6.4	5.7
investments from abroad					0.8	0.9	0.9
budgetary funds	21.9	19.5	19.2	17.9	19.0	17.0	16.5
Of which:							
from the Federal budget	11.5	10.0	10.1	9.7	10.0	9.0	9.7
from the budgets of the subjects of the Russian Federation	9.2	8.2	7.9	7.1	7.5	6.5	5.6
resources of extra-budgetary funds	0.3	0.3	0.2	0.4	0.3	0.2	0.3
funds of organizations and individuals, raised for shared construction	2.6	2.2	2.0	2.7	2.9	3.5	3.0
including individuals' own funds	1.3	1.2	1.3	2.1	2.3	2.7	2.4
other	20.4	21.9	22.3	20.0	15.6	15.7	14.7
including							
funds of higher level organizations	15.9	17.5	19.0	16.8	13.0	13.2	10.5
funds received from the issue of corporate bonds	0.1	0.01	0.00	0.04	0.02	0.1	1.6
funds received from share issues	1.0	1.1	1.0	1.0	1.0	0.1	0.5

Source: Rosstat.

The situation has not changed from H2 2014 when reduction of budget funds in the sources of financing of fixed investment was registered. In 2014, the share of budgetary funds in fixed investment contracted by 2p.p. compared to a year earlier. In 2015, contraction of the share and volumes of funds of the RF subjects in financing fixed increased to 0.7% of GDP (*Fig. 32*).

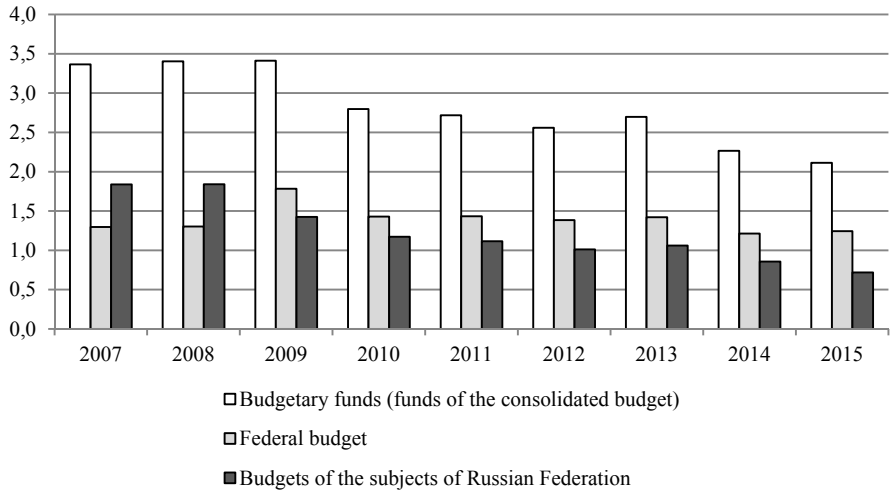

Fig. 32. Share of budgetary funds in fixed investment in 2007–2015, % of GDP

Source: Rosstat.

The banking sector's participation in financing the investment activity has noticeably weakened. In 2015, the share on bank loans in the structure of sources of funding constituted 7.8% and was 2.6 p.p. below the index of last year. Changes in the structure of bank lending is characterized by a decrease of volumes and share of loans extended by Russian banks. Compared to 2014, loans extended by the Russian banks plummeted to Rb 200.7bn (*Fig. 33*). Increase in the volume and share of loans extended by foreign banks and investment originated from abroad are explained by the nature of transfer of foreign currency into rubles in current prices.

In 2015, retention of capital outflow trend exerted a negative influence on the level of banks' participation in the financing of investment programs. According to preliminary assessment of the Bank of Russia, net capital outflow carried out by the private sector constituted $56.9bn, including that by the banking sector - $33.4bn

Crisis of 2014-2015 was characterized by high of decline of foreign investment in Russian economy against dynamics of domestic investment. Contraction of foreign lending volumes together with simultaneous decline of direct foreign investment predetermined a stable decrease of the share of total volume of investment proceeding from abroad in the structure of fixed investment to the minimum level for the twenty years of monitoring – 0.9% in 2015.

In 2015, there was a turning point in the housing construction trend. Following an increase in the volume of housing construction observed in 2011-2014, commissioning of new living floor space in 2015 constituted 99.5% of the previous year. The share of private housing construction in total commissioning of houses in 2015 came to 40.9% of the total volume of housing and by 2.6 p.p. less than in 2014.

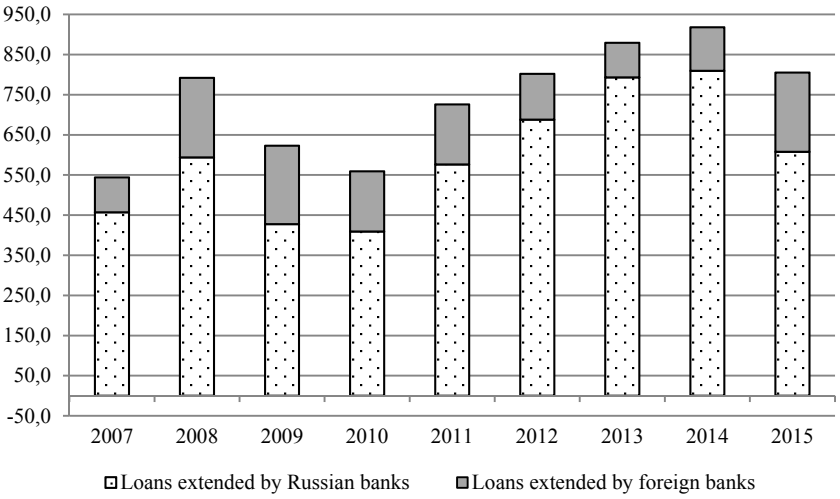

Fig. 33. Bank loans for financing fixed investment in 2007–2015, Rb bn

Source: Rosstat.

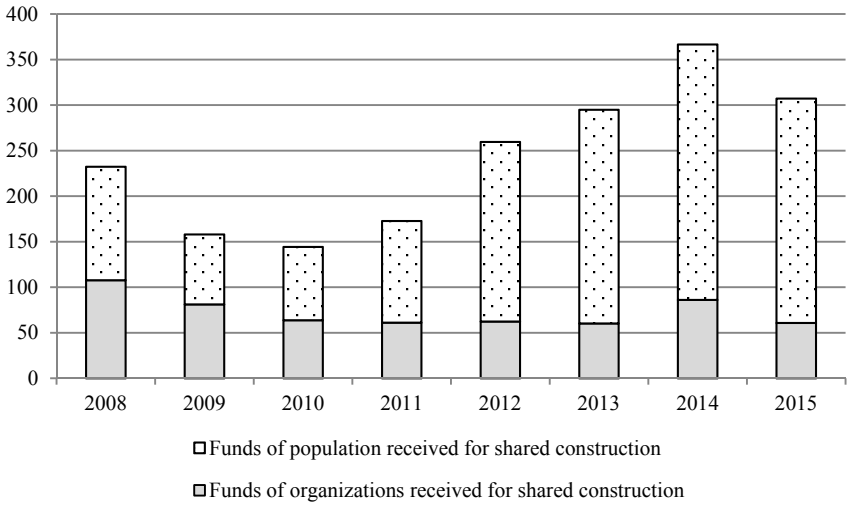

Fig. 34. Funds obtained for shared construction in 2008–2015, Rb bn

Source: Rosstat.

In 2015 against the previous year, absolute drop in the investment volume in housing construction was registered (*Fig. 34*). In the structure of fixed investment in the economy as a whole the share of investment in housing construction fell to 3.0% in 2015.

4.5.5. Dynamics of fixed investment in 2015

The trend towards contraction of fixed investment was rather predictable and was determined by slackening of the investment activity dynamics from H2 2012. In 2014-2015, the situation was complicated by general deterioration of macroeconomic conditions. As a reaction to ruble devaluation, key rate hike and inflation spiral the construction and investment complex

responded in 2015 with contraction of activity in construction by 7.0% and fixed investment by 8.4% against the previous year (*Fig. 35*).

Dynamics of fixed investment is different for small and large enterprises. With the reduction of the general volume of fixed investments by 8.4% posted in 2015, decrease of fixed investments in the segment of large and medium size enterprises constituted 10.2% (*Table 20*). The fall of the investment activity of large and medium size enterprises has been observed over last four quarters. Negative dynamics of fixed investments across the full circe of industries has been observed over eight quarters. Amid growing unpredictability of the situation on the domestic market, medium and small business with great caution treat investment decisions.

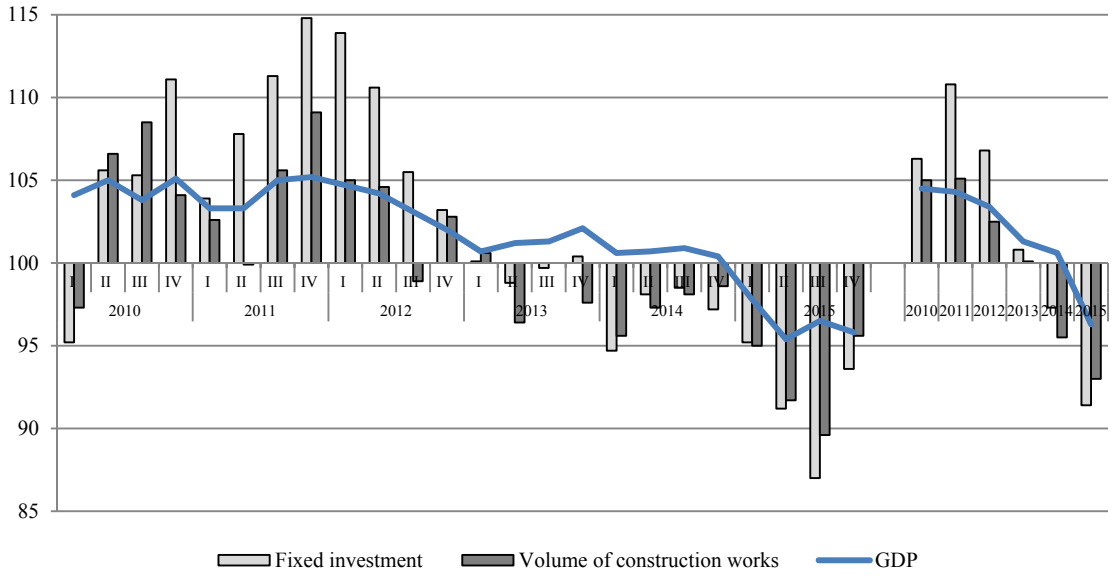

Fig. 35. Dynamics of fixed investment in 2010–2015, % to corresponding period of previous year

Source: Rosstat.

Table 20

Dynamics of fixed investment volume in 2009–2015, % to corresponding period previous year

	2010	2011	2012	2013	2014	2015
Fixed investment (across full circle of organizations, including recalculations on investment, unobserved by direct statistical methods)	103.7	105.0	109.6	98.6	98.5	91.6
Large and small organizations (fixed investments without small businesses and investment volume unobserved by direct statistical methods)	96.2	112.1	108.6	93.1	102.3	89.8

Source: Rosstat.

The structure of fixed investments across types of economic activities in 2015 suffered some changes compared to the previous year. Decrease of investments in industry in 2015 amounted to 6.1% in comparison with the previous year. At the same time, growth acceleration in the

extraction of natural resources by 10.7% was accompanied by the contraction of fixed investments in manufacturing industry by 9.5% and in production of electricity, gas and water supply by 29.1%.

In the wake of the downward trend in fixed investments, there was a fall of investment in the development of associated productions in metallurgical and building complexes and in construction materials.

Structural changes in manufacturing industries were defined by the fall of fixed investments in machine building complex by 11.3%, in metallurgy – by 6.2%, in production of coke and petroleum products – by 13.2%, and in consumer complex – by 13.6% compared to 2014. In 2015, changes in the investment pattern in the machine building complex were defined by the growth of investment in production of electric equipment, electronic and optical equipment by 12.2% amid contraction of fixed investment in manufacture of means of transport by 21.0%, and in manufacture of machines and equipment by 4.4% on 2014.

Another specific feature of 2015 was fixed investment acceleration in chemical industry by 1.14-fold, which was both due to increased export potential of these industries and to import substitution.

In short- and medium-term, the Fund for Industrial Development can provide financial assistance in the sphere of industry according to the Federal law "On Industrial Policy in the Russian Federation" (No 488-FZ of December 31, 2014). In 2016 the Fund approved loans to the tune of Rb 20 bn for the implementation of 59 import substitution projects to the total value of over Rb 162bn, of which private investments amount to Rb 142bn. In the context of issues related to provision of incentives for economic growth, the priority should be given to the infrastructure development. However, the decrease in investments in transport and communication came to 13.6% compared to 2014. Meanwhile, investments in pipeline transport contracted by 11.4%. Reduction of domestic demand determined contraction of investment in the development of retail trade, hotel industry and restaurants. Long-term trend in investment reduction in education and healthcare is alarming (*Table 21*).

Table 21

Fixed investments (excluding small businesses and volumes of investment, not observable by direct statistical methods), % to previous year

	2010	2011	2012	2013	2014	2014
Total	106.0	108.3	106.6	99.8	95.7	89.8
Agriculture	89.1	114.6	92.8	96.0	93.0	89.1
Fishery, fish-farming	108.8	137.4	127.4	77.4	83.3	60.1
Industry	106.1	110.9	107.4	96.8	99.9	93.9
Extraction of natural resources	106.6	113.8	111.8	93.6	105.9	110.7
Manufacturing	101.5	105.3	106.7	101.4	98.6	90.5
Production of electricity, gas and water supply	112.5	114.7	101.7	95.8	92.9	70.1
Construction	110.9	90.6	79.9	84.0	81.2	83.7
Wholesale and retail trade	120.2	90.0	107.1	103.1	110.7	102.9
Transport and communications	102.4	118.3	98.4	88.5	92.1	86.4
Financial activity	112.9	136.8	111.4	80.8	74.9	81.5
Real estate operations	125.4	91.9	100.8	104.4	103.1	84.3
State administration	115.2	112.4	98.7	93.7	84.4	88.7
Education	84.9	122.0	85.2	77.9	97.4	81.9
Healthcare and social safety net	109.7	113.0	93.6	98.8	71.9	79.8
Provision of other services	103.6	103.5	111.8	75.0	72.7	82.7

Source: Rosstat

Current situation in the investment sphere does not give sufficient grounds for optimistic assessments for the development of construction and investment complex in 2016.

4.6. Oil and gas sector[1]

Oil and gas industry remains the basic sector of Russian economy playing the key role in shaping the state budget revenues and the country's trade balance. In 2015, the oil sector's development was marked by positive dynamics. Due to investments made in the previous years, the crude oil production in Russia has reached peak levels since 1990 and crude oil export hit all time maximum. Restructuring of the oil sector taxation system has been launched. The reform envisages significant reduction of the economic role of export duties. Low global crude oil prices together with financial and technological sanctions imposed on Russia have hampered the development of this sector.

4.6.1. Dynamics of the global oil and gas prices

In recent years, the situation on the global crude oil market was characterized by sustainable excess of oil supply over demand, which resulted in a significant fall of global crude oil prices. Main factor, which determined the oil glut, was fast production growth of shale oil in the US due to application of new technologies and high oil prices during preceding years. Despite the oil price reduction, the OPEC member states refused to scale down oil production and turned to the policy of preservation of their share of the world oil market. As a result, in 2015, average price on Brent crude oil fell to $51.2 per barrel, which is half the average price of the preceding three years. Herewith, in December 2015, the price for Russian oil declined to $36.4 per barrel. Thus, the low prices became a new normal on the oil market.

Under the effect of the low prices crude oil production on cost-intensive fields began falling, drastically decreased investments. Oil production in the US began falling as well as production in other high-cost regions: Norway, Great Britain and Mexico. Sharply fell investments in the development of unconventional petroleum deposits including shale oil in the US, bituminous sands in Canada, and deep-sea deposits in various regions of the world.

At the same time, reduction of oil production on cost-intensive oilfields was offset by the production growth in OPEC, which members strive to increase their market share. By increasing their supplies, they strive at least partially compensate income contraction due to oil price fall. As a result, there is a constant excess over the fixed aggregate oil production quota set by OPEC (30 mb/d). Production went up significantly in Saudi Arabia and Iran, which are the leading OPEC producers of oil.

Table 22

World prices for crude oil in 2000–2015, $/barrel

	2000	2005	2010	2011	2012	2013
Price for Brent crude oil, Great Britain	28.5	54.4	79.6	111.0	112.0	108.8
Price for Urals crude oil, Russia	26.6	50.8	78.3	109.1	110.3	107.7

Cont'd

	2014	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2015
Price for Brent crude oil, Great Britain	98.9	54.0	62.1	50.0	43.4	52.4
Price for Urals crude oil, Russia	97.7	52.8	61.4	49.1	41.5	51.2

Sources: IMF, OECD/IEA.

[1] Author of this section: Bobylev Yu. – Gaidar Institute for Economic Policy.

The price for Russian natural gas on the European market also displayed a downward trend. The prices for gas supplied under long-term contracts are usually tied to prices for petroleum products and with a certain lag follow the world prices for oil (*Table 23*). Meanwhile, in recent years prices for Russian gas were also pulled down by the changing situation on the European gas market, i.e. the growing competitive supply from other gas producing countries and lower spot prices for gas in comparison with prices under log-term Gazprom contracts. All this has forced "Gazprom" to bring down its sale prices for gas on the European market. In 2015, the price for Russian gas on the European market decreased by 29% compared to the previous year.

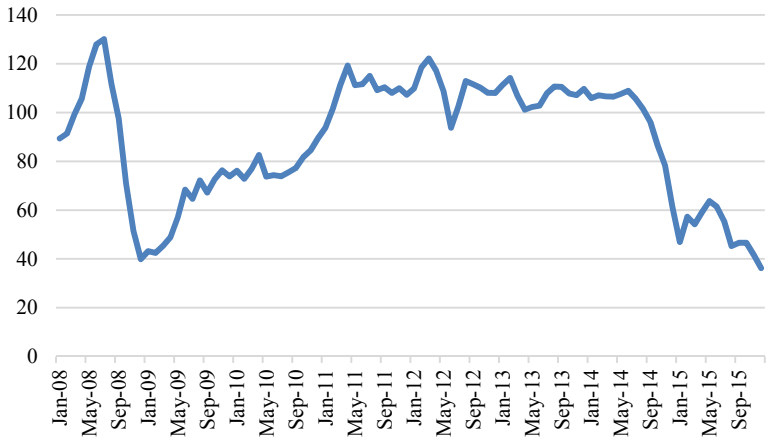

Fig. 36. Price for Urals crude oil in 2008–2014, $/barrel

Source: Ministry of Economic Development of the Russian Federation.

Table 23

World prices for oil and natural gas in 2010–2015

	2010	2011	2012	2013	2014	2015
Basket price, $/barrel	79.0	104.0	105.0	104.1	96.2	50.8
Price for Russian gas on the European market, $/1,000 m^3	296.0	381.5	431.3	402.0	376.0	267.9

Sources: IMF, Rosstat.

4.6.2. Dynamics and Production Pattern in the Oil and Gas Sector

In 2015, the crude oil production in Russia hit 534 million tons which is the record high over the period since 1990 (*Table 24*). A positive effect on the dynamics of oil recovery was produced by the recent putting in operation of several large new fields in Eastern Siberia and in the north of the European part of the country as well as the changes in taxation system, which provide incentives for the development of new production regions and better oil recovery at the producing fields. At the same time, the growth rates of oil production in recent years have been notably falling (*Table 25*) primarily due to the worsening of recovery conditions. A great share of producing fields have entered the stage of declining output while new deposits in most cases have worse mining, geological and geographic parameters and their development requires higher capital, operational and transport costs. At the moment, Russian oil industry has approached the ceiling of its production capacities. To make up for the declining production of oil at the producing fields, one has to develop both new fields in regions with poorly developed or lacking infrastructure and idle reserves of lower quality oil in the developed regions

Table 24

Oil production and refining in the Russian Federation in 2000–2015

	2000	2005	2010	2011	2012	2013	2014	2015
Production of crude oil including gas condensate, million tons	323.2	470.0	505.1	511.4	518.0	523.3	526.7	534.0
Primary oil refining, million tons	173.0	208.0	249.3	258.0	270.0	278.0	294.4	287.0
Ratio of oil refining to crude oil production, %	53.5	44.3	49.4	50.4	52.1	53.1	55.9	53.7
Crude oil conversion rate, %	71.0	71.6	71.1	70.8	71.5	71.7	72.4	74.1

Sources : Federal Service of State Statistics, Ministry of Energy of the Russian Federation.

In 2015, the structural reshuffling has been underway in the oil sector's taxation system (the "tax maneuver"), which envisaged gradual reduction of export duties on oil and petroleum products to be compensated by the increased rate of the Mineral Extraction Tax (MET).[1] In accordance with adopted in 2015-2017 parameters of the "tax maneuver" the marginal rate of export duty on crude oil was cut from 59% in 2014 to 42% in 2015, and the export duty rate on heating oil was raised from 66% to 76% of the export duty rate on crude oil, respectively. In 2017, the marginal export duty rate on oil should be reduced to 30%, and the export duty rate on heating oil will be raised to the level of the export duty rate on oil.[2]

2015 results speak about the noted change of a number trends due to the "tax maneuver" (*Table 25*). Among them, one should specify first, fall of the heating oil production, which happened for the first time in recent years, second, also for the first time in recent years there was an increase in export of crude oil (beneficial for the state budget compared to heating oil export), third, contraction of oil refining due to first two factors. At the same time, crude oil conversion rate moved up to 74.1%. These results should be viewed as the first positive outcome of the tax maneuver.

Table 25

Production of crude oil, petroleum products and natural gas in 2000–2015, % to previous year

	2000	2005	2010	2011	2012	2013	2014	2015
Crude oil including gas condensate	106.0	102.2	102.1	100.8	101.3	100.9	100.7	101.4
Primary oil refining	102.7	106.2	105.5	103.3	104.9	102.7	104.9	97.3
Gasoline	103.6	104.8	100.5	102.0	104.3	101.3	98.8	102.3
Diesel fuel	104.9	108.5	104.2	100.3	98.7	103.1	107.4	98.9
Heating oil	98.3	105.8	108.5	104.6	101.6	103.3	102.0	91.1
Natural gas	98.5	100.5	111.4	102.9	97.7	102.1	95.7	98.7

Sources: Federal Service of State Statistics, Ministry of Energy of the Russian Federation.

The structure of the oil-extracting sector is characterized by domination of large vertically integrated companies with high share of state participation. In Russia, 164 companies are engaged in crude oil extraction, including: 9 large oil and gas companies; 3 companies operating on production sharing agreement; and 152 independent oil producing companies. The share of 5 largest oil producers ("Rosneft", "LUKOIL", "Surgutneftegaz", "Gazprom" and "Tatneft") account for 78% of the total oil production in the country (*Table 26*). At the same time, the

[1] See: Yu.N. Bobylev, G.I. Idrisov, S.G. Sinelnikov-Murylev. Export Duties on Oil and Petroleum Products: Need to Abolish and Scenario Analysis of the Consequences. Moscow, Gaidar Institute Publishers, 2012; Yu. Bobylev. Development of the Oil Sector in Russia. Voprosy Ekonomiki. 2015. № 6, pp. 45–62.

[2] See: Yu Bobylev. The Tax Maneuver in the Oil Sector. Russia's Economic Development. 2015. № 8, pp. 45–49.

share of state companies in the total oil extraction (taking into account their shares in other companies) amounts to 59%.[1]

The sector of small and medium oil producing companies is underdeveloped. The share of companies with production of 2.5 mn tons per year (up to 50 thousand barrels per day) stand barely at 3% of production. In the United States where sector of small and medium oil producers has demonstrated its efficiency, the share of companies with production volume up to 50 thousand barrels per day accounts for 46% of the total oil production in the country.

Table 26

Oil Producing Companies 2010–2015

	Oil output in 2010, mn/t	Share in total output, %	Oil output in 2014г., mn/t	Share in total output, %	Oil output in 2015, mn/t	Share in total output, %
Russia, total	*505.1*	*100.0*	*526.7*	*100.0*	*534.0*	*100.0*
Rosneft	112.4	22.3	190.9	36.2	189.2	35.4
LUKOIL	90.1	17.8	86.6	16.4	85.7	16.0
TNK-BP	71.7	14.2	-	-	-	-
Surgutneftegaz	59.5	11.8	61.4	11.7	61.6	11.5
Gazprom including Gazprom neft	43.3	8.6	49.8	9.5	51.3	9.6
including: Gazprom	13.5	2.7	16.2	3.1	17.0	3.2
Gazprom neft	29.8	5.9	33.6	6.4	34.3	6.4
Tatneft	26.1	5.2	26.5	5.0	27.2	5.1
Bashneft	14.1	2.8	17.9	3.4	19.9	3.7
Slavneft	18.4	3.6	16.2	3.1	15.5	2.9
RussNeft	13.0	2.6	8.6	1.6	7.4	1.4
NOVATEK	3.8	0.8	4.3	0.8	4.7	0.9
Operators of PSA	14.4	2.9	14.4	2.7	15.0	2.8
Other producers	38.2	7.6	50.1	9.5	56.5	10.6

Source: Ministry of Energy of the Russian Federation, author's calculations.

Besides low global oil prices, another factor, which can negatively affect further development of Russia's oil and gas industry are economic sanctions imposed on Russia in 2014 by the United States, EU and some other countries in response to the events in Ukraine. Aside from financial sanctions, which limit access of Russian companies to external financial sources, a number of developed countries have imposed a ban on supply to Russia of equipment and technologies for the development of three categories of oilfields: deposits in the Arctic shelf, deep-water deposits and shale oil deposits. All three categories depend on foreign technology. The investment cycle of projects for the development of Arctic shelf and deep-water fields is rather protracted and from the oil production point of view the negative effect of blocking such projects may show up only in the long term. Furthermore, in case of persistent low crude oil prices the implementation of the majority of projects of the kind will be postponed due to their economic inefficiency.

Amid low crude oil prices, the development of significant part of shale oil deposits will also be inefficient. However, technologies used for the development of shale oil deposits (horizontal drilling, hydraulic fracturing) are applied as well for the development of traditional oil deposits, first of all the ones with high level of resource depletion, in order to provide better oil extraction. Therefore, the ban on supply of equipment for horizontal drilling and hydraulic fracturing may also lead to the premature closing of producing fields owing to the impossibility of their enhanced recovery.

[1] Yu. Bobylev. Development of the Oil Sector in Russia. Voprosy Ekonomiki. 2015. № 6, p. 48.

Meanwhile, the potential for additional extraction on existing oilfields due to deeper recovery is rather significant. In Russia, oil recovery index stands barely at 28%, which is significantly less the average world level. In the US, this index hits the range of 35-43%, and in Norway, it reaches 46%.

The HIS research showed that Russia was among those countries, which can obtain the largest increment in oil extraction due to the application of horizontal drilling and hydraulic fracturing technologies on the "old" low production traditional oilfields. The potential of additional oil recovery through the application of these technologies constitutes 12 billion barrels. According to this indicator, Russia is second to Iran among the most hopeful countries outside North America.

In the wake of low global oil prices and technological sanctions, deeper recovery at traditional oilfields assumes crucial importance for the maintenance of oil production and export. In this regard, both more active use of respective foreign technologies not included in the sanction list and the development of own import substitution technologies for enhancing oil recovery are necessary.

Positive effect on the development of this sector could be produced by the introduction of the windfall profits tax with a progressive taxation scale depending on the project's profitability level.[1] This tax takes into account all rent-shaping factors and automatically brings tax burden in line with the actual economic efficiency of certain oilfields' development. In case of highly efficient projects, application of the windfall profits tax ensures progressive resource rent extraction in profit of state and simultaneously create required conditions for the implementation of low efficiency projects.

4.6.3. Dynamics and structure of oil and gas export

In 2015, the volume of Russian crude oil and petroleum products exports hit 416 million tons, which is the all-time high. This being said, the share of crude oil and petroleum products net export constituted 77.1% in 2015 (*Table 27*). Export growth was due to both increased crude oil production and the decline of domestic consumption in the wake of the economic recession. Furthermore, significant increase of crude oil export should be noted due to the tax maneuver effect (by 9.4% against 2014, *Table 28*). The share of oil exports in its production has gone up to 45.8%. Meantime, the share of exports in the production of heating oil has come to over 90%, diesel fuel – 67.6%, gasoline – 11.8% (to compare: in 2005 the share of export in production of gasoline came to 18.5%, in 2010 – 8.2% and in 2014 – 10.9%).

Table 27

Ratio between production, consumption and export of oil and natural gas in 2000–2015

	2000	2005	2010	2011	2012	2013	2014	2015
1	2	3	4	5	6	7	8	9
Crude oil, million tons								
Production	323.2	470.0	505.1	511.4	518.0	523.3	526.7	534.0
Exports, total	144.5	252.5	250.4	244.6	239.9	236.6	223.4	244.5
Exports to non-CIS countries	127.6	214.4	223.9	214.4	211.6	208.0	199.3	221.6
Exports to CIS countries	16.9	38.0	26.5	30.2	28.4	28.7	24.1	22.9
Net exports	138.7	250.1	249.3	243.5	239.1	235.8	222.6	241.6

[1] See: Yu. Bobylev, M. Turuntseva. Taxation of Natural Resource Sector of the Economy. Moscow, IEP Publishers, 2010.

Cont'd

1	2	3	4	5	6	7	8	9
Domestic consumption	123.0	123.1	125.9	140.7	142.1	137.5	141.3	122.2
Net exports as % of production	42.9	53.2	49.4	47.6	46.2	45.1	42.3	45.2
Petroleum products, million tons								
Exports, total	61.9	97.0	132.2	130.6	138.1	151.4	164.8	171.5
Exports to non-CIS countries	58.4	93.1	126.6	120.0	121.2	141.1	155.2	163.3
Exports to CIS countries	3.5	3.9	5.6	10.6	16.9	10.3	9.6	8.3
Net exports	61.5	96.8	129.9	127.2	136.8	150.0	162.8	170.2
Crude oil and petroleum products, million tons								
Net exports of oil and petroleum products	200.2	346.9	379.2	370.7	375.9	385.8	385.4	411.8
Net exports of oil and petroleum products as % of oil production	61.9	73.8	75.1	72.5	72.6	73.7	73.2	77.1
Natural gas, billion m^3								
Production	584.2	636.0	665.5	687.5	671.5	684.0	654.2	645.9
Exports, total	193.8	207.3	177.8	184.9	178.7	196.4	172.6	185.5
Exports to non-CIS countries	133.8	159.8	107.4	117.0	112.6	138.0	124.6	144.7
Exports to CIS countries	60.0	47.5	70.4	67.9	66.0	58.4	48.0	40.7
Net exports	189.7	199.6	173.5	179.2	171.6	189.3	165.5	178.4
Domestic consumption	394.5	436.4	492.0	508.3	499.9	494.7	488.7	467.5
Net exports as % of production	32.5	31.4	26.1	26.1	25.6	27.7	25.3	27.6

Sources: Federal Service of State Statistics, Ministry of Energy of the Russian Federation, Federal Customs Service, author's calculations.

Exports of natural gas have moved up (by 7.5% compared to the previous year). However, so far it remains below the level registered in mid-2000s. In recent years, the basic factor of gas exports' decline was the shrinking of supplies to the European market where the share of other gas producing countries has greatly increased. As a result, exports of Russian gas to the non-CIS countries in 2015 fell by 11% as compared with 2006 when the volumes of gas supplies from Russia to Europe reached their maximum. Herewith, the ratio of net exports to the output of gas dropped from 31.4% in 2005 to 27.6% in 2015.

Table 28

Dynamics of Russian export of oil, petroleum products and natural gas in 2010–2015, % to previous year

	2010	2011	2012	2013	2014	2015
Crude oil	101.2	97.6	98.2	98.6	94.4	109.4
Petroleum products	106.2	98.5	104.4	109.6	108.7	104.1
Natural gas	105.6	104.0	96.6	109.9	87.9	107.5

Sources: Federal Service of State Statistics, Federal Customs Service.

The analysis of dynamics of Russian crude oil exports over a long term reveals a notable strengthening of oil sector's export orientation as compared to the pre-reform period. The ratio of net exports of crude oil and petroleum products to the output of oil increased from 47.7% in 1990 to 77.1% in 2015. However, one should keep in mind that this is due not only to the increase of absolute export volumes but also to the remarkable drop of domestic oil consumption following market transformation of the Russian economy, improvement of oil utilization efficiency and replacement of heating oil by natural gas. It's noteworthy that the share of petroleum products in the total petroleum exports increased from 18.2% in 1990 to 41.3% in 2015. Still, one should take into account that due to the low depth of oil refining the major part of Russian export of petroleum products consists of heating oil that in Europe is used as an input for further processing and production of light oil products.

Amid decline of the global oil and gas prices, the share of fuel and energy products in Russian export moved down to 62.5% in 2015. Herewith, the share of oil and petroleum products in Russian export constituted 45.4% (in 2014 – 54.2%), and the share of natural gas – 12.1% (*Table 29*).

Table 29

Value and share of export of fuel and energy products 2010–2015

	2010		2014		2015	
	$ bn	%*	$ bn	%*	$ bn	%*
Fuel and energy products, total	267.7	67.5	345.4	69.5	216.1	62.5
including: crude oil	134.6	34.0	153.9	31.0	89.6	25.9
natural gas	47.6	12.0	54.7	11.0	41.8	12.1

* as % of the total Russian exports.
Source: Federal Service of State Statistics.

4.6.4. Dynamics of prices for energy products on the domestic market

Prices for oil and petroleum products on the domestic market are basically determined by the corresponding global prices so that to provide equal profitability of supplies to foreign and home market, i.e. are net-back prices equaling the world price minus export customs duty and export shipment costs. In recent years, the growth of global prices for crude oil and petroleum products drove the prices up on the domestic market. However, in the second half of 2014-2015, lower world prices and ruble exchange rate resulted in a notable decline of domestic prices in dollar terms (*Table 30, Fig. 37*). It's noteworthy that due to the high export duties there still remains a significant gap between the global and domestic prices. In the meantime, due to the "tax maneuver" the reduction of export duty rate led to convergence between domestic and global price. In 2014, the domestic price for oil (producer price) came to $42.0 of the global one (price for Urals oil on the European market) than in 2015 – 55% of the global price.

Table 30

Domestic prices for oil, petroleum products and natural gas in dollar terms in 2005-2015 (average producer prices, $/ton)

	2005	2010	2011	2012	2013	2014	2015
Oil	167.2	248.2	303.3	341.1	346.1	178.9	156.7
Gasoline	318.2	547.9	576.9	628.7	614.4	372.3	301.8
Diesel fuel	417.0	536.1	644.9	774.2	698.0	419.3	349.4
Heating oil	142.7	246.3	274.6	275.3	235.8	128.7	49.5
Gas, $/1,000m^3	11.5	20.5	21.3	40.3	39.8	29.1	24.5

Source: calculated on the data released by Federal Service of State Statistics.

Domestic prices for gas remain the subject of state regulation. In order to ensure the competitiveness of national economy the government supported far lower level of the domestic gas prices in comparison with that of the world market. In 2015, the domestic price for gas (the price paid by industrial consumers less indirect taxes) averaged only 26.0% of the price for Russian gas on the European market.

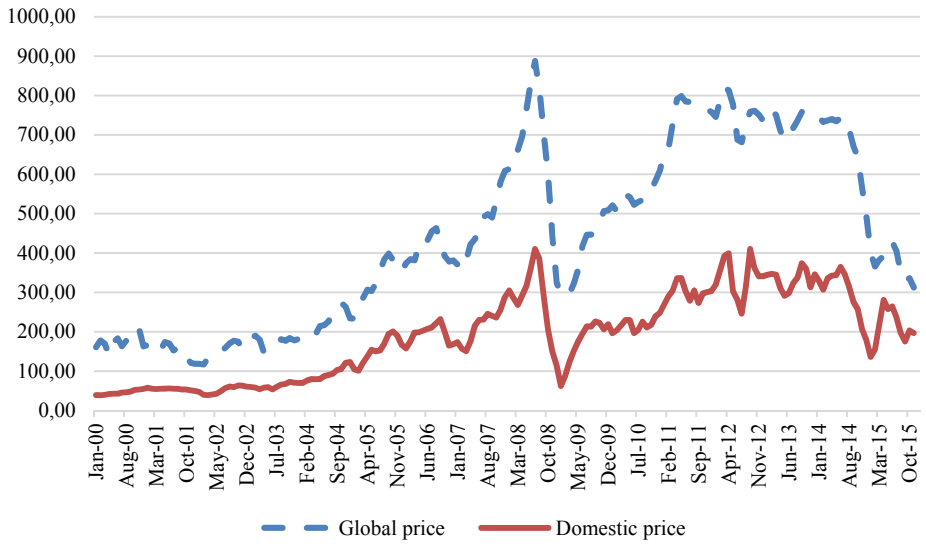

Fig. 37. Global and domestic oil price in 2000–2015, $./t

Source: calculated on data released by Federal Service of State Statistics.

4.6.5. Prospects

Russia boasts of rather significant crude oil reserves, which allow sustaining high levels of extraction and export in the course of many years. There is a considerable potential for crude oil production both due to putting into operation undeveloped reserves in developed regions and to deposits in the new production regions. At the same time, there is a rather considerable potential for additional production at existing fields by means of their deeper recovery. Moreover, the potential of presently undeveloped non-traditional crude oil reserves is immense. According to the US Energy Information Administration, by technically recoverable shale oil resources Russia is second to none in the world (US takes second place). Crude oil refining potential is also high, however by its technological level, it significantly lags behind the level achieved by the developed countries. Depth of refining in Russia stands only at 74%, meanwhile in the leading industrially developed countries it hits 90-95%. Raising depth of refining allows satisfying domestic needs in motor fuel with lower volumes of oil consumption.

In the long view, the global demand for crude oil will be growing, which allows Russia to preserve and even to increase current volumes of oil export. Herewith, owing to demographic trends and rising energy efficiency one should expect a reduction of oil demand in Europe, which is the main export market for Russia. Meanwhile, one can forecast a significant growth of oil demand in Asia, first of all, in China. In this regard, it is necessary to change regional pattern of Russian export of oil by expanding infrastructure potential for oil supplies to the East.

At the same time, the development of the Russian oil industry will significantly depend on global oil prices. Conditions of the oil market are characterized by predominance of factors, which will contribute to the retention of relatively low oil prices. Among major factors are significant shale oil resources in the US, which will be quickly developed and increase supply with global oil prices above $60 per barrel, slowdown of economic growth in China, decline of discipline in the OPEC as well as growth of shipments from Iran.

In Russia, in the wake of low oil prices, potential for the development of new oilfields and nontraditional resources will be significantly limited because investments in the most cost-intensive projects will be economically inefficient. First of all, the Arctic shelf projects will be economically inefficient.

Financial and technological sanctions imposed on Russia will limit the development of the oil sector. Financial sanctions will hamper access for Russian companies to foreign financing and technological sanctions actually block the development of deep-water oilfields, resources on the Arctic shelf and shale oil resources. Imposed ban on deliveries of equipment required for horizontal drilling and for hydraulic fracturing considerably limits deeper recovery on the operating oilfields.

In the context of low global crude oil prices and effect of sectoral technological sanctions, the traditional crude oil reserves should become the basis for further development of the Russian oil sector. This being said, deeper recovery on the producing oilfields and increased oil recovery rate will be very important. It is necessary to both actively use of free of sanctions foreign equipment applied in this sphere and accelerated development of import substitution technologies required to increase oil recovery rate. Potential for the oil production maintenance will to a greater extent depend on the technological progress in this sector.

Further development of the oil industry will require the creation of fiscal conditions. First of all, restructuring of the oil sector's taxation system is necessary, which includes gradual reduction of export duties on crude oil and petroleum products (down to their abolition) and increased role of MET. Reduction of export duties will cut ongoing subsidization of the oil refining sector and will create real incentives for its modernization and increase of oil refining index. Besides, it will greatly decrease the subsidizing of other Customs Union member-states by Russia that occurs owing to duty-free supplies of Russian oil and petroleum products. At the same time, the growth of domestic prices for oil and petroleum products (amid low world oil prices, it will be relatively slower) will strengthen incentives for the improvement of energy efficiency.

Imposition of the windfall profits tax at the new oilfields should be the next step. This tax will ensure a wider differentiation of tax burden and will create required conditions for investment in the development of new deposits. In the future, it can be applied at the already producing fields, in particular on projects with the use of methods to increase oil recovery.

Creation of conditions for the operation of small and medium companies will be important for further development of the oil sector. The activity of major oil companies, as a rule, focuses on the implementation of large-scale and highly profitable projects and small and less profitable projects turn out to be beyond their interests. This creates potential for expanded activity of small and medium companies in the oil producing business. They can be rather efficient in such spheres as deeper recovery on the producing fields, development of small deposits and tight oil resources, geological exploration works and provision of services.

Development of small and medium oil producing companies requires the creation of corresponding organizational and legal regime including significant reduction of the administrative barriers in granting the use of subsoil areas.

Implementation of these measures will contribute to maintenance of production and export of crude oil and to more rational use of oil resources.

4.7. Import substitution in the conditions of food embargo[1]

4.7.1. Production of agricultural and food products

In 2015 the war of sanctions and the shutting down of access to Russian food markets for countries included in the sanction list[2] created favourable conditions for domestic farm producers. The limiting factor was the drop of ruble exchange rate that dramatically lifted prices for many farm inputs, both imported (hybrid seeds, pesticides, breeder stock, etc.) and exported (fertilizers, fuels). Therefore, there were fears that farmers would fail to benefit from the shutting down of markets and to increase domestic agricultural output. However, farm producers did not reduce areas sown in all major crops as compared with the previous year (*Fig. 38*).

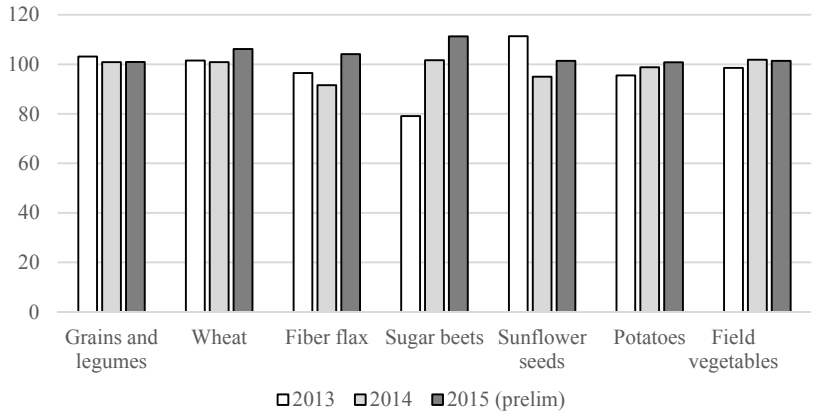

Fig. 38. Index of areas sown by farms of all types (as % of the previous year)

Source: Rosstat.

The growth of prices for inputs, first of all the imported ones, could have prompted a shrinkage of their application but so far annual indicators show no signs of it. For instance, the gross output of grain in 2015 was only slightly below that of 2014. The outputs of other major crops were above the 2014 indicators. The five-year averages prove that agriculture is on the upswing (*Table 31*).

Table 31

Average annual output of major farm crops, million tons

	1990–1994	1995–1999	2000–2004	2005–2009	2010–2014	2014	2015*
Grains and legumes	99	65	76	89	85	105	104
Sugar beets	24	15	17	27	38	34	38
Sunflower seeds	3	3	4	7	9	9	10
Potatoes	35	34	29	29	29	32	34
Field vegetables	9	10	11	12	13	14	16

* Preliminary data as of February 1, 2016.
Source: Rosstat.

[1] Authors of this section: Gataulina E. – RANEPA, Shagaida N. – RANEPA, Uzun V. – RANEPA, Yanbykh R. – RANEPA.
[2] Resolution of RF Government "On measures for the implementation of Decree of the President of the Russian Federation No. 560 of August 6, 2014 "On the application of selected special economic measures for ensuring the security of the Russian Federation."

In 2015 positive trends were also observed in livestock production except for dairy cattle breeding where cow inventories fell at a higher rate as compared with the previous year and the average monthly output of milk ranged from 98% to 101% of the 2014 indicators. Poultry production showed monthly increases from 1% to 3% as compared with the respective figures of 2014, the production of meat – from 3% to 6%.

At the same time the dynamics of farm production in 2015 was not stable. For instance, in the first and the second quarters of the year the increase of output was approximately the same as in 2014 while in the third quarter it fell to a notably lower level. The excellent performance in the fourth quarter leveled off the situation to some extent – the annual index shows the increase of output in the sector. However, its rates are somewhat below the growth rates of 2014 (*Fig. 39*).

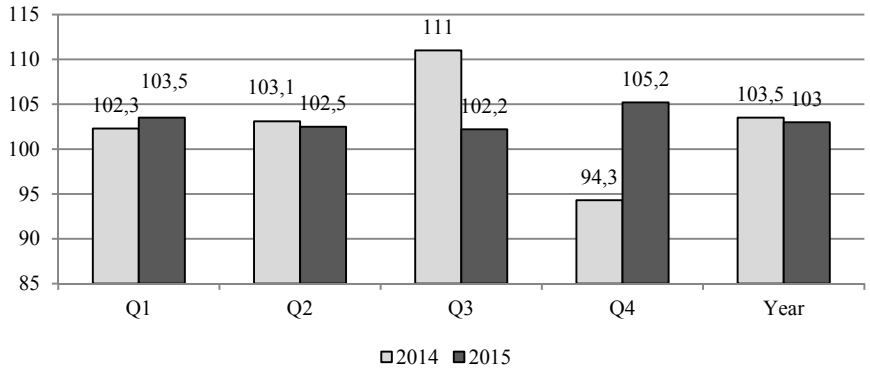

Fig. 39. Indices of farm production as % of the respective period of the previous year

Source: Rosstat, data as of February 1, 2016.

The performance of food industry in 2015 has also preserved positive dynamics. The situation therein was similar: in the second and the third quarters growth rates were far below the respective indicators of 2014 but over the year the output increased. However, the growth rates were also slightly lower than in the previous year (*Fig. 40*).

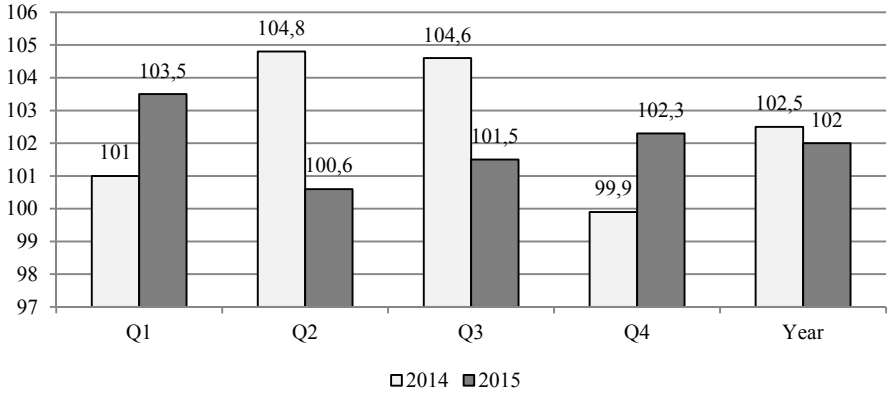

Fig. 40. Indices of food production as % of the respective period of the previous year

Source: Rosstat.

4.7.2. Affordability of food products for population

Despite the increase of output in agriculture and food industry prices for basic foodstuffs have been rising since August 2014. The causes and dynamics differed by products, the periods of price growth and price drop alternated. For instance, such dynamics was displayed by prices for pork and chicken meat, the increase of which reached up to 1% per week in the first months after the introduction of embargo but later in the year these items got cheaper. The leader of price growth after August 2014 was vegetable oil (*Fig. 41*) largely due to the fact that this is an export product and the devaluation of ruble was to result in higher domestic prices for it.

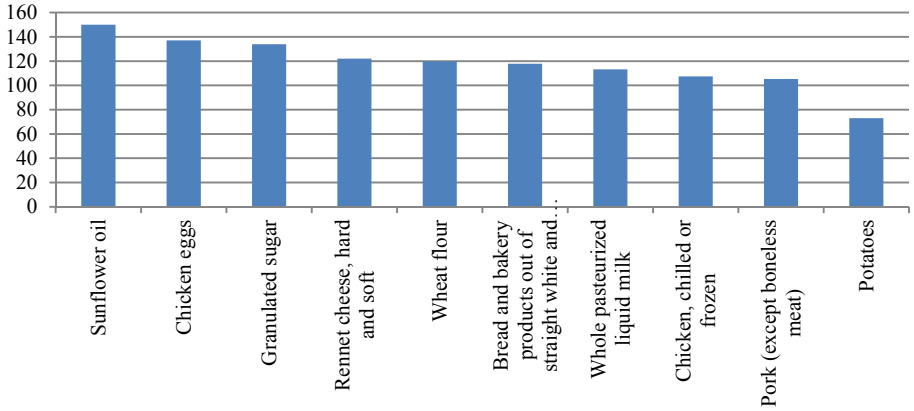

Fig. 41. Weekly chain price index for basic food products (August 4, 2014 – December 28, 2015), %

Source: Rosstat.

Prices for basic food products grew in the situation of falling real disposable money incomes of population. The rates of their decrease as stated by Rosstat were below the rates of price growth for basic foodstuffs. For instance, in 2015 the decrease of real incomes relative to 2014 was as low as 4%. Meantime, the purchase of food items by population notably fell. Over the year retail sales of food products in comparable prices (the all-Russia total) fell by 9.2% relative to the previous year, the decrease relative to December being even bigger – 11% (*Table 32*).

Table 32

Retail sales of food products in Russia (in comparable prices), as % of the previous year

	2009	2010	2011	2012	2013	2014	2015
January	103.6	103.3	100.1	105.6	101.6	101.8	95.3
February	99.1	103.7	102.7	105.6	100.6	103.1	92.7
March	98.8	104.1	101.4	105.7	102.8	101.6	92.9
April	101.6	104.8	101.1	104.6	102.0	101.9	91.3
May	98.1	105.7	100.6	105.7	102.5	100.5	91.3
June	97.8	106.6	101.0	105.3	102.7	98.9	90.9
July	96.5	108.5	101.1	102.8	103.6	99.5	91.0
August	94.5	108.0	103.4	102.1	103.9	99.8	89.9
September	94.3	105.6	105.8	101.6	102.8	99.5	90.2
October	96.2	104.4	106.3	101.6	102.7	99.4	89.3
November	97.8	104.2	106.8	102.2	103.2	98.3	88.5
December	100.4	102.4	107.6	102.2	101.8	99.5	88.6
Annual total	**98.1**	**105.1**	**103.4**	**103.6**	**102.6**	**100.0**	**90.8**

Source: Rosstat.

The situation differs by regions of Russia. In 2015 the biggest decrease of sales was registered in Omsk oblast and the Mary-El Republic (January-November) where the retail turnover in comparable prices fell by 22-25%. This indicator is an indirect sign of poorer economic access to food products and the worsening of situation with food security.

4.7.3. Trends in imports and exports of agricultural and food products

The drop of food imports (groups 1-24 by Foreign Economic Activity Commodity Nomenclature (FEACN)) as seasonally adjusted was observed from August 2014 – the moment when Russia introduced a ban on import of food items from some countries. By December 2014 the shortfall in supplies as compared with 2013 reached 24% (*Fig. 42*). In January 2015 imports of food items were 42% below those of January 2014. Beginning from March 2015 the falling of imports was halted – their value varied from $2.1bn to $2.3bn.

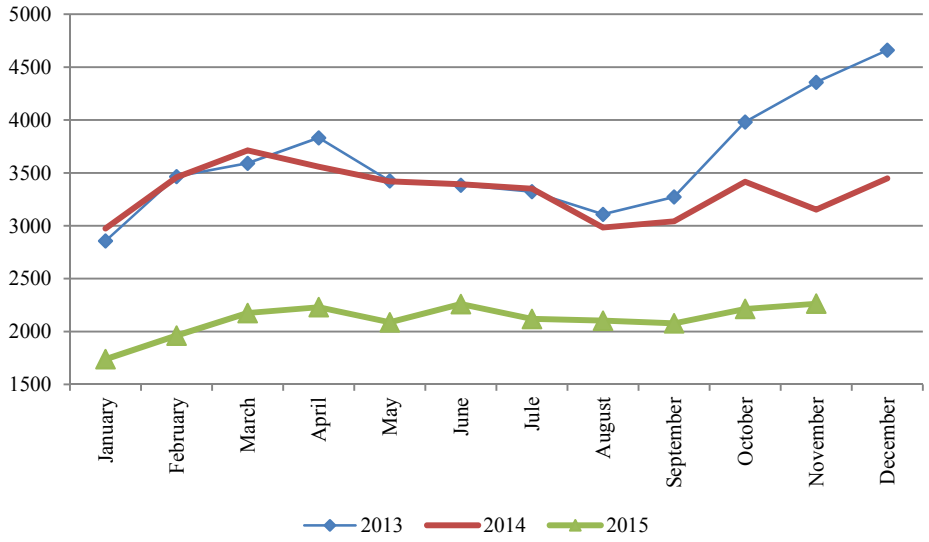

Fig. 42. Imports of food products, million dollars

Source: Rosstat.

In the recent years Russia has been intensely increasing exports of agricultural and food products. In 2014 foreign currency revenues from selling the output of agrifood sector were ¼ above those from selling the produce of military industrial complex. In the situation of sharp drop of prices for energy products domestic agribusiness can to some extent offset the losses from exports of gas. Even more so, if the price of gas for farm producers is reduced, their production costs will fall making them more competitive. In 2013 foreign currency revenues from the export of foodstuffs corresponded to 22% of the revenues from the export of gas while in January-November 2015 – to 33%. In January-November 2015 currency receipts for the exported gas fell by $9.7bn. A part of this shortfall ($2.7bn) was offset by bigger receipts from the export of agricultural and food products.

The dramatic devaluation of ruble has inspired expectations that given relatively stable prices on the world food markets exports of agricultural and food products will grow remarkably. However, it hasn't happened. Beginning from February 2015 monthly exports have never

once exceeded the 2014 figures. To only a small extent this can be attributed to the growth of home consumption of domestic foodstuffs owing to the shrinkage of import supplies. Exports largely decreased due to the internal policies of curbing them (introduction of export duties on grains, non-tariff restrictions of export, etc.) (*Fig. 43*).

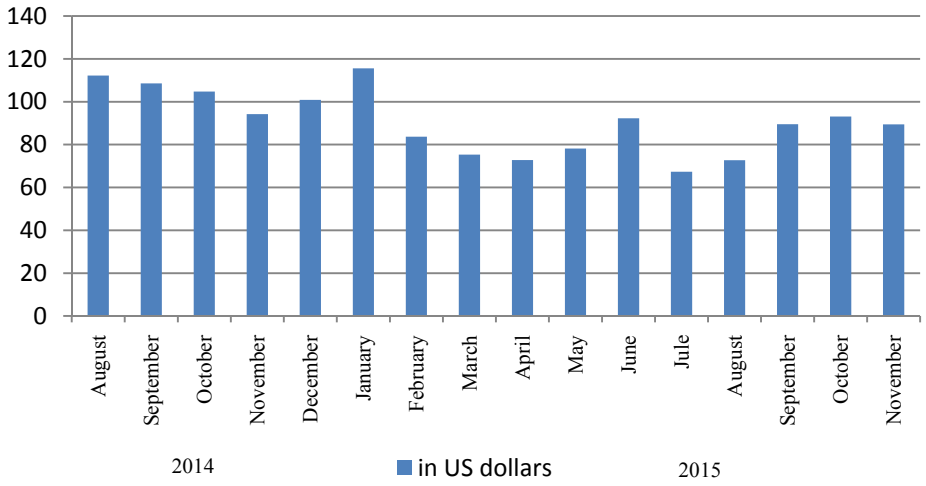

Fig. 43. Exports of agricultural and food products by months in 2014-2015 as compared with 2013-2014 (groups 1-24 by FEACN), %

Source: Federal Customs Service.

Owing to the devaluation of ruble export transactions have preserved their financial appeal. Over all the examined months ruble revenues from exports were well above those of the previous year (*Fig. 44*). Export revenues over 11 months 2015 exceeded the respective figures of 2014 by more than 36%.

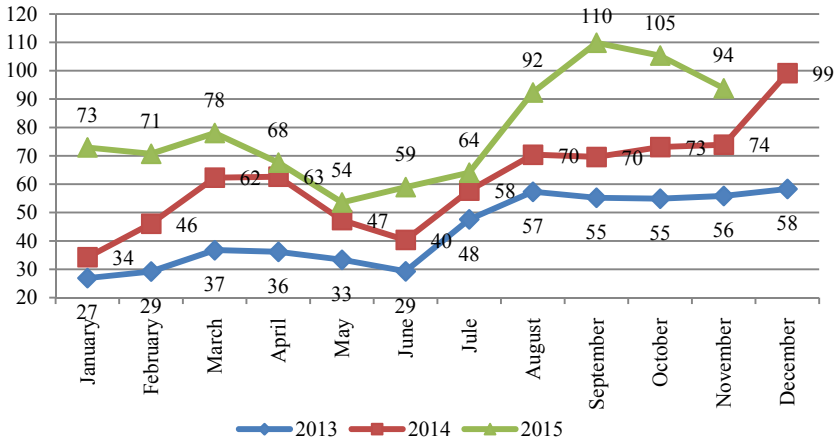

Fig. 44. Receipts from export of agricultural and food products from Russia by months (groups 1-24 by FEACN), billion rubles

Source: Federal Customs Service.

4.7.4. Import substitution

Import substitution usually stands for the replacement of an imported commodity by the same or similar by quality domestic product[1]. This definition is quite acceptable for examining import substitution in respect of a specific commodity. Since there is a wide range of commodities (taking into account their brands, grades, etc.), the indicators of in kind import substitution are also numerous. The trends of their change can be opposite and therefore it's difficult to make general conclusions on their basis. In order to examine import substitution for a group of commodities one needs to shift from physical to value indicators.

Value substitution is the switch from paying foreign suppliers to paying domestic producers. The indicators of value import substitution depend not only on the volumes of imported and domestic items but also on the prices for them and the exchange rate of ruble. Value import substitution takes place in case domestic producers increase their share in the wallet of food consumers, i.e. in case the share of imported food products in the total consumer expenditures on buying foodstuffs reduces[2].

In Russian statistics there are two indicators reflecting the cost of imported food products. Customs statistics shows their cost in border prices. The amount stated in this statistics goes to foreign suppliers of food items. The major part of these deliveries (about 70%) moves to retailers. The other part – imported inputs (seeds, feeds, live animals, meat for processing, etc.) – are not sold in retail stores but go to the production of food items that later enter retailing as domestic products.

Rosstat surveys the cost of imported foodstuffs in retailing but does it in retail prices. It's quite obvious that these statistical records disregard the part of imported products used for production purposes. Nevertheless, the cost of imported items in retailing is about 3 times higher than the cost of all imported foodstuffs in border prices (*Table 33*). It's hard to explain this difference by import duties (approximately 15% of border price). The major receivers of markups on imported food products are domestic companies – importers and commercial networks. They benefit from their monopoly position and imperfect legal regulation of the named markups.

As can be seen from data in *Table 33*, import substitution in consumer wallet was really the case. One of the above mentioned indicators – the share of imported products in retail sales to consumers – was gradually falling: in the third quarter of 2015 it amounted to only 27% while in the respective quarter of 2014 – to 32%, in 2013 – to 35%. The decrease of imported products' share in retail turnover was proceeding despite the fact that in the first three quarters of 2015 the total value of imports in border ruble prices was approximately the same as in the previous years. Reasoning from that, one can come to the conclusion that the share of imports in retail sales was falling primarily due to the reduction of markups on the way of imported products from the border to retail shelves.

[1] Animitsa E.G., Animitsa P.E., Glumov A.A. *Importozameshcheniye v promyshlennom proizvodstve regiona: kontseptual'no-teoreticheskiye i priklandniye aspekty* [Import substitution in industrial production of a region: conceptual, theoretical and applied aspects]. *Ekonomika regiona* [Economy of a region], 2015, No.3, pp. 160-172.
[2] Uzun V. *Prioritety agroprodovol'stvennoy politiki: importozameshcheniye ili export?* [Priorities of agrifood policies: import substitution or export]. Economist. 2015, No.7, pp. 17-29.

Table 33

Share of imported food products in retail turnover, 2013–2015

Year and quarter	Retail turnover of food products (including beverages) and tobacco			Imports of food products, beverages and tobacco (groups 1-24 by FEACN) (in border prices)	
	Billion rubles	Including imported products		Billion rubles (at current exchange rate of US dollar)	Share in retail turnover, %
		Billion rubles	%		
2013	11143	3956	35.5	1379	12. 4
I	2482	894	36	301	12.1
II	2691	942	35	336	12.5
III	2818	986	35	318	11.3
IV	3152	1135	36	423	13.4
2014	12381	4243	34.3	1527	12.3
I	2730	983	36	355	13.0
II	2966	979	33	363	12.2
III	3140	1005	32	339	10.8
IV	3545	1276	36	470	13.3
2015*	9721	2877	29.6	1122	11.5
I	3098	991	32	372	12.0
II	3252	976	30	352	10.8
III	3371	910	27	397	11.8

* 2015 – the total for 3 quarters.
Source: Rosstat, customs statistics.

In the previous sections it has already been shown that after the introduction of embargo in August 2014 imports of food reduced in both physical and value terms. This statement is true if the value of imports is estimated in US dollars (in border prices). But the exchange rate of dollar has markedly grown over this period. Population buys imported products for rubles and therefore it's reasonable to estimate the value of imports in ruble equivalent. *Fig. 45* shows that over the examined period there were only three months (March, April and May of 2015) when the ruble value of imports was lower than in the respective months of pre-crisis period. In all the remaining months the nominal ruble value of imports was noticeably higher than before the introduction of embargo. This is an indirect sign that despite the falling incomes population continues to spend the same or even bigger amounts on imported products. So, no import substitution has taken place in the consumer wallet – on the contrary, the share of payments to foreign suppliers has grown.

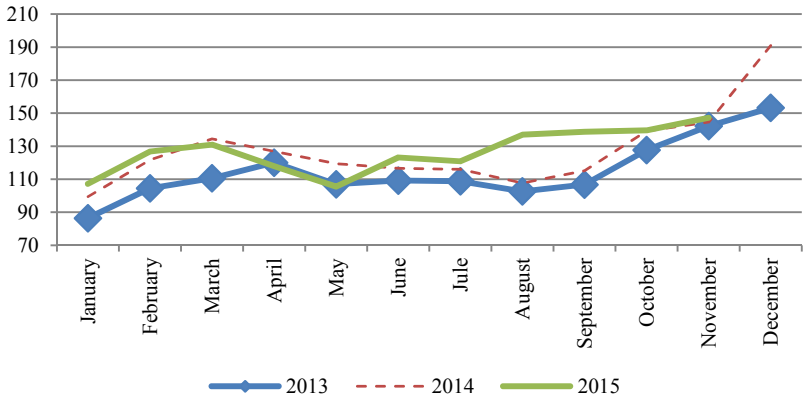

Fig. 45. Dynamics of food imports (groups 1-24 by FEACN), billion rubles

Source: Federal Customs Service.

The reasons of growing consumer expenditures on imported foodstuffs require a special examination. Consumers with high level of incomes are ready to increase expenditures and buy more expensive imported products in the same or approximately the same quantities. Additional expenditures of this population group offset the reduction of expenditures on these products by poor families.

This is the situation for agricultural and food products in general. For selected groups of commodities import substitution did take place. For instance, nominal ruble expenditures on imported meat and meat products in 9 months 2015 were somewhat below those of the respective period of 2014 (*Fig. 46*).

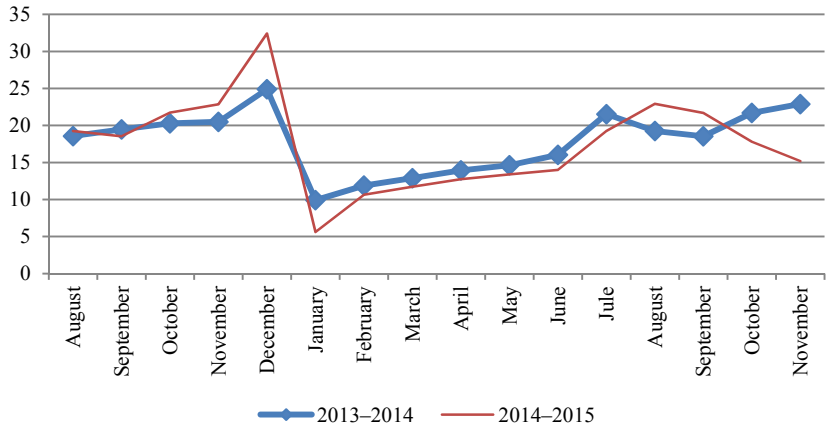

Fig. 46. Dynamics of imports of meat and meat products, billion rubles

Source: Federal Customs Service.

The physical volume of imported milk products and their value in dollar terms was reducing throughout almost all months of the examined period. The value of their imports in ruble terms was also smaller than in the previous year (*Fig. 47*).

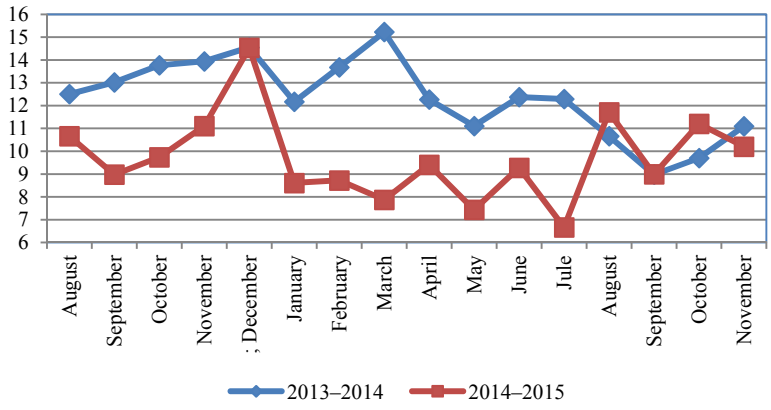

Fig. 47. Dynamics of imports of milk and dairy products, billion rubles

Source: Federal Customs Service.

Over 11 months 2015 imports of milk and dairy products totaled Rb 88.6bn while in the respective period of 2014 they amounted to Rb 129.7bn. So, one can state that relative to the previous year consumers started to spend a smaller share of their budget on purchasing imported dairy products.

In 2014-2015 the share of domestic output in commodity resources was expanding quite rapidly as compared with 2013 (*Table 34*). There were three reasons for that: growth of domestic production, shrinking of imports and smaller consumption of some products.

Table 34

Self-sufficiency in food products, 2013–2015

Item	Year	Domestic production, 1,000 tons	Imports, 1,000 tons	Commodity resources – total, 1,000 tons	Self-sufficiency in food products, %
Pork	2013	2816	980	3796	74
	2014	2974	426	3400	88
	2015	3115	250	3365	93
Poultry meat	2013	3831	527	4358	88
	2014	4164	453	4617	90
	2015	4492	250	4742	95
Cheese and curds	2013	1167	466	1633	71
	2014	1257	349	1606	78
	2015	1378	210	1588	87
Butter	2013	225	165	390	58
	2014	251	158	409	61
	2015	265	110	375	71
Vegetables and melons	2013	16109	2817	18926	85
	2014	16885	2929	19815	85
	2015	17474	2500	19974	88
Fruit	2013	3380	7201	10581	32
	2014	3525	6680	10204	35
	2015	3585	5560	9145	39

Source: RF Ministry of Agriculture.

The growth of domestic production has ensured import substitution and increase of consumption of only two of the examined products. The output of poultry meat grew by 661 thousand tons while imports reduced by 277 thousand tons, so consumption was up by 384 thousand tons. The situation was similar for vegetables and melons (*Table 35*).

Table 35

Change of production, imports and consumption in 2015 as compared with 2013, 1,000 tons

Item	Growth of production	Reduction of imports	Change of consumption
Pork	299	-730	-431
Poultry meat	661	-277	384
Cheese and curds	211	-256	-45
Butter	40	-55	-15
Vegetables and melons	1365	-317	1048
Fruit	205	-1641	-1436

Source: RF Ministry of Agriculture, authors' calculations.

For all other products the rates of imports' reduction were higher than the rates of production growth. Accordingly, import substitution was only partial and the consumption of these products eventually dropped. Given the falling incomes, population could not buy the same quantities of imported products that became more expensive while domestic producers failed to supply sufficient quantities of cheaper products.

4.7.5. Changes in budget support

Following the set course for import substitution some changes were introduced in the basic regulatory document pertaining to agriculture – "State program for agricultural development and regulation of agricultural, input and food markets for 2013-2020". In particular, there appeared *five new sub-programs* targeted at the development of most vulnerable spheres in the domestic agribusiness:

1) Pedigree livestock breeding, selection and seed production;
2) Dairy cattle breeding;
3) Vegetable growing in the open and protected ground and production of seed potatoes;
4) Wholesale distribution centers and social catering infrastructure;
5) Financial and credit system of the agrifood sector.

The perfecting of agricultural policy mechanisms is in progress, some regulatory acts are at the stage of examination. New amendments to the "State program" are to be introduced in February 2016 (the term earlier specified in the "Roadmap for encouraging import substitution in agriculture for 2014-2015" was September 15, 2015).

In 2015 the new sub-programs will account for 23% of the total State program's financing with dairy cattle breeding having the biggest share (*Fig. 48*). Allocations to the sector's modernization are decreasing while administrative expenditures grow year after year (Rb 26.7bn): by the amount of allocated funds they rank fourth right after the development of dairy cattle breeding. The top two positions belong to the development of crop production (Rb 54.1bn) and livestock production (Rb 39.9bn).

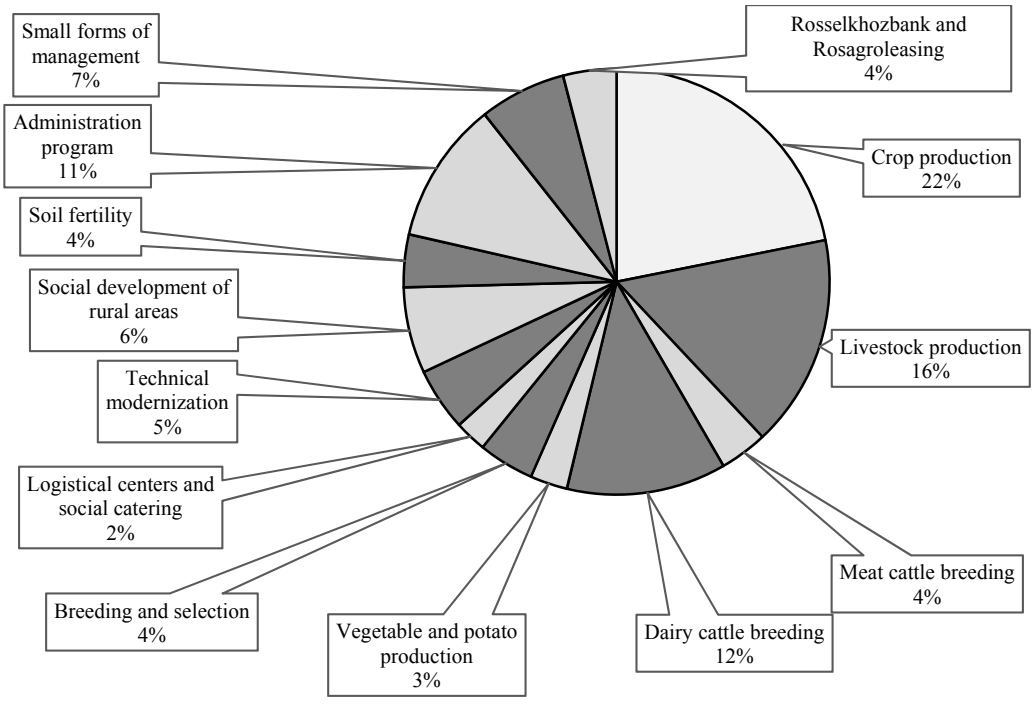

Fig. 48. Financing of State program in 2015, billion rubles

Source: RF Ministry of agriculture.

According to data of the RF Ministry of Agriculture, the approved budget outlays as of October 1, 2015 envisage allocation of additional Rb 34.3bn from the federal budget to supplement

the initially planned expenditures on the State program (as specified in RF Government Resolution No. 1421 of December 1, 2014). Respectively, the total financing has amounted to Rb 222.15bn instead of Rb 187.8bn. The figure is not final. The increase of allocated funds *per se* is a positive fact but their distribution by items is not quite faultless.

Following the appearance of new sub-programs respective amendments were introduced in the rules of granting and distribution of subsidies for the reimbursement of interest rate on credits and loans (RF Government Resolution No.766 of July 28, 2015, new edition of the fundamental Resolution on agricultural subsidies No.1460 of December 28, 2012). The Resolution complements the list of potential receivers of subsidies by including therein farm producers and processors whose activities contribute to the progress of dairy cattle breeding, to the development of selection and seed production centers in crop growing and of selection and genetic centers in livestock breeding as well as to the purchase of raw livestock and crop output (vegetables, fruit, grapes, potatoes, melons and greenhouse products) from farmers for primary and/or further processing. The full list of subsidized activities is usually approved by the RF Ministry of Agriculture.

While for all investment credits reimbursement from the federal budget amounts to 2/3 of the refinancing (official discount) rate of the RF Central Bank, for credits (loans) received for the expansion of meat and dairy cattle breeding and for the development of selection and seed production centers in crop growing and of selection and genetic centers in livestock breeding the size of this reimbursement reaches 100% of this rate.

Besides, those borrowers who implement investment projects in meat or dairy cattle breeding have an opportunity to extend the term of credit agreements signed between January 1, 2008 and December 31, 2012 inclusive, from 10 to 15 years. The same Resolution increases up to 5% the minimal rate of partial subsidizing of expenditures on paying interest rate on credits to be reimbursed by regional budgets. All these amendments came into force on August 1, 2015.

Over 1/3 (35%) of the additional financing – Rb 12bn – instead of going to farm producers in import substituting sectors was spent on the increase of capital of Rosselkhozbank (Rb 10bn) and on the contribution to the authorized capital of OJSC Rosagroleasing (Rb 2bn). The State Program's passport did not envisage the financing of these measures in 2015. These allocations raise questions since farm producers can apply for a credit to any Russian credit organization, not exclusively to Rosselkhozbank that has got these injections for its ordinary activities without any commitments to grant additional privileges to farm producers as compared with other banks crediting agribusiness. For instance, Sberbank, the second largest creditor of the agrifood sector has got no such allocations in the framework of the State Program despite the fact that in 2015 it demonstrated better dynamics of providing credits for the seasonal field works: according to data of the RF Ministry of Agriculture as of December 3, 2015 the amount of such credits issued by Rosselkhozbank grew by 19% as compared with the respective period of the previous year while in Sberbank the increase was 85%[1].

Rosagroleasing offers preferential federal leasing to agricultural producers and the contribution to its authorized capital makes it possible. At the same time it weakens competition as there are other leasing companies that could also provide this service in case of similar support by the state. But at the moment they have no opportunities to do it.

[1] http://www.mcx.ru/news/news/show/46040.355.htm

This direction is not new at all. The increase of capital of Rosselkhozbank and Rosagroleasing was regularly carried out in the framework of the first State program and now is being continued but already as a separate direction.

The Government has also attended to the criteria of selecting investment projects the implementation of which fosters import substitution. The rules of allowing grants to promising innovational projects in the agrifood sector have been specified in the RF Government Resolution No.678 of July 7, 2015. The measures are financed in the framework of sub-program "Technical and technological modernization, innovational development".

A new mechanism of support – compensation of direct expenditures incurred on the creation and modernization of agribusiness facilities – was first announced in 2014. The rules of granting and distribution of subsidies for these purposes were approved by the RF Government in Resolution No.624 of June 24, 2015. The mechanism of reimbursing direct incurred expenditures suggests that:

1) The selection of investment projects is done on the federal level;
2) Compensation from the federal budget covers the following part of expenditures: up to 20% - for the creation and modernization of facilities in the agrifood sector; 30% - for the creation and modernization of selection and genetic centers for breeding and transplantation of dairy cattle embryos; for the Far East regions the rate is higher – 25% and 35%, respectively, but not above the size of normative expenditures.

Direct financing to the amount of Rb 11.4bn is envisaged for the creation and modernization of:

- fruit storages (Rb 1.2bn);
- potato and vegetable storages (Rb1.5bn);
- greenhouse complexes (Rb 3bn);
- dairy farms (Rb 4bn);
- selection and genetic centers and selection and seed production centers (Rb 0.7bn);
- creation of wholesale and distribution centers (Rb 1bn).

In 2015 400 projects to the amount of Rb 150bn were selected. Besides, Rb 2bn of subsidies were allocated to producers of farm machinery to let them sell their machines with a discount.

The shortage of logistical infrastructure largely curbs sales and the development of domestic market of farm products. Reasoning from that, a new sub-program "Development of wholesale and distribution centers (WDCs) and social catering infrastructure" was adopted. As follows from the name, its main target is the creation of WDCs; the principal mechanism of support – a partial compensation of direct incurred expenditures from the federal and regional budgets (20% of the estimated cost from the federal budget (for subjects in the Far East Federal District – 25%) in case of co-financing from the regional budgets)[1] for the selected investment projects. The State Program envisages that WDCs will service up to 20% of supplies in the framework of the state order including the system of social catering. In 2015 it was suggested to build about 15 pilot WDCs with the support of Rb 1.5bn from the federal budget[2]. On the whole, in 2015 the total financing of the sub-program from the federal budget increased from Rb 2.4bn specified in the passport of the State Program to Rb 7.4bn under budget breakdown as of October 1, 2015. However, only 4% of these funds or Rb 0.3bn were intended specifically for the creation of WDCs. It's clear that in this case plans for the construction of 15 WDCs

[1] RF Government Resolution No.624 of June 24, 2015.
[2] http://www.mcx.ru/news/news/v7_show_print/37729.285.htm

won't come true. Moreover, according to data of the RF Ministry of Agriculture as of October 1, 2015 these amounts remained unused. The remaining 96% of the sub-program's funds (Rb 7.1bn) were allocated to the subsidizing of interest rate on short-term credits to processors for the purchase of raw agricultural products (not exclusively of domestic origin) for primary and industrial processing according to the list of the RF Ministry of Agriculture (RF Government Decree No.1586-r of August 18, 2015). According to the rules of WTO and the Eurasian Economic Union Russia cannot provide preferences for the subsidizing of purchases from domestic producers; therefore, the named subsidy fails to encourage import substitution.

The support of dairy cattle breeding shrank as compared with the previous year. The financing of badly needed subsidy per 1 liter of marketed milk from the federal budget fell down to Rb 6.2bn (-26% relative to 2014). The subsidizing of interest rate on investment credits for the building and reconstruction of dairy farms was one of the principal measures of support to dairy cattle breeding. Nevertheless, in 2015 the allocation of funds under this article (according to the budget breakdown as of October 1, 2015) shrank more than 2 fold as compared with the State Program's passport: from Rb 11.8bn to Rb 5.15bn. Even taking into account these subsidies, high interest rates set by banks make the conditions of crediting investment projects in the sector worse than in the previous years. For instance, in 2012 the average weighted interest rate of commercial banks was 11.1%. Given the 100% reimbursement of the Central Bank's refinancing rate that amounted to 8.1%, the borrower was to pay 3% (not including the regional part of the subsidy). According to data of the RF Central Bank, in January-September 2015 the average weighted interest rate set by commercial banks on credits to non-financial institutions for terms exceeding one year was 15.4%[1]. Under the terms of subsidizing, given the 100% reimbursement of the Central Bank's refinancing rate (8.25%) the borrower was to pay 7.15%. This means that credit terms deteriorated more than 2 fold. The same is true for meat cattle breeding to which similar terms of subsidizing are applied. Besides, without subsidies the 2015 interest rates were prohibitively high while in 2012 credits were much more available.

So, in 2015 the support of "prioritized" dairy cattle breeding was actually cut down. Even the restriction of imports under sanctions that enlarged the market niche for domestic farm producers has failed to offset the reduction of budget support. It's no wonder that the production of milk shows actually no growth.

The support of vegetable growing in the open and protected ground and of the production of seed potatoes – the sectors that were declared to be of priority importance – was as low as 14% (!) of the level initially envisaged in the State Program's passport for 2015: Rb 0.7bn instead of Rb 5bn. The principal part of support (Rb 4.5bn) was to be provided through a partial reimbursement of expenditures on the construction and modernization of potato and vegetable storages and greenhouses. However, after the amendments to the budget only Rb 0.2bn were left for these purposes.

The subsidy for purchasing elite seeds has grown remarkably – it amounts to Rb 2.8bn. However, if formerly it was provided for the purchase of Russian seeds, now it applies to all seeds included in the State register of selection achievements, i.e. to the supplied by foreign producers as well. Given that the major part of hybrid seeds of sugar beets and corn is imported, this subsidy supports foreign rather than domestic producers. This fact is due to the Russia's membership in WTO. According to Article 3 Part II of the WTO "Agreement on subsidies and

[1] Simple average of the monthly weighted average rates of the RF Central Bank.

countervailing measures", "subsidies contingent, whether solely or as one of several other conditions, upon the use of domestic over imported goods" shall be prohibited. This clause should be taken into account when choosing forms of state support in the future.

The support of production of fine wools and comeback is a new subsidy targeted at the substitution of imported raw inputs for enterprises in textile and consumer goods industries. The financing of this import substitution sector was also cut almost 3 fold: from Rb 153.5m under the State Program's passport to Rb 53.5m according to the budget breakdown. Given the amounts allocated and the great range of claimants this subsidy is unable to solve the problem. At the same time the funds may remain unused due to the requirement to prove the quality of wool in an accredited laboratory. There is no information about the number of such laboratories and whether it is sufficient. At the moment there are only plans to build two such laboratories with public co-ownership – one in Chita and one in Elista. The rules of distributing this subsidy were approved only on July 2, 2015 and the Decree on distributing it between the subjects of the Russian Federation – only on August 25, 2015. Such a delay does not contribute to the efficient utilization of the subsidy.

It should be noted that over the whole period of the programs' existence the major part of support has been provided in the form of subsidizing interest rate on credits and loans with the state debt under investment credits growing at the highest rate. Only in 2014 the amount of subsidies on the reimbursement of interest rate increased by 14% (from Rb 93bn to Rb 102.5bn). Under no other provision of the State program the government has carried forward obligations. So, for all its significance, the program of subsidizing interest rate has got hypertrophied importance in the structure of state support. At present it accounts for over 50% of the total financing under the State Program. The problem also resides in the multiplicity of subsidies (altogether there are more than 40 of them). The Accounts Chamber repeatedly stresses that such a big number of subsidies is hard to administrate.

In 2015 subsidies on the reimbursement of interest rate fell down to Rb 84bn including Rb 38bn on short-term credits and Rb 46bn on investment credits. For instance, Rb 29.3bn were allocated to the development of livestock breeding including production and processing of livestock products, development of infrastructure and logistical support of the markets, Rb 15.4bn – to the development of crop production. A separate budget item was the financing of dairy cattle breeding: subsidies on short-term credits – Rb 0.3bn, on investment credits – Rb 5.2bn. In meat cattle breeding investment subsidies amounted to Rb 5.1bn. Subsidies on short-term credits for processing crop and livestock products totaled Rb 7.6bn.

Besides, new executive orders provided for the allocation of additional Rb 150m to the construction of drip irrigation systems for perennial plantations including vineyards in Crimea.

In spite of repeated declarations of the importance of small-scale farming in the production of agricultural products and the welfare of rural community, the support to household farms and their cooperatives has not increased. The amount of subsidies for the support of beginner farmers and family livestock farms from the federal budget totaled Rb 6.3bn. In 2015 20 supply-marketing and processing agricultural cooperatives from 14 regions each got up to Rb 40m as pilot grants for the development of physical facilities but for Russia at large it's very little.

Rb 8bn from the federal budget are to be spent on the implementation of federal target program "Sustainable development of rural areas in 2014-2017 and for the period till 2020". In 2015 for the first time certain funds (Rb 152bn) were allocated to the complex improvement of social and engineering infrastructure in rural settlements.

So, among the existing sub-programs (including the newly launched) there is actually not a single one that really contributes to the breakthrough in import substitution. The financing is cut so dramatically that import substitution in the sectors declared to be the priority ones is in fact problematic. Subsidies on the purchase of elite seeds and on the reimbursement of interest rate on credits for the purchase of raw inputs by processors support not only domestic producers. This proves the need for a serious revision of Russia's agricultural policies.

The following *directions of policy improvement* are most important for the strengthening of food security:

1. Shifting of emphasis in the ideology of "Doctrine of food security": instead of food independence, import substitution and self-sufficiency the main accent should be made on the economic availability of quality foodstuffs for all families including the poorest ones with import supplies being one of the tools.
2. Inclusion of the following target indicators in the "Doctrine": a composite index of the country's food independence (for all products); the rate of compliance of an actual food ration with the recommended one; the threshold level of satisfying the requirements of the poorest families making them eligible for food aid; the level of technological independence of the agrifood sector.
3. Changes in the import and export policies: the abolition of regulations restricting export and the working out of measures supporting it; switching from the prioritized support of import substitution for all types of foodstuffs to the prioritized support of export, i.e. the production of commodities the prices for which are competitive on the world market.
4. Working out of the program for targeted food aid to the poorest families whose incomes per family member are below the threshold level. It should be preceded by arrangements for the registration of such families, definition of the monthly amount of aid per capita, the list of foodstuffs' groups, the categories of producers and sellers eligible for the participation in the program. If at the first stage of the food aid program's implementation the threshold income is set at the average actual level in the first decile group, about one half of families in this group will claim for assistance, i.e. approximately 7 million people. Given that the size of assistance is Rb 1,000 per capita each month, the total amount of funds for food aid in the country will amount to Rb 84bn annually.
5. Abolition of food embargo. There are the following reasons for its abolition: the embargo results in higher prices for foodstuffs and bigger share of food expenditures in the budgets of families especially the poorest ones; the human rights for consuming certain types of food are violated; the control over embargo's abidance is complicated especially inside the Eurasian Economic Union (none of the EEU countries has supported Russia's embargo); the accelerated import substitution is not efficient; there are more efficient alternatives (for instance, the embargo on import of business and premium class vehicles).
6. The lifting of requirement for compulsory regional co-financing of the State Program's measures in order to get the federal part of allocations. Given the dramatic budget deficit in the RF regions and their failure to comply with this requirement farm producers do not get any support at all.
7. Development of dairy cattle breeding in individual private farms encouraged by larger grants and greater number of supported farms. According to data of the RF Ministry of Agriculture, in 2015 4,500 individual private farms got the grants. But the actual number of applicants is much bigger. There are plans to increase the amount of grant to beginner farmers

for the creation of dairy farms from Rb 1.5m to Rb 3m and to allocate to the overall support of individual private farms Rb 14bn in 2016, of which Rb 8bn are grants.

8. The changing of subsidy system: shifting from the transfer of funds for the reimbursement of interest rate on credits to farm producers to the transfer of funds directly to agent banks. This will enable farm producers (1) not to divert their funds to the payment of interest rate in full with reimbursement provided later; (2) to cut transaction costs of paperwork needed for getting the reimbursement of interest rate.
9. In order to supervise the situation and trends in ensuring food security it's advisable (1) to complement the system of statistical survey with the system of studying opinion of both individuals and entrepreneurs engaged in the production, importing and further movement of commodities to consumers; (2) to introduce the system of preparing annual national reports "On the situation and threats to Russia's food security". This will enable authorities to give a prompt response to new challenges in the sphere of food security and to timely adjust the state agricultural policies.

4.8. Foreign trade[1]

4.8.1. State of global trade

In 2015, economic growth rates in countries, which are main trade partners of the Russian Federation, turned out to be below forecast of a year earlier.

In 2015, according to the data released by the National Bureau of Statistics of China[2], the China's GDP went up by 6.9% annualized, which is the minimum over the recent 25 years. Production growth in 2015 has slowed down to 6.0% and growth of the service sector up to 8.3%. In 2014, growth rates posted 7.3% and 7.8%, respectively.

According to the data of CIS Macromonitoring[3] released by Eurasian Development Bank, in Q1 2015, GDP of CIS member states contracted by 2.6% compared to the same period of last year. In Q2, reduction of CIS GDP accelerated and hit 4.4%. In Q3, aggregate GDP of CIS member states contracted by 3.9% in comparison with the same period of 2014.

At the same time, economic situation in *advanced economies* in 2015 is gradually improving contributed by easy financial conditions and low global prices on energy resources and metals as well as neutral budget and fiscal policy.

According to Eurostat[4], *Eurozone* economy (EU-18)[5] in Q2 2015 up 0.4% compared to the previous quarter and up 1.5% annualized. In Q3 2015, compared to Q2 of the same year, economic growth of Eurozone slowed down to 0.3%, and GDP of entire *European Union* (EU-28) up 0.4%. In comparison with Q3 2014, growth of Eurozone GDP came to 1.6% and of European Union – 1.9%. Growth of consumer demand and public spending maintained the Eurozone economy. That helped compensating low export growth rates.

[1] Author of this section: Volovik N. – Gaidar Institute for Economic Policy.
[2] http://www.stats.gov.cn/english/PressRelease/201601/t20160119_1306072.html
[3] http://www.eabr.org/r/research/publication/makromonitor_cis/
[4] http://ec.europa.eu/eurostat/web/products-press-releases/-/2-08122015-AP
[5] Eurozone (EU-18) include Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cypress, Luxemburg, Latvia, Malta, Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.

In Q2 2015, the US GDP moved up compared to Q1 by 3.9%, which is the maximum since July-September 2014. According to the US Bureau of Economic Analysis[1], the US GDP estimate was revised upwards from 1.5% to 2.1% in annual terms. In Q4 2015, the US economy went up by 0.7% in annual terms. By the end of 2015 as a whole, the US economy grew by 2.4% as in 2014. The economy is stimulated by growing consumer demand and by positive shifts on the labor market.

According to the IMF[2] estimates, in 2015, the growth of global economy turned out to be the lowest since the end of the financial crisis (-3.1%). Meanwhile, the strongest slowdown of growth rates is observed in China and other developing economies, which leads to a reduction of growth rates of word economy despite the fact that advanced economies demonstrate better indices for economic growth since 2010 (*Table 36*).

Table 36

Dynamics of Global GDP and World Trade
(growth rates in % to previous year)

						Esti-mate	Forecast		Difference between forecasts, data in October 2015 and January 2016	
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2016**	**2017**
Global GDP	**5.1**	**3.9**	**3.4**	**3.3**	**3.4**	**3.1**	**3.4**	**3.6**	**–0.2**	**–0.2**
Advanced economies	***3.0***	***1.7***	***1.2***	***1.4***	***1.8***	***1.9***	***2.1***	***2.1***	***-0.1***	***-0.1***
United States	2.4	1.8	2.3	2.2	2.4	2.5	2.6	2.6	-0.2	-0.2
Eurozone	2.0	1.5	–0.7	-0.4	0.9	1.5	1.7	1.7	0.1	0.0
Germany	4.0	3.4	0.9	0.5	1.6	1.5	1.7	1.7	0.1	0.2
France	1.7	2.0	0.3	0.3	0.2	1.1	1.3	1.5	-0.2	-0.1
Italy	1.8	0.4	–2.4	-1.9	-0.4	0.8	1.3	1.2	0.0	0.0
Spain	–0.3	0.1	–1.6	-1.2	1.4	3.2	2.7	2.3	0.2	0.1
Japan	4.5	–0.6	1.5	1.5	-0.1	0.6	1.0	0.3	0.0	-0.1
Great Britain	1.8	1.1	0.3	1.7	2.9	2.2	2.2	2.2	0.0	0.0
Canada	3.2	2.5	1.7	2.0	2.5	1.2	1.7	2.1	0.0	-0.3
Other advanced economies	5.9	3.2	2.0	2.3	2.8	2.1	2.4	2.8	-0.3	-0.1
Emerging and developing economies	***7.4***	***6.2***	***5.1***	***4.7***	***4.6***	***4.0***	***4.3***	***4.7***	***-0.2***	***-0.2***
Commonwealth of Independent States	4.8	4.8	3.4	2.2	1.0	-2.8	0.0	1.7	-0.5	-0.3
Russia	4.3	4.3	3.4	1.3	0.6	-3.7	-1.0	1.0	-0.4	0.0
Less Russia	6.0	6.1	3.6	4.2	1.9	-0.7	2.3	3.2	-0.5	-0.8
Developing countries of Asia	9.5	7.8	6.7	6.6	6.8	6.6	6.3	6.2	-0.1	-0.1
China	10.4	9.3	7.7	7.7	7.3	6.9	6.3	6.0	0.0	0.0
India	10.1	6.3	4.7	5.0	7.3	7.3	7.5	7.5	0.0	0.0
Latina America and Caribbean	6.2	4.6	2.9	2.7	1.3	-0.3	-0.3	1.6	-1.1	-0.7
Brazil	7.5	2.7	1.0	2.5	0.1	-3.8	-3.5	0.0	-2.5	-2.3
Mexico	5.6	4.0	4.0	1.1	2.3	2.5	2.6	2.9	-0.2	-0.2
Global trade of goods and services	***12.6***	***6.1***	***2.9***	***3.0***	***3.4***	***2.6***	***3.4***	***4.1***	***-0.7***	***-0.5***
Import										
Advanced economies	11.4	4.7	1.2	1.4	3.4	4.0	3.7	4.1	-0.5	-0.4
Emerging and developing economies	14.9	8.8	6.0	5.3	3.7	0.4	3.4	4.3	-1.0	-1.1

Source: IMF, http://www.imf.org/external/pubs/ft/weo/2016/update/01/

[1] http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm
[2] http://www.imf.org/external/pubs/ft/weo/2016/update/01/

In the forecast released in January 2016, IMF revised global GDP growth rate in 2016 downward compared to October (2015) Report from 3.6% to 3.4%. Economic development of the US was projected less dynamic (+2.6% against +2.8% in October Report). At the same time, Eurozone as a whole will accelerate growth rate to 1.7% against projected earlier 1.6%. The IMF forecast on Chinese economy stayed unchanged: growth projected at 6.3%, which is below projection of the Chinese authorities (+6.8% according to the Central bank of China).

In October 2015, The World Trade Organization (WTO) released "World Trade Report"[1] which provides main indicators characterizing current development trends of the global commerce in goods and services. Herewith, the world trade growth has come up with global GDP growth and constituted merely 2.5%, which was determined by many factor combinations. Principal among them are slowdown of GDP growth in countries with developing economy, uneven economic recovery in advanced economies and growth of geopolitical tensions.

High exchange rate volatility including strengthening of the American dollar against a broad basket of currencies and currencies of developing countries further complicated the trade situation and outlook. Collapsing world crude oil prices in 2014-2015 and weakness in other commodity classes hit export receipts and reduced import demand in exporting countries. However, there was no significant growth of import in countries-importers.

In 2014, foreign trade turnover of *China* amounted to $4,301bn (41.5% of GDP), which exceeded 2013 indicator by 3.4%. Since 1994, Chinese had trade surplus. In 2014, it hit $383.0bn (3.7% of GDP).

The United States whose foreign trade turnover in 2014 constituted $4,034bn (32.2% of GDP) were second. Herewith, the US retains a significant deficit of balance of trade: in 2014, it amounted $792bn (4.5% of GDP).

Germany was third. Its foreign trade turnover in 2014 amounted to $2,724bn (71.3% of GDP). Trade surplus amounted to $292bn (7.6% of GDP).

The Russian Federation with the exports volume of $498bn sank to the 11th place (in 2013 – 10th, in 2012 – 8th). The share of Russian exports on the total volume of world merchandize exports came to 2.6%. Regarding exports Russia took 17th place by purchasing abroad goods in the amount of $308bn (in 2013 – 16th). The share of Russian imports in the total volume of world imports fell to 1.6% against 1.8% in 2013.

In September 2015, The World Trade Organization revised downward its forecast for world trade growth in 2015 to 2.8% from 3.3%[2] expected in April. Revision of the forecast reflects a number of factors, which weigh on the world economy in H1 2015 including reduced demand for exports from China, Brazil and other developing countries, easing of prices on crude oil and other commodities as well as significant volatility of currencies exchange rate

Forecast for world trade growth in 2016 was revised downwards from 4.0% to 3.9%. Thus, growth rates remain significantly lower the average level of recent 20 years (5%). Further easing of economic activity in developing countries and financial instability, which can reveal itself as a result of continuation of tight monetary policy pursued by the US pose the most serious risks.

[1] https://www.wto.org/english/res_e/publications_e/wtr15_e.htm
[2] https://www.wto.org/english/news_e/pres15_e/pr752_e.htm

4.8.2. Russia's terms of trade: prices on major goods of Russian exports and imposts

2015 saw the continuation of price fall on commodities. For instance, the aggregate Bloomberg Commodity Index (BCOM), which embraces 22 types of commodities fell by 25% during a year to the lowest level since 2009. In early December 2015, for the first time since 1999 BCOM decreased below 80 points.

In Q3 2015, the World Bank price index on energy resources shrank compared to the previous quarter by 17%, which was due for the first time to the slowdown of the world economy, especially in China and other developing economies. This resulted in contraction of demand amid high supply of these goods on the world market. In Q4 decrease of this indicator continued. Compared with the previous quarter it contracted by 13.6%. During the year as a whole, energy resources became cheaper by 45.1%

In Q3, prices on other commodities decreased on average by 5%, and in Q4 – by 3.7%. In 2015, non-energy resources became cheaper by 15.1% compared to 2014.

Prices on metals fell in Q3 compared to Q2 by 12%, and in Q4 compared to Q3 – by 8.0%. At the same time, fifth quarter recession was observed, which reflected slowdown of demand especially from China. In 2015, prices on metals have fallen by 21.1%.

Precious metals went down in Q3 2015 compared to Q2 by 7.0%, and in Q4 compared to Q3 – by 1.7%. In 2015c in comparison with 2014, contraction of precious metals sale was observed by 10.4% due to low investment demand.

Prices on agricultural raw materials went down by 2.5% in Q3 compared with the previous quarter and by 2.3% in Q4 compared to Q3. In 2015 in comparison with 2014, they contracted by 13.1%, reflecting high level of supplies and existing stock of grains.

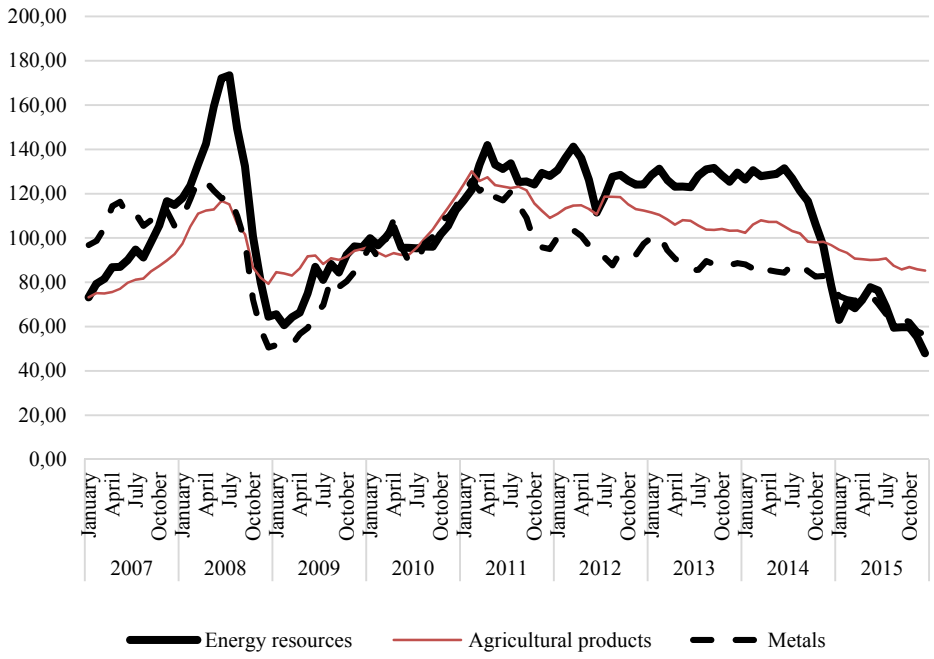

Fig. 49. Price index on commodities of World Banks (2010 = 100)

Source: http://www.worldbank.org/en/research/commodity-markets#1

One of the main factors of reduction of world prices on raw materials was slowdown of the world economy especially decline of the economic growth in China. Chinese leaders promise to preserve in 2016 economic growth within "reasonable limits" by increasing domestic demand and increasing efficiency of delivery system.

One more factor for reduction of raw materials prices in 2015 was expectation of the hick of the prime rate in the US. At the meeting of the Federal Committee for Open Markets (FOMC) held on December 15-16, 2015, a decision was taken to raise the target range for the federal funds rate to 1/4 to ½ percent.[1] This decision coincided with the expectations of economists and market agents. In medium-term perspective, the Federal Reserve Board is planning to raise the prime rate to 1.5% in 2016 and to 2.5% in 2017.

The prime rate was raised last time in June 2006. During 2008, it was reduced 7 times and in December 2008 was set at an unprecedented low level of 0-0.25% where it stayed for 7 years.

Prime rate hike in the US means strengthening of the dollar against other currencies as well as continuation of price fall on commodities.

Decline of the world oil prices weighs most painfully on the Russian economy. Factors, which determine oil price fall in 2015, were formed in 2014: significant oversupply on the world oil market, strengthening of the US dollar on the background of relatively fast recovery of the American economy, expectations of tightening of the monetary policy by FRB.

Slowdown of the world economy growth resulted in contraction of demand on energy resources. The OPEC decision not to cut the level of crude oil production in response to the price fall contributed to retention of high volumes of supply on the oil market. Meanwhile, production of shale oil in the US decreased less than was expected by the market agents. Additional pressure on the oil price was exerted by the expectations of further increase of oil supply from Iran due to lifting of sanctions. Simultaneous impact of all factors resulted in a significant reduction of oil prices.

In early 2015, the price of oil was recovering following a reduction by more than twofold in 2014. Peak of growth was in May (quotations were approaching $70 per barrel). However, then prices again began falling by renewing multi-year low. As a result, in December 2015, quotations fell to the levels of mid-2014.

Prices of Brent crude in 2015 averaged $52.37 per barrel, which was 47.1% cheaper than in 2014 ($98.94 per barrel).

In December 2015, price of Brent crude fell below $38 per barrel. The main reason for that was unwillingness of OPEC to cut oil production. Following the results of the summit held on December 4, 2015, the cartel decided to preserve the existing oil production quota. Herewith, since early year to November oil production of the OPEC member states went up by 1.7 mn barrels per day. Moreover, Iran's declaration to sell oil below $30 per barrel, expectations of the market regarding the US lifting a self-imposed ban on oil export and FRB decision to raise the prime rate exerted pressure on the oil quotations.

The price of Urals crude fell in 2015 against 2014 by 47.5% to $51.23 per barrel. In November, price of Urals fell below the watermark of $40 per barrel, below which according to "Main Directions of Monetary Policy" of the Bank of Russia, Russia faces 'risk' scenario of the economic development, which envisages accelerated contraction of GDP, ruble depreciation and the federal budget deficit growth.

[1] http://www.federalreserve.gov/newsevents/press/monetary/20151216a.htm

In 2015 against 2014, the price of gas on the European market decreased by 27.8$ amid high level of stock and adjustment of contract prices tied to oil prices.

In 2015, world market condition for nonferrous metals continued deteriorating on the back of slowdown of demand from China. In November, prices on nonferrous metals high minimal levels since the crisis year of 2009.

During the year, aluminum wend down by 10.95 from $1,867.42 per ton in 2014 to $1,664.68 per ton in 2015, i.e. to the level of 2009.

Prices on nickel during the year fell by 29.8% from $16,893.37 per ton in 2014 to $11,862.63 per ton in 2015. This is the lowest price since October 2003 when nickel was $11,047.17 per ton. In the crisis year of 2009 nickel moved down in March to $9,696.4 per ton not dropping further and in April began growing. Now London Metal Exchange boasts of significant stock of this metal, which weighs on the price.

During the year copper moved down by 19.7%. In 2014, copper was $6,863.39 per ton and in 2015 solely $5,510.45 per ton.

Table 37

Average annual world prices, 2005–2015

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Brent crude, $/bbl.	54.38	65.15	72.32	97.64	61.86	79.64	110.9	111.97	108.86	98.94	52.37
Natural gas (USA), $/million BTU*	8.92	6.72	6.98	8.86	3.95	4.39	4.00	2.75	3.73	4.37	2.61
Natural gas (European market), $/million BTU	6.33	8.47	8.56	13.41	8.71	8.29	10.52	11.47	11.79	10.05	7.26
Natural gas (Japan), $/million BTU	5.99	7.08	7.68	12.55	8.94	10.85	14.66	16.55	15.96	16.04	10.42
Copper, $/ton	3679	6722	7118	6956	5149	7534	8828	7962	7332.1	6863.4	5510.4
Aluminium, $/ton	1898	2570	2638	2573	1665	2173	2401	2023.3	1846.7	1867.4	1664.7
Nickel, $/ton	14744	24254	37230	21111	14655	21809	22910	17557	15032	16893	11862

Source: calculated using data of the World Bank.

In 2015, Russia's terms of trade with countries of far abroad deteriorated considerably. In January-September 2015, terms of trade index came to 73.6 points. Meanwhile, in January-September 2014 it amounted to 97.3 points. This is owing to the fact that exports to the countries of far abroad went down in price much more than imports from these countries. Average export price index during 9 months of 2015 constituted 65.2% and index of average import prices – 88.6%.

Russia's terms of trade with CIS member states, on the contrary, improved. In January-September 2015, terms of trade index amounted to 118.8 points, meanwhile in January-September 2014 – 100.5 points. Imports to Russia from CIS member states lost less in price than exports from Russia to those countries. Index of average export prices during 9 months of 2015 amounted to 78.9%, and index of average import prices – 66.4%.

The same picture was observed in the crisis year of 2009 (*Fig. 50*).

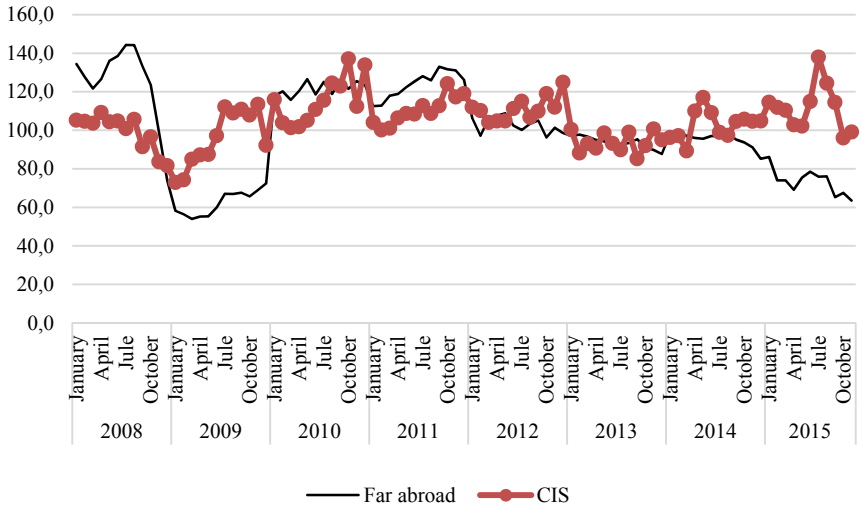

Fig. 50. Russia's terms of trade, 2008–2015

Source: Ministry of Economic Development.

4.8.3. Main indicators of Russian foreign trade

In 2015, reduction of foreign trade indicators was observed similar to the crisis one of 2009. According to data released by the Bank of Russia, foreign trade turnover calculated according to the balance of payments' methodology amounted to $534.4bn, which is down 33.7% against the same indicator last year. Foreign trade turnover with countries of far abroad contracted by 33.9% to $463.2bn, with CIS member states down 32.1% to $71.2bn.

In 2015, Russian export shrank compared to 2014 by 31.8% to $340.3bn, and Russian imports down 37% to $194.1bn. Thus, imports were contracting faster than exports due to slowdown of economic growth and ruble devaluation as well as in the context of international trade sanctions. Consequently, in 2015, there was trade surplus in the amount of $146.2bn, but contracted by 22.9% compared to 2014 (*Fig. 51*).

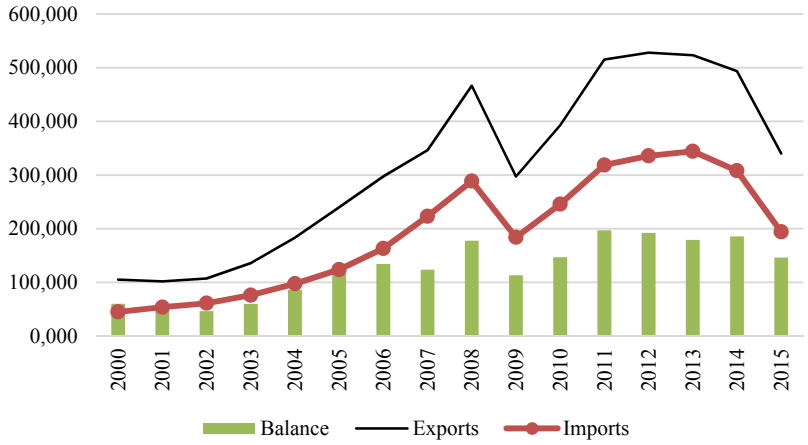

Fig. 51. Main indicators of Russian foreign trade in 2000–2015, USD bn.

Source: Bank of Russia.

As in 2014, negative dynamics of Russian exports in 2015 was owing to mainly price factor amid insignificant growth of exports volume. Reduction of the imports volume was due both to a decline of average import prices and to contraction of delivered to Russia imports physical volumes of goods.

Table 38

Indices of Russian foreign trade in 2011–2015 (% to previous year)

	2011		2012		2013		2014		2015	
	Volume	Average prices	Volume	Average prices	Volume	Average prices	Volume	Average prices	Volume	Average prices
Exports	97.8	132.9	99.9	101.6	104.9	95.7	100.0	94.3	105.4	64.8
Imports	122.2	109.1	105.1	97.3	97.8	102.5	92.5	98.2	77.7	81.1

Source: FCS of Russia.

Despite the easing of foreign demand, exports volume moved up by 5.4% which was due to a significant ruble devaluation in real terms in late 2014 - early 2015. This fact supported export oriented sectors of the Russian economy and partially offset enterprises losses incurred due to the fall of commodities prices. Prices on Russian goods have fallen by 35.2% with outstripping rates on energy resources including on crude oil by 46.8% and on oil products by 44.0%.

Reduction of imports was driven by a contraction of physical volumes of deliveries by 22.3% with price fall at 18.9%. Main factors were recession in the Russian economy, Russia's restrictive measures regarding imports of certain categories of goods and contraction of income of the population. Ruble depreciation positively affected imports.

Excess of exports over imports went up from 160.3% in 2014 to 175.1% in 2015.

Coefficient of foreign trade imbalance (ratio between balance and trade turnover) moved up from 23.15% in 2014 to 27.29% in 2015.

Structure and dynamics of exports

In 2015, Russian exports shrank compared to 2014 by 31.6% to $340.3bn. Herewith, significantly fell proceeds from exports to the countries of far abroad (by 31.8%) and to CIS member states (by 30.3%). In the total exports volume the share of far abroad countries decreased to 85.9% compared to 86.2% in 2014 (*Table 39*).

Table 39

Dynamics of Russian exports in 2004–2015

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Exports, USD bn	183.2	243.8	303.6	354.4	471.6	303.4	400.6	515.4	529.1	523.3	493.6	340.3
Including far abroad	153.0	210.2	260.2	300.6	400.5	255.3	338.0	436.7	443.8	445.2	428.6	292.4
Growth rates, % to previous year												
Volume index	110.7	104.7	105.8	105.0	96.8	97.0	110.0	97.8	99.9	104.9	100.0	105.4
Price index	122.7	126.9	119.7	110.9	137.4	76.4	119.8	132.9	101.6	95.7	94.3	64.8

Sources: Bank of Russia, RF Ministry for Economic Development.

Growth of exports efficiency due to the ruble devaluation has contributed to increase of physical volume of shipments of goods abroad. For instance, in 2015 compared to 2014, exports volume of crude oil moved up by 9.4%, oil products – by 4.1%, natural gas – by 7.5%, potassium fertilizers – by 6.9%, mixed fertilizers – by 7.1%, lumber – by 10.7%, plywood – by 12.2%, wood pulp – by 10.1%, cotton cloth – by 6.6%, ferrous metals – by 7.5%, refined copper – by 94.1%, and green aluminum – by 18.9%.

Growth of Russian exports volume could not compensate losses incurred from the decrease of average export prices on practically all products exported abroad. Significant contraction of exports value volumes was observed across all merchandise line of extended classification. "Mineral products" suffered most of all. This group of products of Russian export shrank by 37.4% since 2014. Therewith, the share of this merchandise group in the overall structure of Russian exports fell by 6.7 p.p. to 63.8%. Export of metals and metal products contracted by 18.6%, timber and pulp and paper products – by 15.5% and chemical products – by 13.0%.

By 2015-end compared to 2014, the Russian exports pattered suffered the following changes: with the reduction of share of mineral products the share of metals and metal products, machines, equipment and means of transport, chemical products and rubber, foodstuffs and agricultural raw materials and timber and pulp and paper products went up (*Fig. 52*). The share of hi-tech products increased to 10.1% of the overall exports volume (in 2014 it constituted 8.5%).

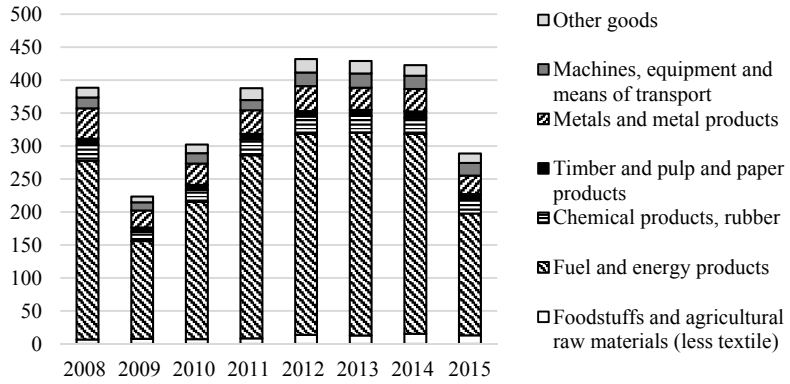

Fig. 52. Goods dynamics of Russian exports, 2008–2015, USD bn.

Source: FCS of Russia.

The Netherlands are the main customer of Russian goods. That country is the largest gateway for Russian energy resources. In 2015, the share of that country amounts to 11.9% of total Russian exports (in 2014 – 13.7%). *China* stays second importing 8.3% of the total Russian exports (in 2014 – 7.5%). *Germany* is third with 7.4% of the total Russian exports in 2015 (in 2014- 7.5%).

Structure and dynamics of imports

In 2015, Russian imports contracted compared to 2014 by 37% to $194.1bn. Reduction of imports volume was owing to a decrease of deliveries both from countries of far abroad, which exported goods to the tune of $170.9bn (down 37.2% against the same indicator of 2014) and from CIS member states, which exported to Russia goods to the tune of $23.2bn (down 35.6% against 2014). In the total volume of imports the share of countries of far abroad remained at the 2014 level of 88%.

Contraction of imports was observed across all major classification of goods. The largest reduction was observed in relation to imports of automobiles (by 50.5%) and trucks (by 57%), flying machines (by 56.2%) and spare parts for means of transport (by 45.1%).

At the beginning of august 2014, Russia banned imports of foodstuffs from countries, which imposed sanctions against it: from the US, EU member states, Canada, Australia and Norway. The following foodstuffs were banned: beef, pork, poultry, sausages, fish, vegetables, fruit,

dairy products, etc. In 2015 compared to 2014, import of banned products in value terms fell by 46% to $7.6bn. The biggest reduction was observed in relation to meat (cattle and pork), dairy products (first of all, cheeses and butter), apples and pears, fresh and frozen fish.

Table 40

Dynamics of Russian imports, 2004–2015

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Imports, USD bn.	97.4	125.4	164.3	223.5	291.9	191.8	248.6	318.6	335.8	341.3	308.0	194.1
Including countries of far abroad	76.4	103.5	138.6	191.2	253.1	167.7	213.3	275.5	288.5	295.0	271.7	170.9
Growth rates, % to previous year												
Volume index	124.2	122.4	130.1	127.1	113.5	63.3	135.4	122.2	105.1	97.8	92.6	77.7
Price index	106.1	106.5	105.5	107.6	117.8	99.1	101.6	109.1	97.3	102.5	99.8	81.1

Sources: Bank of Russia, Ministry of Economic Development.

Imports of many consumer goods shrank due to decrease of real income of the population. Russian import pattern (*Fig. 53*):

- Increased the share of chemical products and rubber, fuel and energy products, foodstuffs and agricultural raw materials, textile and textile products and footwear;
- Fell the share of machines, equipment and means of transport, metals and metal products;
- The share of timber and pulp and paper products remained unchanged.

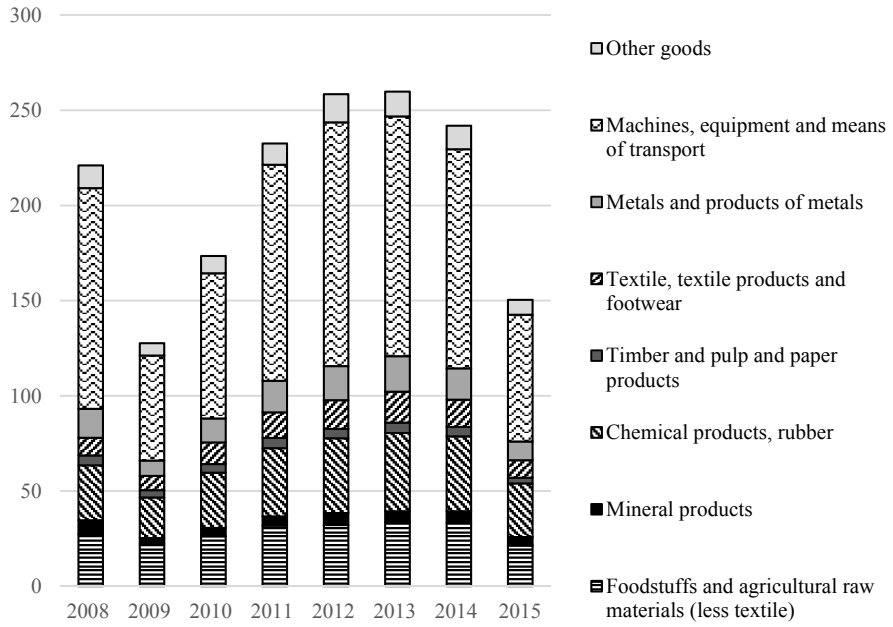

Fig. 53. Goods dynamics of Russian imports, USD bn.

Source: FCS of Russia

Since 2008, *China* is the principal exporter on the Russian market. In 2015, the share of China in Russian imports moved up to 19.2% (in 2014 – 17.9%). *Germany* is the second largest

exporter to Russia. Prior to 2008 Germany was second to none. In 2015, the share of that country amounted to 11.2% of total Russian imports (in 2014 – 11.5%). *The United State of America* was third with 6.3% (in 2014 – 6.5%).

4.8.4. Regional pattern of Russian foreign trade

In 2015 on 2014, regional pattern of Russian foreign trade suffered reduction in the share of EU countries (from 48.1% to 44.8%). The share of CIS member states remained at the 2014 level of 12.5%. Herewith, the share of APEC member states moved up from 26.9% to 28.1% (*Fig. 54*).

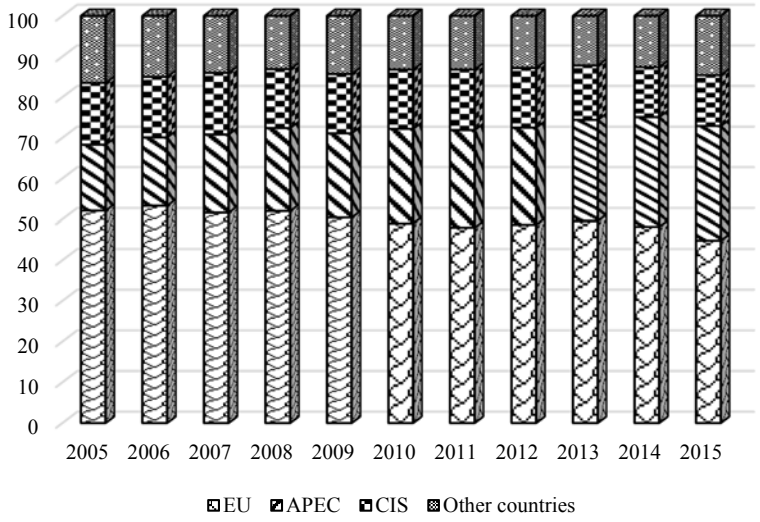

Fig. 54. Regional pattern of Russian foreign trade, 2005–2015, %

Source: FCS of Russia.

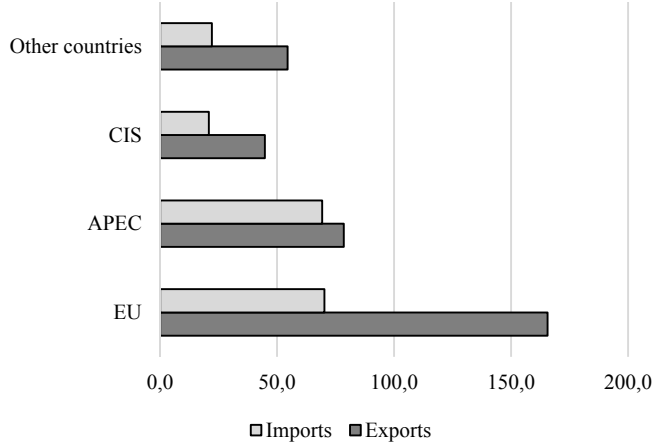

Fig. 55. Main indicators of Russian foreign trade regional pattern in 2015, USD bn

Source: FCS of Russia.

In 2015, the share of the European Union in Russia's foreign trade turnover continued falling. Most of all trade turnover contracted with the following countries: Estonia – by 49.6%, Sweden – by 46.7%, Slovenia – by 42.4%, Latvia – by 44.9%, and Great Britain – by 41.9%. Despite reduction of Russian trade turnover and EU, the European Union remains principal partner of the Russian Federation. However, relation between them are complicated by many factors: both domestic problems of economic development in Russia and external – controversy on the situation in Ukraine and Syria, sanctions and counter sanctions.

Russia's trade deficit was with 20 countries whose share in total Russian trade turnover constituted 24.2%. Russia's largest trade deficit was with China (-$6.3bn), USA (-$1.9bn), Indonesia (-$1.1bn), Thailand (-$0.9bn), Brazil (-$1.0bn), and Argentina (-$0.7bn).

4.8.5. Regulation of Russia's foreign trade[1]

Tariff regulation

Export duties

In compliance with the Regulation of the RF Government of March 29, 2013 No 276[2] the Ministry of Economic Development of Russia carried monthly adjustments of customs duty rates on crude oil and certain categories of petroleum products.

On November 25, 2014, The RF President Vladimir Putin signed a Law "On Amending Part II of the Russian Federation Tax Code", in compliance with which from January 1, 2015 Russia launched 'tax maneuver' in the oil and gas sector. The maneuver is aimed at reducing dependence of the Russian budget on export duties that fall together with the oil price. The maneuver envisages gradual decrease by 1.7-fold of export customs duties of crude oil and on petroleum products – by 1.7-5 times depending on the type of the product. The Mineral Extraction Tax (MET) rate on crude oil during the period will grow 1.7 times and on gas condensate – by 6.5 times. This will result in growth of domestic price of crude oil and correspondingly the price of gasoline will move up. In order to avoid a sharp hike of prices on petroleum products, the maneuver envisages reduction of excises on gasoline and diesel fuel.

Change in the taxation scheme in the wake of decline of world oil prices led to a considerable fall of export duty on crude oil in early 2015 (*Table 41*).

During 2015, 4 regulations were adopted by the RF Government, which referred to export customs duties rates:

- of May 28, 2015 № 513 "On Amending Rates of Export Customs Duties on Goods Exported from the Russian Federation outside the Territory of the Customs Union Member States" (envisages introduction of rates of export customs duties in the range of 50-5.5 rubles per ton, but no less than 50 rubles per ton on wheat and meslin);
- of May 29, 2015 № 514 "On Amending Rates of Export Customs Duties on Goods Exported from the Russian Federation outside the Territory of the Customs Union Member States" (envisages introduction of export customs duty rate in the amount of 6.5% regarding certain types of metals of the platinum group, codes 2843 90 900 0 и 7115 90 000 0 CN FEA EEU);

[1] In preparation of this chapter, materials from garant.ru were used.
[2] Regulation of the RF Government of March 29, 2013, № 276 "On calculation of export customs duties on crude oil and certain categories of petroleum products revocation of certain decision of the Government of the Russian Federation".

- of August 4, 2015 № 786 "On Amending Rates of Export Customs Duties on Goods Exported from the Russian Federation outside the Territory of the Customs Union Member States" (envisages introduction of amendments in CN FEA EEU and ETT EEUU in relation to certain types of goods in compliance with the obligations taken by Russia regarding WTO);
- of September 29, 2015 № 1032 "On Amending Rates of Export Customs Duties on Goods Exported from the Russian Federation outside the Territory of the Customs Union Member States" (envisages introduction of amendments in CN FEA EEU and ETT EEUU in relation to certain types of wheat and meslin).

Table 41

Export duty rates on crude oil and petroleum products in 2014–2015, USD/t

	Crude oil	Petroleum products	
2014			
1 January	401.0	264.6	
		Diesel fuel	**Other types of petroleum products, less gasoline and diesel fuel**
February 1	386.3	251	254.9
March 1	384.4	249.8	253.7
April 1	387.0	251.5	255.4
May 1	376.1	244.4	248.2
June 1	385.0	250.2	254.1
July 1	385.2	250.3	254.2
August 1	388.4	252.4	256.3
September 1	367.6	238.9	242.6
October 1	344.7	224.0	227.5
November 1	316.7	205.8	209.0
December 1	277.5	180.3	183.1
2015			
January 1	170.2	81.6	129.3
February	112.9	54.1	85.8
March 1	105.8	50.7	80.4
April 1	130.8	62.7	99.4
May 1	116.5	55.9	88.5
June 1	144.4	69.3	109.7
July 1	143.1	68.6	108.7
August 1	133.1	63.8	101.1
September 1	109.2	52.4	82.9
October 1	91.5	43.9	69.5
November 1	97.1	46.6	73.7
December 1	88.4	42.4	67.1

Sources: Regulation of RF Government; information released by RF Ministry of Economic Development.

Import duties

During 2015, amendments were introduced in the rate of import duties: as of the period-end for 9 months of 2015, 11 decision was taken by the Board of the Eurasian Economic Commission and 27 decisions were taken by Collegium of the Eurasian Economic Commission.

Also in the framework of Russia's obligations before the WTO, the Eurasian Economic Commission adopted Decision № 44 "On Introduction of Amendments in the unified Goods Nomenclature for Foreign Economic Activities of the Eurasian Economic Union and Single Customs Tariff of the Eurasian Economic Union Regarding Certain Types of Goods According to the Obligations of the Russian Federation Within the WTO", according to which from 1 September import customs duties will be reduced on 4,061 items. Weighted average customs tariff rate will constitute 5-5.3%. Arithmetic average customs duty on food products will fall from 13.88% to 13.28%, on textile products down from 9.31% to 8.66%. Reduction of duties will

cover the following goods: fish, milk, butter, cheese, plants, potatoes, onions, cabbage, beetroot, cucumbers, apples, strawberries, rice, starch, rape oil, margarine, sausage, sugar, confectionary, pea, nuts, fruit and berry preserves, corn and juices. It will also cover aviation fuel, various chemicals, medicine, medical products and materials, washing and cleaning products, explosives, articles made of polymers, construction materials, textiles, clothes, footwear, machine tools, furniture, etc. The most substantial reduction of duties will affect electric machines and electronics. Duties on terminals for credit card payments will fall from 6.7% to zero.

Nontariff regulation

Safeguard measures

From 23 September 2015, Decision of the Collegium of the Eurasian Economic Commission of August 18, 2015 "On implementation of anti-dumping measures regarding steel seamless pipes for drilling and exploitation of oil and gas wells originated from the People's Republic of China and imported to the customs territory of the Eurasian economic Union" in compliance with which anti-dumping duty is introduced for the period of 5 years on Chinese seamless pipes used for drilling and exploitation of oil and gas wells. The rate of anti-dumping duty will constitute 12.2% to 31% of the customs price.

Presently the Customs Union boasts of 13 measures aimed at protection of domestic market (*Table 42*).

Table 42

Measures to protect domestic market in the Customs Union

№	Product	Measure type	Exporter	Expiration date
AD-1	Certain types of steel pipes	Anti-dumping	Ukraine	05.07.2016
SG-7	Combine harvesters and modules	Special protective	All countries	21.08.2016
SG-8	Dishware and kitchen utensils made of porcelain	Special protective	All countries	28.09.2016
AD-8	Rolled steel with polymer coating	Anti-dumping	China	30.06.2017
AD-3	Rolling bearings	Anti-dumping	China	20.01.2018
AD-12	Enamel-painted cast-iron baths	Anti-dumping	China	25.01.2018
AD-9	Graphitized electrodes	Anti-dumping	India	25.01.2018
AD-11	Cold-worked seamless stainless steel pipes	Anti-dumping	China	14.05.2018
AD-10	Light commercial motor vehicles	Anti-dumping	Germany, Italy, Turkey	14.06.2018
AD-7	Forged steel rolls for rolling mills	Ukraine	Ukraine	25.06.2019
AD-15	Citric acid	Anti-dumping	China	09.04.2020
AD-14	Kitchen utensils and table wear from steel	Anti-dumping	China	18.06.2020
AD-16	Seamless steel pipes for drilling and exploitation of oil and gas wells	Anti-dumping	China	22.09.2020

Source: http://www.eurasiancommission.org/ru/act/trade/podm/mery/Pages/measures_list_applied.aspx

Restrictive measures against goods from EEU member states

In December 2015, the Eurasian Economic Commission released a report on restrictive measures applied to products from the EEU member states.[1] The Eurasian Economic Commission on the findings of monitoring conducted in H2 2015 disclosed implementation of 138 measures, which have negative impact or can negatively affect the access of EEU member states goods on the markets of third countries. Nearly 64% of all disclosed restrictions represent

[1] http://www.eurasiancommission.org/ru/act/trade/dotp/Pages/dostup.aspx

protectionist measures (89 measures) of which 58 measures (42%) represent antidumping measures and investigations, 22 measures (15.9%) are special protectionist ones and investigations and 3 represent compensatory (*Table 43*).

Table 43

Types of restrictive measures used by third countries

Restrictive measure	2014	2015
Anti-dumping measures (including agreements on suspension anti-dumping investigations)	46	48
Anti-dumping investigations	6	10
Special safeguard measures	10	22
Special protective investigations	15	6
Compensatory investigations	1	3
HWDP measures (including threats brining in HWDP measures)	13	14
SPS measures	6	6
Quotas (including tariff quotas)	7	6
Excises and levies	6	5
Ban on imports (including threats to impose ban)	4	3
Other nontariff measures	14	15
Total	128	138

Source: EEC report on restrictive measures applied to the goods from EEU member states.

2015 saw high-intensity protectionism on the part of third countries in relation of the key export products from EEU member states such as metal products, fertilizers and well as agricultural goods. The most difficult from the point of view of entry are steel markets. For example, in 2015, a number of American companies (Nucor, US Steel Corp, ArcelorMittal USA, etc.) launched the US exit from the Agreement on discontinuing anti-dumping investigation regarding hot-rolled iron from the Russian Federation signed in July 1999. The US Department of Commerce have launched an anti-dumping and countervailing investigation in relation to Russian cold-rolled mill products.

In 2015, European Union extended until 2020 anti-dumping duties on welded pipes from the Russian Federation and the Republic of Belarus. Following the investigation results the EU took a decision to apply anti-dumping measures against grain-oriented steel. It also started an anti-dumping investigation against cold-rolled mill products and applied preliminary duty in the framework of the ongoing anti-dumping investigation against aluminum foil from the Russian Federation.

Anti-dumping and special safeguard measures against products of the metallurgical industry of the Republic of Belarus, Republic of Kazakhstan and the Russian Federation are effective on the markets of key Asian partners (Turkey, India, Thailand and Indonesia).

Out of all existing technical barriers, one can point out the bans on trade in and use of asbestos-containing materials in the EU and Iran, the EU REACH chemicals policy, the EU classification of nickel compounds as potentially hazardous and corresponding tougher regulations governing trade in such compound.

SPS measures having the effect of barriers to trade were identified in the EU, Ukrainian and Chinese markets. Measures of this kind apply to meat, animal products, grain and fodders, which originate from the Russian Federation.

Ограничительные меры в отношении товаров ЕАЭС применяются 26 странами. The highest number of restrictions apply EU (22 measures), Ukraine (21), India (13), Turkey (12), the USA (9) and Uzbekistan (7).

Russian products face 109 measures, including anti-dumping duty – 39, special safeguard duty – 15, countervailing duty – 1 and other non-tariff measures – 54 (administrative measures including additional levies and restrictions on nomenclature – 21, technical barriers – 9, non-

tariff quotas – 3, quota restrictions – 1, excises on discriminatory basis – 4, bans on imports - , sanitary and phytosanitary measures – 7 and prospects to apply measures – 6).

4.9. Russia's participation in WTO trade disputes[1]

With Russia's accession to the World Trade Organization (WTO) on August 22, 2012, the country joined the mechanism of settlement of trade disputes in the WTO. Such a mechanism operates in the WTO in accordance with the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU).[2] So, from August 2012 Russia has the right to protect its trade interests by means of the above instrument.

The procedure for settlement of trade disputes in the WTO consists of the following five subsequent stages:

1) *holding of bilateral consultations* (within 60 days from the day of request to hold consultations);

2) *establishment of a panel* at the request of any party to the dispute and selection of panel members for considering the essence of the dispute (within 45 days from the day of submission of request to establish a panel);

3) *work of the panel* (within 6–9 months from the day of commencement of the work of the panel) and acceptance of the panel' findings by the Dispute Settlement Body (DSB) and the DSB's recommendations (about 60 days from the day of submission of the panel's findings);

4) *consideration of the case by the Appellate Body* in case of appeal by a party to the dispute (within 60–90 days from the day of filing of an appeal), acceptance of the Appellate Body's findings and notification of the DSB's recommendations to the parties (within 30 days from the day of submission of the findings by the Appellate Body);

5) *supervision by the DSB* over fulfillment of recommendations (maximum 15–18 months from the day of acceptance by the DSB of the findings by the panel or the Appellate Body).

According to the data as of the end of 2015, Russia participates in 38 WTO disputes: as a complaining country and defendant in 4 and 6 WTO disputes, respectively, while as a third party in 28 disputes.

4.9.1. WTO trade disputes in which Russia participates as a complaining country

From the day of Russia's accession to the WTO, Russia filed 4 complaints to the DSB: 3 complaints against the EU and one against Ukraine.

DS474: The EU – Methods of Cost Adjustment and Determination of Measures in Respect of Imports from Russia (Russia)

On December 23, 2013, Russia turned to the WTO with a request to hold consultations with the EU on cost adjustment methods used by the EU in calculation of a dumping margin in antidumping calculations.[3]

In 2002, the EU granted Russia the status of a country with a market economy, but despite that fact in determination of the dumping the EU kept using the so-called energy adjustments in respect of Russian exporters. With such an approach, the fact of a dumping was determined

[1] Authors of this section: Baeva M. – RANEPA, Knobel A. – Gaidar Institute for Economic Policy.
[2] https://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm.
[3] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds474_e.htm.

on the basis of comparison of Russian export prices with those on internal markets of third countries. So, in calculation of a fair cost of goods the EU did not take into account prices at which Russian exporters bought gas or electric power, but used higher prices on the above commodities in other countries which did not have such a large amount of energy resources as Russia. As a result, the European antidumping measures largely limit Russian exports of such commodities to the EU.

It is to be noted that the EU replaces the duly supplied information on costs from Russian manufacturers and exporters by that from alternative sources, including statements by European manufacturers on introduction of antidumping measures. In addition to the above, the EU does not stop the antidumping investigation or antidumping measures when they are not needed and charges unreasonably higher antidumping duties above the dumping margin. Also, according to the Russian side the EU uses antidumping duties as a measure against alleged government subsidies.

As the dispute in question between Russia and the EU failed to be resolved at the stage of consultations, on June 4, 2014 Russia turned with a request to the DSB to establish a panel and at the DSB meeting held on July 22, 2014 such a panel was established. At present, that dispute is at the stage of selection of panel members.

DS476: The EU – Measures which Have an Effect on the Energy Sector (Russia)

On April 30, 2014, Russia turned to the WTO with a request to hold consultations with the EU on application of measures of the so-called *Third Energy Package.*[1]

The EC adopted the Third Energy Package in July 2009. The main document dealing with the natural gas market (Directive 2009/73/EU) sets general requirements to transportation, distribution, supply and storage of natural gas (including liquefied natural gas) in the territory of the EU.

According to the Third Energy Package, in the territory of the EU owners of main pipe-lines cannot be companies engaging in production of gas. They should either sell their assets in the EU or assign the right to manage pipe-lines to independent companies from the EU. In addition to that, if operator-companies are controlled by foreigners they have to go through a special certification procedure which sets additional requirements to such operators. For example, they have to prove that there is no threat to the EU energy security which procedure is not required if the pipeline is controlled by an EU company. According to Russia, that and other provisions of the Third Energy Package are in conflict with obligations of the EU in the WTO as regards the fundamental principles of nondiscrimination and access to the market.

As the dispute in question failed to be resolved at the stage of consultations, on May 11, 2015 Russia turned to the WTO with a request to establish a panel and at the DSB meeting held on July 20, 2015 such a panel was set up. At present, the dispute between Russia and the EU as regards the Third Energy Package is at the stage of selection of panel members.

DS493: Ukraine – Antidumping Measures in Respect of Ammonium Nitrate (Russia)

On May 7, 2015, Russia turned to the WTO with a request to hold consultations with Ukraine as regards Ukraine's antidumping measures introduced in respect of imports of ammonium nitrate from Russia.[2]

[1] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds476_e.htm.
[2] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds493_e.htm.

In accordance with Decision No.AD-315/2014/4421-06 of July 1, 2014 of Ukraine's Inter-Agency International Trade Commission, duties on ammonium nitrate imports from Russia were doubled – from 11.91% to 36.03% (for OAO Dorogobuzh – up to 20.51%) – with extension of their period for another five years. In 2014, the share of exports of ammonium nitrate (customs commodity code: 310230) to Ukraine amounts to 6.5% in Russia's total volume of that commodity, while its share in Ukraine's total imports, to nearly 89%.[1]

The essence of Russia's claim consists in adjustment of the cost in carrying out of antidumping investigations as it was in the dispute with the EU (DS474). In carrying out antidumping investigations in respect of ammonium nitrate, Ukraine does not take into account in calculation of the cost of production prices at which Russian producers bought electric power, but used instead prices from third countries, that is, applied the so-called "energy adjustments". According to Russia, Ukraine committed a number of violations in determination of the fact of dumping, in particular, no comparison of export prices on ammonium nitrate exported from Russia to Ukraine with the fair cost of similar goods meant for consumption in Russia was made.

So, Ukraine applies antidumping duties that exceed the dumping margin which was determined by means of comparison of the constructed fair cost of ammonium nitrate calculated by Ukraine on the basis of the information on costs and prices which have nothing to do with those on similar goods in Russia. In addition to the above, in carrying out antidumping investigation Ukraine did not give an opportunity to all the interested parties to protect their own interests as it failed to provide either non-confidential information or a summary of confidential information. Also, Ukraine carried out revisions of antidumping measures without any sufficient evidence of the need to do that.

Despite the fact that the recommended deadlines for holding consultations have already expired, the dispute in question is still at the stage of consultations.

DS494: The EU – Methods of Cost Adjustment and Determination of Antidumping Measures in Respect of Imports from Russia (Russia) (the second complaint)

On May 7, 2015, Russia filed another complaint against the EU as regards energy adjustment methods used by the EU as per Article 2.3 and Article 2.5 of the EU Council's Regulations No. 1225/2009 of November 30, 2009 on Protection from Dumping Imports from Countries which are not EU Member-States for calculation of a dumping margin in carrying out of antidumping investigations and revision of antidumping measures.[2]

Russia's above complaint against the EU is related in particular to the EU's antidumping measures in respect of Russian ammonium nitrate; those measures were applied within a five-year period as a result of revision of antidumping measures. As complaints are actually similar, the complaint in question comprises also antidumping measures introduced against imports of some Russian welded tubes and tubes made of steel and alloy-free steel, including measures applied within a five-year period as a result of revision of antidumping measures.

Russia believes that in carrying out by the EU of antidumping investigations in respect of ammonium nitrate and welded tubes the EU violated its obligations in the WTO as in calculation of the cost of production they used third countries' prices on electric power rather than Russian domestic prices, that is, energy adjustments were utilized and that situation caused considerable damage to Russian suppliers. According to the estimates of Russian experts, the

[1] UN COMTRADE database // http://comtrade.un.org/.
[2] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds494_e.htm.

above EU's measures against Russia resulted in a situation where exports of Russian welded tubes to the EU virtually stopped (the measures have been in effect from 2008), while exports of ammonium nitrate from Russia to the EU fell 1.5 times over as compared to 2012 (in 2012 it amounted to nearly $220m).[1] According to the data of 2014, about 30% of exports of Russian disputable goods goes to the EU, that is, it covers nearly 11% of European imports of ammonium nitrate (customs commodity code: 310230) and welded tubes (customs commodity code: 7305).[2]

In the course of consultations with the EU, Russia raised a number of disputable issues specified among other things in the first complaint against the EU on that matter (DS474). In addition to the above, according to the Russian side the EU carried out revisions of antidumping measures due to expiry of the period without substantial evidence of dumping's resumption or continuation. At present, the dispute in question is at the stage of consultations though the recommended deadlines for them are already over.

4.9.2. WTO trade disputes in which Russia acts as a defendant

Within the frameworks of the WTO, Russia acts as defendant in six disputes. In most cases, complaints have been filed by the EU; Japan and Ukraine lodged one complaint each.

DS462, DS463: Russia – Car Recycling Tax on Transportation Means (DS462 (The EC), DS463 (Japan))

On July 9, 2013 and July 24, 2013, the EU[3] and Japan[4], respectively, turned to the WTO with a request to hold consultations as regards the so-called car recycling tax imposed on transportation means. The above tax was introduced in Russia from September 1, 2012 due to approval of Article 24 "Car Recycling Tax" of Chapter V of Federal Law No.89-FZ of June 24, 1988 on Industrial and Consumption Waste and Article 51 as amended of the Budget Code of the Russian Federation.[5]

The EU's main claim consists in the fact that while domestic transportation means in Russia may formally be subject to a car recycling tax, in reality under certain conditions they were actually exempted from it. The car recycling tax is not charged on vehicles manufactured by entities which have assumed a responsibility to ensure a subsequent safe handling of waste occurred as a result of a loss by transportation vehicles of their use properties. It is to be noted that a manufacturer-entity should be a legal entity registered in the territory of the Russian Federation. Under certain conditions, exemption from payment of the car recycling tax is granted to vehicles imported from Belarus and Kazakhstan.

In addition to the above, according to the EU the pattern of the car recycling tax is a kind of protection of national production. The above tax is a progressive one in respect of different categories of transportation vehicles. Also, the difference is made between "new" transportation vehicles and "those manufactured over three years ago", so the levels of tax rates greatly vary.

[1] Russia filed a complaint in the WTO against Ukraine and the EU // http://www.wto.ru/2015/05/07/
[2] UN COMTRADE database // http://comtrade.un.org/.
[3] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds462_e.htm.
[4] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds463_e.htm.
[5] Resolution No. 870 of August 30, 2012 of the Government of the Russian Federation on Car Recycling Tax on Wheeled Vehicles.

As consultations failed to resolve the dispute in question, on October 11, 2013 the EU turned with a request to the DSB to set up a panel and on November 25, 2013 it was established. From 1 January 2014, the Russian Government obligated domestic manufacturers to pay a car recycling tax on a common basis.[1] Despite that, the EU did not recall its request in the WTO to set up a panel as it believes that the amount of the tax should not depend on a car engine volume and there is a big difference between the tax amount charged on new and used cars in tax calculation methods. At present, the dispute in question is at the stage of selection of panel members.

Japan which filed a request for consultations with Russia as regards car recycling tax, too, has similar claims and reasons. In addition to the above, Japan believes that Russia violated the Agreement on Technical Barriers in Trade.

DS475: Russia – Measures Affecting the Imports of Live Hogs, Pork and Other Pork Products (the EU)

Early in April 2014, the EU turned to the WTO with a request to hold consultations with Russia as regards a ban on delivery to Russia of pork and hogs from the EU countries due to a threat of African pig plague (APP) and introduction of limitations on delivery of all the types of prefabricated pork meat products from Poland and Lithuania.[2]

The Rosselkhoznadzor proposed to carry out regionalization of the EU territory as regards APP and introduce a new veterinary health certificate in respect of pork meat; the certificate should reflect changes in the epizootic situation in the EU. The EU calculated that the total ban on pork deliveries to Russia was a disproportionate measure which was in conflict with WTO norms as in reality there were only a few insignificant cases of APP infection of wild boars on the border with Belarus and those cases were effectively localized.[3] In addition to the above, the EU accused Russia of a failure both to notify properly WTO-members of goods in respect of which the measures in question were applied and provide a summary report on substantiation of those measures and their goals. So, Russia does not provide a reasonable period of time to other WTO-members to prepare comments and discuss the issue.

It is to be noted that the share of the EU's exports of pork and pork products to Russia in the total volume of the EU's exports of those products amounts to 9%, the share of the imports of pork and pork products from the EU in Russia's total imports of those products, to 57%, the share of exports of live hogs from the EU to Russia in the EU's total exports of live hogs, to 0.6%, while the share of imports of live hogs from the EU in Russia's total imports of live hogs, to 54%.[4]

As consultations failed to resolve the dispute, on June 27, 2014 the EU turned with a request to the DSB to set up a panel and a month later it was established. On April 22, 2015 the chairman of the panel informed the DSB that submission of the panel's findings was expected in February 2015 in accordance with the time schedule approved upon consultations between the parties.

The dispute in question points to importance of application of sanitary and phytosanitary measures in accordance with the WTO rules and the need of abandoning utilization of such

[1] Federal Law No.278-FZ of October 21, 2013 on Amendment of Article 24.1 of the Federal Law on Industrial and Consumer Waste.
[2] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds475_e.htm.
[3] The WTO Expertise Center // http://wto.ru/documents.asp?f=sogl&t=13.
[4] UN COMTRADE database // http://comtrade.un.org/.

measures as non-tariff ones which limit trade without substantial evidence confirmed on the basis of research.

DS479: Russia – Anti-Dumping Duties on Light Commercial Motor Vehicles from Germany and Italy (the EU)

On May 21, 2014, the EU turned to the WTO with a request to hold consultations with Russia as regards introduction of anti-dumping duties against light commercial motor vehicles from Germany and Italy.[1]

On May 14, 2013, the Eurasian Economic Commission (EEC) introduced for the term of five years anti-dumping duties on light commercial motor vehicles – with full weight of 2.8 tons to 3.5 tons included, diesel engine working cylinder volume of max. 3000 cubic cm and a "van" or "hatchback" body style – manufactured in Germany, Italy and Turkey. The duties were set as follows: 11.1% of the customs value in respect of Ford Otosan Sanayi Anonim Sirketi; 23% in respect of Italian Peugeot Citroen Automobiles SA; 29.6% in respect of manufacturers from Germany; 23% and 11.1% in respect of other manufacturers from Italy and Turkey, respectively[2]. In 2004, the import of light commercial vehicles from Germany in the total volume of Russian imports of disputable goods amounted to nearly 30%, while in Germany's total exports of those goods, to 4%. As regards Italy, the above values are somewhat lower: 12% and 3%, respectively. As regards Turkey, in 2014 the share of imports of disputable goods from Turkey to Russia fell from less than 1% to 0% as compared to 2013.[3]

The EU believes that in carrying out antidumping investigations and taking measures in respect of light commercial vehicles from Germany and Italy Russia has violated a number of requirements of the Antidumping Agreement. In particular, it failed to determine properly the fair value, export prices and a dumping margin for each exporter on the basis of the available information, nor did Russia analyze all the economic factors affecting the state of its relevant industry, so, the damage caused to the industry was incorrectly attributed to the dumping imports as other factors were not taken into account. A cause-and-effect relation between imports and alleged damage to the domestic industry in question was not confirmed, either.

In addition to the above, according to the EU throughout the entire period of investigation Russia failed to provide the interested parties with the information related to identification of the fact of dumping or damage and treated for no good reasons the information from domestic manufacturers as confidential. It is to be noted that Russia does not require domestic manufacturers to provide a non-confidential summary which includes the essence of the information supplied on a confidential basis.

On September 25, 2014, the EU turned to the WTO with a request to set up a panel and at the DSB meeting on October 20, 2014 it was established. On June 11, 2015, the chairman of the panel informed the DSB that the work of the panel was postponed due to a lack of lawyers with the required experience at the Secretariat, so final findings for the parties involved could be expected not earlier than the end of 2016.

[1] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds479_e.htm.
[2] Decision No.113 of May 14, 2013 of the Eurasian Economic Commission on Application of Antidumping Measures by Way of Introduction of Antidumping Duties in Respect of Light Commercial Vehicles Manufactured in Germany, Italy and Turkey and Brought to the Single Customs Territory of the Customs Union.
[3] UN COMTRADE database // http://comtrade.un.org/.

DS485: Russia – Calculation of Import Duties on Some Agricultural and Industrial Goods (the EU)

On October 31, 2014, the EU turned to the WTO with a request to hold consultations with Russia due to the fact that Russia charged import duties on some goods and that was in conflict with its obligations when it joined the WTO.[1]

In particular, duties of 15% or 10% on paper and cardboard applied in compliance with Decision No. 9 of January 29, 2014 of the Collegium of the Eurasian Economic Commission on Setting of the Customs Union's Import Customs Duty Rates of the Single Customs Tariff in Respect of Individual Types of Paper and Cardboard exceed the combined level of 5%. In addition to the above, as regards other goods, including palm oils and their fractions, refrigerators and combined refrigerators-freezers in cases where the customs value is below a certain level duties are charged above the combined level and that situation is a violation of the statutes on estimation of the customs value.[2]

In 2014, the share of imports from the EU to Russia of disputable goods amounted to 50% of the volume of Russian imports of those goods and nearly 4% of the total volume of European imports of those goods.[3]

As the dispute in question failed to be resolved at the stage of consultations, the EU turned to the WTO on February 26, 2015 with a request to set up a panel and at the DSB meeting on March 25, 2015 it was established. At present, the dispute in question between the EU and Russia is dealt with by the panel.

DS499: Russia – Measures Limiting Imports of Railway Equipment and its Components (Ukraine)

On October 21, 2015, Ukraine turned to the WTO with a request to hold consultations with Russia as regards measures limiting imports of railway equipment and its components (in particular, cars and railway points).[4]

On July 15, 2011, the Commission of the Customs Union of the Republic of Belarus, Republic of Kazakhstan and the Russian Federation (CCU) took Decision No.710 on Approval of Technical Regulations No.01/2011 of the Customs Union on Safety of Rolling Stock, Technical Regulations No.002/2011 on Safety of High-Speed Railway Transport and Technical Regulations No.003/2011 on Safety of the Railway Transport Infrastructure (hereinafter – Decision No.710 of the CCU). According to new rules, from August 2, 2014 all the certificates confirming components' and rolling stocks' compliance have to be registered with the Federal Budget Entity "Certification Register on the Federal Railway Transport" (FBE CRFRT).

By Decision No.285 of December 2, 2013 of the Collegium of the Eurasian Economic Commission on Amendment of Decision No.710 of July 15, 2010 of the Commission of the Customs Union, Decision No.710 of the Commission of the Customs Union was amended. A transition period (till August 1, 2016) for application of compliance certificates issued to manufacturers of components and rolling stocks before introduction of the above Technical Regulations was set. In addition to the above, a transition period (till August 1, 2016) was set for those goods

[1] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds485_e.htm.
[2] Decision No.52 of July 16, 2014 of the Collegium of the Eurasian Economic Commission on Setting of the Rates of Import Customs Duties in Respect of Individual Types of Goods in Accordance with Obligations of the Russian Federation Within the WTO Frameworks.
[3] UN COMTRADE database // http://comtrade.un.org/.
[4] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds499_e.htm.

which earlier were not subject to mandatory confirmation of compliance in the form of certification. Compliance certificates earlier registered with the FBE CRFRT and issued to Ukrainian manufacturers of railway goods started to be suspended late in 2013.

Ukraine believes that Russian competent authorities justified suspension of those certificates both by technical issues and "a lack of relevant conditions for annual inspections to be carried out" of Ukrainian manufacturers' production facilities. Despite the repeated requests, Ukraine's exporters and authorized authorities did not receive from Russia explanations of suspension of compliance certificates. It is to be noted that in other countries of the Customs Union, there is no problem to receive such compliance certificates on the basis of Technical Regulation No.001/2011. However, those certificates are regarded invalid by Russian authorized authorities.

In December 2014, Ukrainian manufacturers of railway points applied for certificates in accordance with new requirements specified in the Customs Union's Technical Regulations No. 003/2011. However, in February 2015 those applications of Ukrainian manufacturers were turned down by Russian competent authorities.[1]

As a result of the above, the export of railway equipment and its components from Ukraine to Russia fell considerably: from $1.7bn in 2013 to $600m in 2014. It is to be noted that from 2014 to 2014 there was a considerable reduction of nearly 66% in Ukrainian exports of disputable goods in general. The share of imports of disputable goods from Ukraine to Russia in the total Ukrainian exports of those goods fell within that period from 61% to 35%, while in Ukraine's exports it remained virtually on the same level and amounted to 73%.[2]

Ukraine's main claims are related to the fact that Russia discriminates against goods of the Ukrainian origin as compared to similar goods from other WTO member-states and domestic products. It is to be noted that Russian measures resulted in creation of excessive obstacles in the international trade, but Russia did not respond to Ukraine's request to explain the need of such controversial measures. In addition to the above, Ukraine believes that the Russian competent authorities violated a number of procedures for evaluation of compliance. It is to be noted that requirements of Russian competent authorities as regards evaluation of compliance were beyond the required ones set to the information and amount of payment. At present, the dispute in question is at the stage of consultations.

4.9.3. WTO trade disputes in which Russia participates as a third party

From the day of Russia's accession to the WTO in August 2012, Russia participated in 28 disputes within the WTO frameworks as a third party. Russia's participation in one or another dispute is usually justified not only by substantial trade interest alone, but also, to a greater extent, a practice of participation in disputes on concrete issues, as well as interest in application of some or other WTO's norms and rules. In most cases, Russia joins the disputes against the EU, China and the US.

[1] Letter No. 01305 of February 9, 2015 of the Federal Budget Entity "Certification Register on the Federal Railway Transport" on Rejection of the Application to Issue New Compliance Certificates in Respect of Some Railway Goods (Railway Points).
[2] UN COMTRADE database // http://comtrade.un.org/.

All the WTO disputes which Russia joined as a third party can be notionally divided in the following three main issues[1] related to:

1) a ban on imports (for ecological or other reasons) (DS400, DS401, DS469, DS484, DS495);
2) antidumping, compensation and special protectionist investigations and measures introduced on the basis thereof (DS414, DS437, DS449, DS454, DS468, DS471, DS473, DS480, DS488, DS490, DS496);
3) export limitations (DS431, DS432, DS433);
4) intellectual property rights (DS441, DS458, DS467);
5) subsidies (including tax and other privileges) (DS456, DS472, DS487, DS497, DS489);
6) tariffs (DS492).

It is to be noted that sometimes formally different disputes originating from different complaining countries are related to one and the same alleged limitation/violation of the defendant, for example, disputes of Canada (DS400) and Norway (DS401) over the ban on imports and sale of seal products to the EU.

DS400, DS401: The EU – Measures Banning Imports and Sale of Seal Products (DS400 (Canada), DS401 (Norway))

On November 2, 2009 and November 5, 2009, Canada[2] and Norway[3], respectively, turned to the WTO with a request to hold consultations with the EU as regards the ban on imports and sale of seal products introduced in compliance with EU Regulations No. 1007/2009 and EU Regulations No. 737/2010.

The main claim of complaining countries is related to a discriminating component of the measure as there are certain exceptions (in case of the natives' traditional hunting) which grant privileged access for seal products produced in the EU and some third countries (Greenland) to the EU.

The disputes in question failed to be resolved at the stage of consultations, so, on October 4, 2012 at the request of Canada and Norway a joint panel was set up and it presented its findings on November 25, 2013, while the Appellate Body (both complaining countries and defendants lodged an appeal) issued its findings on May 22 2014. The Appellate Body came to a conclusion that the EU's technical measures were not a technical regulation, however, it recognized that they violated the WTO's main principle, that is, the most favorable treatment regime (MFT) as the same privileges which were granted to seal products from Greenland were not granted unconditionally and promptly to those from Canada and Norway. In addition to the above, the Appellate Body believes that the EU failed to justify properly application of the above measures by "general exceptions" in accordance with Article XX of the 1994 General Agreement on Tariffs and Trade (GATT–1994).

The DSB's recommendations as regards harmonization of the EU's measures with the norms and rules of the WTO were made public on June 18, 2014. The parties agreed on a reasonable period for the EU – 16 months from the day of approval of the panel's findings – to implement the decision of the DSB.

Russia took interest in participation in that dispute as from March 16, 2009 it stopped seal production and banned trade in Greenlandic seal skins (including those imported from other

[1] See Bayeva (2014) Trade Disputes in Which Russia Participates within WTO Frameworks and Mechanisms of Resolution Thereof // The Russian Foreign Economic Bulletin, 3. pp. 75-90.
[2] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds400_e.htm.
[3] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds401_e.htm.

countries). In accordance with Decision No.134 of August 16, 2012 of the Eurasian Economic Commission and amendments introduced by Decision No. 30 of April 21, 2015 of the Collegium of the Eurasian Economic Commission, the list of goods banned for import to the customs territory of the Eurasian Economic Union and (or) export from the customs territory of the EEU includes Greenlandic seal and seal calf products. In accordance with the legislation of the EEU, the imports of the above products are permitted if they were produced by way of traditional hunting carried out by the natives of the Arctic and Subarctic regions, including the Yupiks and the Inupiats (Alaska), the Inuits and the Inuvialuits (Canada) and the Kalaallits (Greenland) and that fact is to be proved by a certificate – issued in conformity with the form approved by the European Economic Commission – of the country of origin.

Prior to 2009, Russia used to be a major sales market for seal skins; it imported up to 90% of seal skins from Greenland. The dispute in question is the case where Russia is on the side of the defendant and not the complaining party as Russia has a regulation which is similar to that of the defendant.

DS469: The EU – Measures in Respect of Atlantic-Scandinavian Herring (Denmark)

In November 2013, on behalf of the Faroe Islands Denmark turned to the WTO with a request to hold consultations with the EU as regards measures taken against the Faroe Islands regarding Atlantic-Scandinavian herring and North-Eastern Atlantic scomber.[1]

In accordance with the international law principles, the Faroe Islands use sovereign rights for the purpose of utilization, preservation and management of living marine resources. The EU banned imports to its territory of the above types of fish which was caught by fishing boats sailing under the flag of the Faroe Islands; in addition to the above a ban was introduced on production in the EU of products made of the above types of fish.

According to the complaining country, the EU's above measures mainly violate the most favorable treatment regime and provisions of the article on general abolishment of quantitative limitations – under the above article it is prohibited to introduce any bans on imports or quantitative limitations (by way of quotas, import or export licenses and other measures) apart from tax duties or other charges with the exception of a number of cases – and limit freedom of transit.

Despite the fact that on January 8, 2014 Denmark turned to the WTO with a request to set up a panel which was established by the DSB two months later the dispute in question was settled by means of a mutually acceptable solution achieved on August 21, 2014. The EU agreed to put an end to the ban on imports and other measures against the Faroe Islands in respect of disputable goods.

Russia's interest in participation in the dispute in question is mainly justified by the fact that Russia is one out of five coastal states between whose respective zones Atlantic-Scandinavian herring is distributed. So, an indirect benefit for Russia consists in the fact that if the EU does not have the right to ban imports of Atlantic-Scandinavian herring and herring-processed products from the countries between whose respective zones that sort of fish is distributed the EU has no right to ban imports of disputable goods from Russia, either.

[1] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds469_e.htm.

DS484: Indonesia – Measures in Respect of Chicken Meat and Chicken Meat Products (Brazil)

On October 16, 2014, Brazil turned to the WTO with a request to hold consultations with Indonesia on some measures introduced by the latter in respect of imports of chicken meat and chicken meat products.[1]

According to Brazil, Indonesia applies restrictive measures and procedures which impede imports of Brazilian chicken meat and chicken meat products to the Indonesian market. For example, Indonesia does not accept the Brazilian hygienic certificate despite the fact that Brazil provided all the required and even additional information. According to the Brazilian side, Indonesia's measures which are not based on relevant international standards, rules and recommendations, in particular, those related to the quarantine on imports of chicken meat and chicken meat products are introduced beyond the necessary level of control and limit and discriminate against Brazilian exports.

Indonesia actually introduced a non-automatic import licensing regime in respect of chicken meat and chicken meat products. According to Brazil, that regime unjustifiably limits the trade. A license can be secured only for a short period of time and includes limitations as regards ports of arrival. In addition to the above, imports of chicken meat and chicken meat products are to be approved in advance by the Ministry of Agriculture which has the right to limit the quantity, places of destination and/or use of those products. The relevant documents have short terms of validity, too, and the mode of issuing thereof is not quite transparent. According to Brazil, Indonesia introduces pre-shipment inspection requirements which may be of a discriminatory nature and cause unjustified delays. In addition to the above, measures related to a new pricing policy and import management – which measures may impose limitations on the domestic supply of "strategic goods" including chicken meat – are applied.

On October 15, 2015, Brazil turned to the WTO with a request to set up a panel and on December 3, 2015 it was established. At present, the dispute in question is at the stage of selection of panel members.

Participation in that dispute is interesting to Russia primarily in terms of procedural insight into a wide-range of the WTO's norms and rules, including those in the field of sanitary and phytosanitary measures and technical barriers. It is to be noted that Russia does not export disputable goods to Indonesia which situation may be related to some extent to Indonesia's limitations on imports.[2]

DS495: Republic of Korea – A Ban on Imports and Requirements to Carrying Out of Testing and Certification of Radioactive Materials (Japan)

On May 21, 2015, Japan turned to the WTO with a request to hold consultations with the Republic of Korea as regards the following measures introduced by the latter after the accident at the Fakusima-1 nuclear power plant due to the earthquake in Japan in March 2011[3]:

1) a ban on imports of some food products;
2) additional requirements to carrying out of testing and certification of existence of specific radioactive materials;

[1] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds484_e.htm.
[2] UN COMTRADE database// http://comtrade.un.org/.
[3] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds495_e.htm.

3) a number of alleged violations of obligations as regards transparency in accordance with the Agreement on Application of Sanitary and Phytosanitary Measures.

Japan complains mainly about lack of transparency and not about the fact that those measures were introduced because the Republic of Korea failed to publish properly the list of those measures with specification of evidence on the basis of the information supplied on burial of radioactive waste in Japan. Japan repeatedly made an effort to discuss those measures with the Republic of Korea and hold joint meetings of technical experts. Japan sought to show the Republic of Korea that sanitary and phytosanitary measures used in both the countries were similar. According to the complaining country, the Korean measures limit exports from Japan and are not based on relevant international standards and recommendations; it is to be noted that the Republic of Korea failed to provide Japan with the information which could help Japan understand the position of the Republic of Korea as regards those measures and resolve the dispute. Japan believes that the measures in question violate the principle of the national regime as the requirements to the information used for control and checking and approval procedures in respect of import goods were higher than those established for similar domestic products.

As the dispute in question failed to be resolved through consultations, on August 20, 2015 Japan turned to the WTO with a request to set up a panel and at the DSB meeting on September 28, 2015 it was established.

Russia participates in that dispute as after the Fakusima accident it introduced a ban on imports of fish from Japan; the ban was lifted only in July 2015. Also, the dispute in question is interesting to Russia in terms of procedures, while the practice of participation in the discussion is useful to Russia in terms of application of sanitary and phytosanitary measures in compliance with the WTO's norms and rules.

DS414: China – Compensation and Antidumping Duties on Cold-Rolled and Regular Grain-Oriented Steel from the USA (the USA)

On September 15, 2010, the US turned to the WTO with a request to hold consultations with China as regards introduction of compensation and antidumping duties in compliance with Public Notification No.21 of 2010 of the Ministry of Trade of China in respect of cold-rolled and grain-oriented steel from the US.[1]

The US's main claims are related to the procedure for carrying out compensation and antidumping investigations in China. In particular, according to the US in such investigations there is lack of an adequate summary of confidential information, important fact are concealed, duties for all other exporters are determined incorrectly, price effects of the alleged dumping imports were determined without unbiased analysis and proper evidence and the cause-effect relation between the alleged dumping of imports and damage to the industry was determined improperly.

To solve that dispute a panel was established on March 25, 2011. The panel's findings were presented on June 15, 2012. Late in July 2012, China filed an appeal to the Appellate Body whose findings were presented on October 18, 2012. In mid-November 2012, the DSB rules that China introduced antidumping and compensation duties in respect of cold-rolled and regular grain-oriented steel from the US in a way which violates China's obligations under the agreements on antidumping, subsidies and compensation measures and advised China to bring those measures in compliance with provisions of the above agreements.

[1] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds414_e.htm.

On July 31, 2013, China adjusted measures which caused the dispute in accordance with the procedure provided for by Public Notification No.51 of 2013 of the Ministry of Trade of China and annexes thereto. However, in mid-January 2014 the US requested consultations, while on February 13, 2014 the US turned to the WTO with a request to set up a panel on the procedure for fulfilment of obligations and such a panel was later established. The US believes that China's revision of its measures does not fully comply with the WTO's norms and rules. On March 27, 2014, a panel for checking compliance was established and on July 31, 2015 the panel's findings were presented to the parties to the dispute. A month later, at its meeting the DSB accepted the above findings with recommendations to bring the measures in compliance with the WTO's norms and rules. In the meantime, China reported that on April 10, 2015 it abolished antidumping duties on anisotropic electrical steel not only from the US, but from Russia, as well.

From February 26, 2014, Russia joined that dispute as a third party. For Russia, that issue is very important as those antidumping and compensation measures are applied not only in respect of cold-rolled and regular grain-oriented steel from the US, but from Russia, as well. So, apart from the practice of settlement of disputes regarding antidumping and compensation measures Russia indirectly benefited from participation in that dispute because those duties were abolished.

DS437: the US – Compensation Duties on Some Goods from China (China)

On May 25, 2012, China turned to the WTO with a request to hold consultations with the US as regards introduction by the latter of compensation duties on some Chinese goods.[1]

According to China, it encounters various difficulties in accessing the US investigation findings on which basis compensation measures against China were introduced. China refers to about 20 such investigations initiated by the US and related mainly to metallurgical and steel industry goods (for example, pipelines, steel wheels, steel wires and other). China believes that the US determines incorrectly a state-owned enterprise which grants similar subsidies by way of sale from a parental company to a subsidiary as a "public agency". Also, China noted that the US Trade Department initiated an investigation without sufficient evidence; in particular, it could not prove that a subsidy was specific to the enterprise or industry. It is to be noted that the US Trade Department determines incorrectly the advantage (as the basis for dismissal of the existing actual sale prices in China as a reference point), thus distorting the current market conditions in China.

On August 20, 2012, China turned with a request to the DSB to set up a panel, a month later the panel was established and it presented its findings on July 14, 2014. Late in August, both the sides filed appeals to the Appellate Body. On January 16, 2015, the DSB accepted the Appellate Body's and the panel's findings with recommendations to bring measures in compliance. On October 9, 2015, arbitration set a reasonable period (which expires on April 1, 2016) for the US to bring its measures in compliance with the WTO's norms and rules.

Russia's interest in participation in the dispute in question is justified not only by substantial trade interest in disputable industries (the metallurgy and steel industries), but also the practice of participation in disputes on compensation measures to get a better understanding of enforcement of relevant provisions of the Agreement on Subsidies and Compensation Measures.

[1] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds437_e.htm.

DS449: The US – Compensation and Antidumping Measures in Respect of Some Goods from China (China)

On September 17, 2012, China initiated a dispute with the US as regards compensation and antidumping measures in respect of some goods from China.[1]

China carries out about 30 compensation investigations and 30 antidumping investigations which mainly deal with metallurgical and steel industry goods. China's main claims are related to:

- Part 1 of US Public Law 112-99 "Act on Application of Compensation Duties under US Tariff Act 1930 in Respect of Non-Market Economies and For Other Purposes" which became effective on March 13, 2012;
- Existence of antidumping measures along with compensation measures under which "dual means of damage compensation" arise in 25 parallel compensation and antidumping investigations initiated in the 2006-2012 period and covering imports from China as a country with a non-market economy in accordance with the US legislation.

In addition to the above, China believes that the US violates the 1994 GATT as provisions of the US legislation were not "published immediately" to be available for familiarization with by governments and traders and started to be applied in the US prior to official publication. It is to be noted that according to China US laws and norms related to application of compensation measures in respect of imports from countries with non-market economies are not "unified, impartial and justified".

To solve the dispute, at China's request a panel was established on December 17, 2012 and it presented its findings late in March 2014. In April 2014, both the parties to the dispute filed appeals as regards legal norms used in the panel's findings and interpretation thereof. The Appellate Body's findings were presented on July 7, 2014. At its meeting on July 22, 2014, the DSB accepted the findings of the Appellate Body and the panel's findings – adjusted by those of the Appellate Body – with recommendations for the US to bring its measures in compliance with the US obligations in the WTO. On February 20, 2015, China and the US informed the DSB that they agreed on a reasonable period needed by the US for fulfillment of the recommendations and requirements of the DSB, that is, 12 months from the day of acceptance of the findings of the Appellate Body and the panel; then the above period can be extended by the parties. On August 21, 2015, China and the US informed the DSB of the application procedure.

Russia participated in the dispute in question as it had substantial interest in disputable industries (the metallurgy and steel industry). In addition to the above, Russia is interested in the practice of participating in disputes related to antidumping and compensation measures to get a better understanding of enforcement of the WTO's relevant provisions.

DS454: China – Antidumping Measures in Respect of Heavy Duty Seamless Stainless Steel Pipes ("HP-SSST") from Japan (Japan)

On December 20, 2012, Japan turned to the WTO with a request to hold consultations with China as regards antidumping measures in respect of heavy-duty seamless stainless steel pipes ("HP-SSST") from Japan set out in Notification No.21 and Notification No.72 of 2012 of the Ministry of Trade of China.[2]

[1] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds449_e.htm.
[2] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds454_e.htm.

Japan's main claims are related to the fact that antidumping investigations carried out by China and antidumping measures introduced on the basis of those investigations in respect of disputable goods do not comply with the WTO's norms and regulations. In particular, it is related to the beginning of the investigations and their progress, determination of the fact of damage, evidence, public notification and explanation of decisions. In addition to the above, the Ministry of Trade of China failed to provide in a proper way its methods of calculation of a dumping margin.

On April 11, 2013, Japan turned to the WTO with a request to set up a panel and it was established on May 24, 2013, while on February 13, 2015 the panel presented its findings. Late in May 2015, both the sides filed appeals, and the Appellate Body presented its findings on October 14, 2015. On October 28, 2015 the DSB accepted the findings of the panel and the Appellate Body with recommendations for China to bring its measures in compliance with the WTO's norms and rules.

Russia's interest in participation in the above dispute is justified both by its trade interest in the dispute and the fact that procedures for carrying out antidumping investigations in China are important to Russia in terms of antidumping measures applied by China in respect of Russian goods (mainly chemical industry goods).

DS468: Ukraine – Special Protective Measures as Regards Determination of Motor Cars (Japan)

On October 30, 2013, Japan turned to the WTO with a request to hold consultations with Ukraine as regards protective measures introduced by the latter in respect of imports of some cars and the investigation which resulted in application of those measures.[1]

On April 28, 2012, Ukraine's Interdepartmental Commission on International Trade approved Decision No.SP-275/2012/4423-08 under which special protective measures in the form of the following two additional duties – 6.46% and 12.95% for cars with gasoline engine volumes of 1000-1500 cubic cm and 1500–2200 cubic cm, respectively – were introduced.

Japan's claim consists in the fact that the special protection investigation was carried out in Ukraine with errors and violations of relevant provisions of the WTO. In particular, serious damage or a threat of serious damage to the industry, effective period of those measures and the period of gradual liberalization thereof, the level of concessions and other obligations were determined incorrectly. In addition to the above, proper conclusions as regards the cause-effect relation between alleged growth in imports of disputable goods and damage to the industry failed to be made. It is to be noted that Ukraine introduced special protection duties beyond the necessary level. As regards procedural requirements, Japan's claims are related to the investigation which was carried out prior to introduction of special protective measures, the investigation's findings which included the main conclusions and the obligation to notify WTO members and hold consultations with exporters from WTO countries on disputable issues.

On February 13, 2014, Japan turned to the WTO with a request to set up a panel and at the DSB meeting on March 26, 2014 it was established; the panel presented its findings to the parties to the dispute on June 26, 2015. At its meeting on July 20, 2015, the DSB accepted the findings of the panel and rules that Ukraine should abolish special protective measures in respect of cars. On October 6, 2015, Ukraine informed the DSB that Ukraine's Interdepartmental

[1] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds468_e.htm.

Commission on International Trade approved Decision No. SP-335/2015/4442-06 of September 10, 2015 to lift protective measures in respect of cars starting from September 30, 2015.

Russia's participation in the dispute can be explained by Russia's substantial trade interest as the share of Russia's exports of disputable goods to Ukraine in Russia's total exports of such goods amounted to about 20% in 2013, while special protective measures are introduced against all the imports regardless of the source and, consequently, affect Russia's interests, too.[1] In addition to the above, the dispute in question is important in terms of better understanding of the procedure for application of protective measures in compliance with the WTO's norms and rules and the practice of participation in such disputes.

DS471: The USA – Specific Methods and Application Thereof in Examination of Anti-dumping Cases in Which China is Involved (China)

On December 3, 2013, China turned to the WTO with a request to hold consultations with the US as regards determination of methods used in antidumping investigations in which China is involved.

The subject matter of consultations is the methods of "nullification" used by the US in anti-dumping investigations to prevent point dumping, as well as methods used in antidumping procedures related to imports from countries regarded by the US as non-market economies. Point dumping is a kind of sale of goods at dumping prices only to individual buyers in individual geographic regions or at certain periods of time. In such cases, in antidumping investigations asymmetrical methods of comparison of a fair value and the export value of goods are normally applied for calculation of a dumping margin where the weighted average price of domestic sales is compared with each particular export deal.

In cases listed by China, the US Trade Department applied the methods of "nullification" when the weighted average price of export deals which was either higher or equal to the fair value was made equal to the zero and due to that factor such deals were disregarded in calculations of the dumping margin and the latter became overestimated. According to China, methods of "nullification" are in conflict with a number of provisions of the Antidumping Agreement as regards establishment of the fact of dumping, evidence and introduction and charging of antidumping duties.

On February 13, 2014, China turned to the WTO with a request to set up a panel and it was established on March 26, 2014, while five months later its members were selected. At present, the panel's findings are expected.

Russia filed an application for participation in the dispute as examination of complaints about application of methods of reviewing antidumping cases was of interest to it. Then, Russia filed similar claims against the EU as regards their methods of calculation of antidumping duties (DS474 and DS494). In addition to that, in 2013 the US carried out various antidumping investigations, including those in respect of Russian goods.

DS473: The EU – Antidumping Measures in Respect of Bio-Diesel Fuel from Argentina (Argentina)

On December 19, 2013, Argentina turned to the WTO with a request to hold consultations with the EU as regards antidumping investigations and antidumping measures introduced by the EU on the basis of the above investigations in respect of bio-diesel fuel from Argentina.[2]

[1] UN COMTRADE database // http://comtrade.un.org/.
[2] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds473_e.htm.

On August 29, 2012, the EU started an antidumping investigation as regards imports of bio-diesel fuel from Argentina and Indonesia, while on May 28, 2013 relevant antidumping measures were introduced. According to the complaining country, temporary and final antidumping measures introduced by the EU in respect of imports of bio-diesel fuel and the investigation procedure were in conflict with some provisions of the 1994 GATT and the Antidumping Agreement. In particular, it concerns violations related to establishment of the fact of dumping and damage, provision of evidence and introduction and charging of antidumping duties as antidumping duties introduced by the EU exceeded the dumping margin.

On March 13, 2014, Argentina turned to the WTO with a request to set up a panel and it was established on April 25, 2014, while panel members were selected on February 15, 2015. At present, the panel's findings are expected.

Generally, Argentina's claims are similar to those of Russia as regards value adjustment methods used by the EU in carrying out of antidumping investigations and calculation of antidumping duties (see disputes DS474 and DS494 in which Russia acts as a complaining country against the EU on similar issues).

DS480: The EU – Antidumping Measures in Respect of Bio-Diesel Fuel from Indonesia (Indonesia)

On June 10, 2014, Indonesia turned to the WTO with a request to hold consultations with the EU on the following issues:

- Provisions of Regulations No. 1225/2009 of the EU Council on Protection from dumping Imports from Non-EU Countries; and
- Antidumping measures introduced by the EU in May 2013 in respect of imports of bio-diesel fuel, including that from Indonesia.

Indonesia's main claims are related to the European methods, procedures and practice of cost adjustment in carrying out of antidumping investigations and calculations of antidumping duties.

On June 30, 2015, Indonesia turned to the WTO with a request to set up a panel and on August 31, 2015 it was established. At present, the dispute is at the stage of work of the panel.

Like the previous one, the dispute in question is closely related to Russia's complaints as regards cost adjustment methods used by the EU in carrying out of antidumping investigations and calculations of antidumping duties (DS474 and DS494).

DS488: The USA – US Antidumping Measures in Respect of Specific Oil and Gas Pipes and Line Pipes from Korea (the Republic of Korea)

On December 22, 2014, the Republic of Korea turned to the WTO with a request to hold consultations with the US due to antidumping measures taken in respect of oil and gas and line pipes from Korea and the methods of investigations which preceded introduction of those measures.

The Korean side's main claims are related to the fact that antidumping investigation procedures and US antidumping measures introduced on the basis of those procedures in respect of pipes from Korea were taken in violation of the WTO's norms and rules. It concerns violations in establishment of the fact of dumping, provision of evidence, information, public notification and explanations of decisions taken and publication of trade rules. For example, for the purpose

of determination of the fair value the US Trade Department used a constructed value and ignored mandatory respondents' data on actual sale prices on third countries' markets as the basis of determination of the fair value.

On February 23, 2015, the Republic of Korea turned with a request to set up a panel; at the DSB meeting on March 25, 2015 the panel was established and its members were selected on July 13, 2015. At present, the panel's findings are expected.

As the dispute in question is related to concrete issues which are of methodological importance to Russia, that is, utilization of certain methods due to application of the Antidumping Agreement (in particular, Article 2 "Establishment of the Fact of Dumping"), Russia is very interested in participation in that dispute between the US and the Republic of Korea. In addition to the above, the dispute in question is of substantial trade interest to Russia, as the share of Russia's exports of disputable goods to the US in the total volume of Russia's exports of those goods amounts to just over 35%, while in the total US imports of those goods it is equal to about 4%.[1]

DS490, DS496: Indonesia – Special Protective Measures in Respect of Some Steel and Iron Products (DS490 (Chinese Taipei), DS496 (Vietnam))

On February 12, 2015 Chinese Taipei turned to the WTO with a request to hold consultations with Indonesia as regards special protective measures introduced by Indonesia in respect of goods with customs commodity code: 7210611100 (metal-faced flat rolled iron or non-alloyed steel (min. 600 mm wide) products with galvanic or other coating with carbon content of less than 0.6% and thickness of max. 1.2 mm) and special protective investigation on which basis those measures were introduced.[2]

On June 1, 2015, Vietnam turned to the WTO with a request to hold consultations with Indonesia on the same issue.[3]

On December 19, 2012, Indonesia started an investigation into special protective measures; on the basis of the outputs of that investigation special protective measures were introduced. According to complaining countries, the investigation and special protective measures do not comply with the WTO's norms and rules. In particular, using the outdated data on imports Indonesia failed both to show properly substantial growth in imports and prove that it was a factor behind serious damage (or a threat of serious damage) to the domestic industry. In addition to the above, no explanations were given as to in what way factors which were not related to those imports could have caused serious damage to the domestic industry. Indonesia did not provide an opportunity to hold consultations on the information related to protective measures, either.

In addition to the above, complaining countries note that special protective duties introduced by Indonesia violate the total RNB as they are applied only to goods manufactured in certain countries, thus providing other countries with an advantage which is not granted immediately and unconditionally in respect of similar goods produced in all the WTO member-states. Indonesia excluded 120 developing countries, including Russia from the list of countries on whose certain types of flat rolled products special protective duties are charged.

On August 20, 2015 and September 17, 2015 Chinese Taipei and Vietnam applied, respectively, to the WTO with a request to set up a panel and it was established on September 28, 2015, however, its members are not appointed yet.

[1] UN COMTRADE database // http://comtrade.un.org/.
[2] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds490_e.htm.
[3] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds496_e.htm.

Russia is interested in the practice of dealing with disputes related to application of special protective measures and carrying out relevant investigations on which basis those measures can be introduced. It is to be noted that despite the fact that special protective measures are introduced by the country due to dramatic growth in imports regardless of the source thereof (that is, against all the countries) Indonesia exempted developing countries (including Russia) from paying special protective duties.

In addition to the above, Russia's interest in that dispute may be indirectly linked to antidumping measures which are in effect in Indonesia from December 27, 2013 till December 26, 2018 against Russian-made flat hot-rolled products in coils. Those antidumping duties are rather high and amount to 20% in respect of some companies.[1]

DS431, DS432, DS433: China – Measures Related to Exports of Rare-Earth Metals, Wolframium and Molybdenum (the US) (DS432 (the EU), DS433(Japan))

On March 13, 2012, the US[2], the EU[3] and Japan[4] initiated in the WTO disputes against China as regards measures limiting exports of rare-earth metals, wolframium and molybdenum: export duties, export quotas, minimum export price requirements, export licensing requirements and additional requirements and procedures in respect of quantitative limitations.

China accounts for nearly one-third of the known reserves of rare-earth metals and it produces over 90% of all the rare-earth metals consumed in the world. Rare-earth metals are utilized in different high-tech industries, such as electronic engineering, instrument engineering, nuclear engineering, machinery, the chemical industry and the glass industry. The complaining countries' claims are mainly related to the fact that China's measures as regards exports of rare-earth metals, wolframium and molybdenum are not unified, impartial and justified, nor are they published properly. In addition to the above, the complaining countries believe that China failed to prove that those measures were "general exceptions" (Article XX of the 1994 GATT), nor did those measures justify China's failure to fulfil its obligations to lift export duties in accordance with the Protocol on China's accession to the WTO.

As the disputes failed to be resolved at the stage of consultations, a panel was established on September 24, 2012. On March 26, 2014, the panel presented its findings, while in April 2014 the US and China filed appeals against the panel's findings to the WTO' Appellate Body which presented its findings on August 7, 2014. At the DSB meeting on May 20, 2015, China informed the DSB that in accordance with the notification of the Ministry of Trade and Customs of China export duties and export quotas in respect of rare-earth metals, wolframium and molybdenum, as well as other limitations in respect of enterprises exporting rare-earth metals, wolframium and molybdenum recognized as incompatible with the WTO rules were abolished. So, China fulfilled in full the DSB's recommendations.

Russia benefited indirectly from participation in the dispute as by virtue of cancelation by China of export limitations on rare-earth metals, wolframium and molybdenum the Russian steel industry gained an advantage (the above oars needed for production of special hard-melting steel are exported from Russia to China and after enrichment thereof are brought back

[1] The Review of Substantial Limitations on Russian Goods Access to Foreign Markets // http://www.ved.gov.ru/rus_export/partners_search/torg_exp/.
[2] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds431_e.htm.
[3] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds432_e.htm.
[4] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds433_e.htm.

to Russia). In addition to the above, by participating in that dispute Russia learnt much about procedural issues related to settlement of trade disputes in the WTO.

DS441, DS458, DS467: Australia – Some Measures in Respect of Trade Marks, Names of Place of Origin of Goods and Other Requirements to Simple Packing of Tobacco Products (DS441 (the Dominican Republic), (DS458 (Cuba), DS467 (Indonesia))

On July 18, 2012, May 3, 2013 and September 20, 2013, the Dominican Republic[1], Cuba[2] and Indonesia[3] turned, respectively, to the WTO with a request to hold consultations with Australia.

Australia approved a number of statutory acts which require that all the tobacco products should be sold in simple packings without any trade marks, colors, design and companies' logos. The complaining countries' main claim consists in the fact that the requirement to sell all the tobacco products in simple packings without any trade marks, colors, design and companies' logos is in conflict with intellectual property rights. In particular, Australia does not ensure effective protection from unfair competition, takes technical regulation measures beyond the level required in that situation and violates the principle of a national regime by granting domestic producers a more favorable regime than to foreign ones.

At its meeting on April 25, 2014, the DSB established a panel (including the one on disputes initiated by Ukraine (DS434) and Honduras (DS435) which Russia did not formally participate in). At present, the panels' findings are expected.

Russia's interest in participation in the dispute may be related to methodological issues of protection of intellectual property rights in accordance with the WTO's rules and norms. Many countries which joined the dispute believe that they should oppose the Australian law in question, otherwise a negative precedent may arise and other countries may follow the suit. Also, the practice of participation in disputes related to issues of technical regulation and intellectual property protection is important to Russia. At the same time, Russia may support the defendant in the dispute in question as it carries out an antismoking policy.

DS456: India – Some Measures in Respect of Solar Cells and Solar Modules (the USA)

On February 2013, the US turned to the WTO with a request to hold consultations with India as regards India's measures related to the share of domestic components for solar cells and solar modules.[4]

India demands that designers or users of solar energy plants should buy and use domestic solar cells and modules for the purpose of participation in the *National Mission of Solar Energy Development* program which major goal is to ensure India's leading position on the solar energy market by 2022. Designers and users of solar energy plants receive certain benefits (including subsidies) as they are guaranteed long-term tariffs on electric power. According to the US, the above policy is in conflict with the national regime principle as it results in a more favorable regime for import goods as compared to domestic ones. In addition to the above, those measures are a kind of prohibited subsidies in case of use of domestic, rather than import goods.

[1] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds441_e.htm
[2] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds458_e.htm.
[3] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds467_e.htm.
[4] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds456_e.htm.

On April 14, 2014, the US turned to the WTO with a request to set up a panel and it was established on May 23, 2014; four months later panel members were selected. At present, the panel's findings are expected.

The dispute in question is of interest to Russia as the share of Russia's exports of those goods to India in Russia's total volume of exports of such goods exceeds 5%. Also, it can be stated that development of alternative energy sources is important to Russia. In addition to the above, the practice of participation in disputes related to provision of subsidies, including those granted due to utilization of domestic components in production is of interest to Russia.

DS472, DS497: Brazil – Certain Measures Related to Taxes and Charges (DS472 (the EU), DS497 (Japan))

On December 19, 2013, the EU turned to the WTO with a request to hold consultations with Brazil as regards measures related to taxes and charges in the motor sector, electronics and technology sector and free economic zones, as well as tax privileges for exporters.[1]

On July 2, 2015, Japan turned to the WTO with a request to hold consultations with Brazil on the same issues.[2]

The discriminatory tax privileges in question are related in particular to programs in the motor sector (Inovar Auto), as well as the electronics industry and related sectors (the Program for Promotion of the Semiconductor Sector (PADIS), the Program for Facilitation of Technological Development of Digital TV Equipment (PATVD) and the Program for Upgrading Availability of Digital Technologies for Broad Segments of the Population).

According to the complaining countries, such measures provide preferential treatment and support to Brazil's domestic producers and exporters which situation is in conflict with the national regime, a fundamental principle of the WTO. In particular, it happens due to a higher taxation of import goods as compared to domestic ones, tax privileges in utilization of domestic intermediary goods, as well as subsidies granted to exporters which export over 50% of their gross sales. In the course of consultations, only the issue related to tax privileges for goods manufactured in free economic zones was resolved, while other issues remained outstanding, so a panel was established in December 2014.

According to the 2013 data, the shares of both Russian exports to Brazil and imports from Brazil of respective groups of commodities amounted to less than 0.5%[3] due to which factor participation in the dispute was interesting to Russia in terms of application of the practice of taxes and duties and resolution of such disputes.

DS487: The USA – Tax Privileges under Some Conditions for Large Civil Airplanes (the EU)

On December 19, 2014, the EU turned to the WTO with a request to hold consultations with the US as regards tax privileges introduced by the State of Washington in respect of development, production and sales of large civil airplanes under certain conditions.[4]

In November 2013, the US largely expanded tax privileges to the aircraft industry to stimulate production by the Boeing Company of new models of large civil aircraft 777X in the State

[1] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds472_e.htm.
[2] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds497_e.htm.
[3] UN COMTRADE database // http://comtrade.un.org/.
[4] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds487_e.htm.

of Washington and granted additional subsidies worth billion US dollars to the Boeing Company, including those for utilization of components manufactured in the State of Washington. The EU maintains that the above measures are a type of subsidies prohibited in the WTO.

On February 12, 2015, the EU turned to the DSB with a request to set up a panel and it was established on February 23, 2015, while two months later panel members were selected.

Russia has a substantial trade interest in that dispute. According to the 2013 data, position 8802 imports from the US to Russia amounted to 38% of the entire Russian imports of the above position and 45% of the entire US exports of those goods. However, in 2014 the trade between Russia and the US in disputable goods decreased dramatically, while the share of imports from the US fell to 6% and 8% in the total Russian imports of those goods and the total US exports of those goods, respectively. The share of exports of disputable goods from Russia to the US in the total Russian export of those goods fell from 3% in 2013 to 0.5% in 2014.[1] Furthermore, the dispute in question is practice for Russia to participate in WTO disputes related to tax privileges which result in specific subsidies.

DS489: China – Measures Related to Demo Base Programs and Public Service Platforms (the US)

On February 11, 2015, the US turned to the WTO with a request to hold consultations with China on determination of measures granting subsidies to enterprises provided that they took part in export activities of some industrial sectors of China.[2]

According to the US, by means of the *Transformation of the International Trade and Modernization of Demo Bases* program (hereinafter, demo bases) and the *Public Service Platform* China provides export subsidies. Demo bases are industrial clusters of enterprises in China's some economic sectors, including the textile industry, agriculture, medical goods production, the light industry, chemical engineering, as well as metalworking and the building materials industry. Public service platforms are service providers designated in China for rendering services to enterprises in a demo base. China singles out an industrial cluster of enterprises in a separate industry as a demo base and then grants export subsidies to the demo base enterprises. The above subsidies include provision of services of a public service platform free of charge or at a discount or in the form of monetary grants. As by means of a demo base program and public service platform subsidies are granted to Chinese-based enterprises engaging in export activities, the US believes the above measures are in conflict with Article 3.1(a) and Article 3.2 (Ban) of the Agreement on Subsidies and Compensation Measures.

For Russia, China is an important producer, importer and exporter of goods which manufacturers allegedly receive an advantage from measures discussed at the consultations. So, the result of resolution of the dispute may have an impact on manufacturers, importers, exporters and consumers in Russia. With regard to the above, for Russia the most sensitive industries can be the following: the textile industry, agriculture, medical goods production, the light industry, special chemical engineering, metalworking and the building materials industry.

[1] UN COMTRADE database // http://comtrade.un.org/.
[2] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds489_e.htm.

DS492: The EU – Measures Related to Tariff Concessions in Respect of Certain Poultry Meat Products (China)

On April 8, 2015, China turned to the WTO with a request to hold consultations with the EU as regards changes in the EU's tariff concessions in respect of some poultry meat products.[1]

The measures introduced as result of the EU's two requests due to changes in the EU's tariff concessions in respect of certain poultry meat products under Article XXVIII (Changes in the Lists) of the 1994 GATT in 2007 and 2012 and the EU's refusal to change tariff quotas at China's request are controversial. China's main claims are related to the fact that the EU carried out negotiations on tariff concession changes with Thailand and Brazil which had substantial trade interest in those goods, however, China was denied such negotiations despite the fact that it had substantial trade interest, too. It is to be noted that in both cases tariff quotas were granted in full to Brazil and/or Thailand, while the related rates of the customs tariff beyond the quota happened to be much higher than the related rates before changes in concessions were made.

As consultations between China and the EU failed to resolve the dispute, on June 8, 2015 China turned to the DSB with a request to set up a panel and it was established on July 20, 2015. At present, panel members are being selected.

The dispute in question is interesting to Russia in terms of procedures as the role of a third party in the dispute is for Russia a kind of practice of participating in disputes on changes in the lists of related tariffs and helps Russia to have a better understanding of such changes, negotiation procedures and other. In addition to the above, the dispute in question is of practical interest to Russia as the EU remains Russia's main trade partner though not in exports of poultry meat products from Russia to the EU. Also, the above regulations provide for a quota on other countries' supplies (including Russia), however, its volumes were insignificant and amounted to nearly 30 tons of poultry meat and processed poultry meat products.[2]

* * *

So, it can be stated that Russia actively participates in settlement of trade disputes in the WTO, including those on mutual claims which arose prior to Russia's accession to the WTO. In most cases, Russia participates as a complaining country and defendant in WTO disputes with the EU and Ukraine. As a complaining country, Russia is primarily interested in issues of antidumping investigations and antidumping measures, particularly, in the iron and steel industry and the chemical industry. In the WTO, Russia is mainly complained about by other countries as regards the following issues: technical barriers in trade, sanitary and phytosanitary norms, antidumping measures and investment measures which affect trade and tariffs.

As a third country, Russia normally participates in disputes concerning products of the iron and steel industry, the agriculture, the motor industry and the aircraft industry. Russia's participation as a third country is normally related not only to a substantial trade interest, but also the practice of participating in disputes. Also, the issues of application of the WTO's norms and rules are of interest to Russia.

For Russia, it is highly important to have the right position and tactical strategy of participating in the WTO disputes to develop mutual trade with other member-states and defend its interests on the basis of the WTO norms and rules.

[1] https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds492_e.htm.

[2] The Review of Substantial Limitations on Russian Goods Access to Foreign Markets // http://www.ved.gov.ru/rus_export/partners_search/torg_exp/.