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The review provides a detailed analysis of main trends in Russia's economy in 2007. The paper contains five big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit and financial spheres; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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**Russia's Foreign Trade in 2007**

Foreign Trade Turnover

In their report entitled “The Global Economic Outlook”<sup>1</sup>, the World Bank experts reckon that the year of 2007 saw the world economy growth rates plummet down to 3.6% vis-à-vis 3.9% reported in 2006. They expect the 2008 rise in the global economy at 3.3%, and it is going to be only in 2009 that the world GDP will bounce back to the level of 3.6%, which is envisaged to be attributed to the renewal of the US economy’s growth rates.

In 2007, the GDP growth rates in Europe and the Central Asia accounted for 6.7% vs. 6.9% reported in the prior year. This is steered by some fall in the domestic, as well as external demand. By contrast, the CIS countries were advancing at a far greater pace – up to 8.2% in 2007 against 7.8% in 2006. This became possible thanks to a considerable rise in consumption and investment, and some growth in net export from the region. The oil-exporting nations (Azerbaijan, Kazakhstan, and Russia in particular) still cash up very handsome profits, while the construction boom in the housing, commercial and infrastructural sectors has contributed engendered the rise in non-oil sectors of their economies in question.

As all the developing world has displayed a steady demand for imports, it helped maintain the global economy’s advancement and formed (along with a further depreciation of the US Dollar) a major factor underpinning a rapid growth in the US exports, thus helping the nation to cut down its current accounts deficit and allowing equalization of the global disproportions.

The trade has remained the global economy’s major locomotive, with the rise in the world commodity trade over the past four years being twice as high vis-a-vis the rise in the global output. During the period of an intense economic growth, which started in 2001, the volume of the world flows of goods has been on the rise, thanks to the developed and the Eastern Asian nations, however, as evidenced by the 2007 estimates and the 2008 projections, the noted nations’ import and export growth rates will fail to match the previously reported indices, and the trend is likely to persist further on.

*Table 44*

**Dynamics of the Global GDP and the World Trade (as % to the prior year)**

	2004	2005	2006	2007*	2008**
GDP					
<b>The world</b>	105.3	103.4	103.9	103.6	103.3
Industrially developed nations	103.2	102.6	102.9	102.6	102.2
The US	103.9	103.1	102.9	102.2	101.9
The EU countries	102.1	101.5	102.8	102.7	102.1
Japan	102.3	101.9	102.2	102.0	101.8
Other developed nations	104.6	103.9	104.4	104.3	103.8
Developing and transitional economies	107.7	106.8	107.5	107.4	107.1
Central and eastern European	106.5	105.6	106.3	105.8	105.2

<sup>1</sup> <http://www.worldbank.org/gep2008>.

CIS	108.4	106.6	107.7	107.8	107.0
Russia	107.2	106.4	107.4	108.1	106.5
Asian	108.8	109.2	109.8	109.8	108.8
China	10.1	110.4	111.1	111.3	110.8
<b>The world trade in goods and services</b>	110.6	107.5	109.2	106.6	106.7
Import		105.8	109.5	108.3	107.2
Industrially developed nations	109.1	106.1	107.4	104.3	105.0
Developing and transitional economies	116.4	112.1	114.9	112.5	111.3
Export		105.7	110.1	109.2	107.6
Industrially developed nations	108.8	105.8	108.2	105.4	105.3
Developing and transitional economies	14.6	111.1	111.0	109.2	109.0

\* - Estimated.

\*\* - Projected.

Source: Rosstat, BIKI No. 125, 2006, BIKI No. 143, 2007.

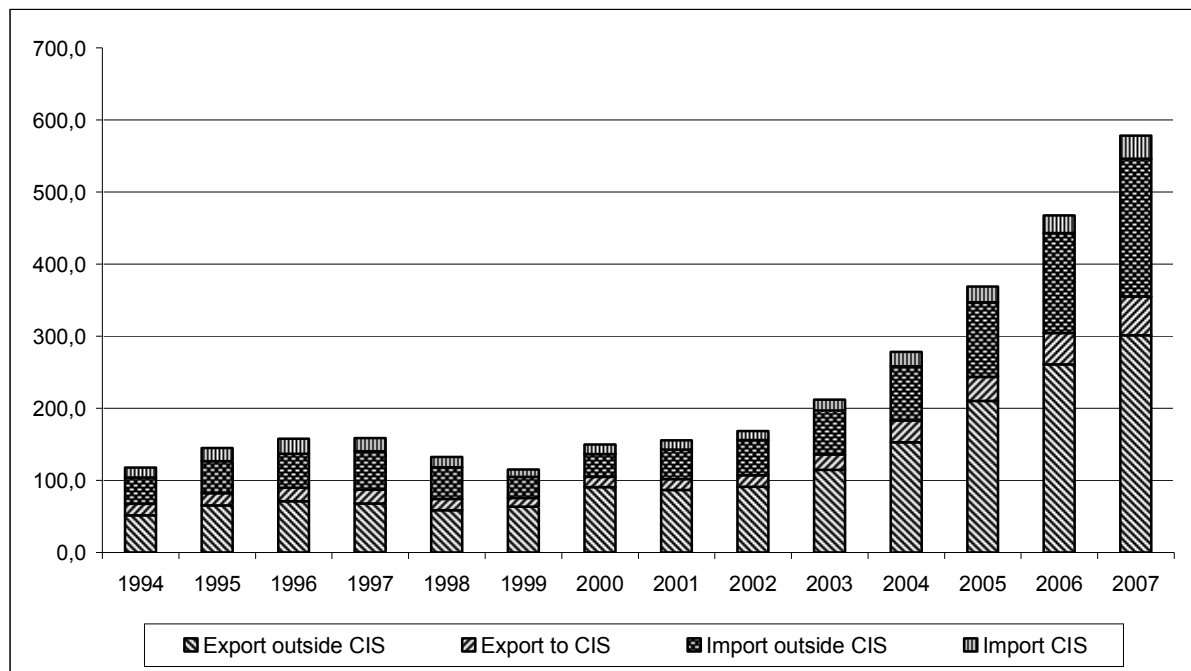
In 2007, Russia's foreign trade advanced under the effect of the following critical factors: a considerable price rise for energy resources on the world markets; instability of international financial flows due to the crisis on the biggest world stock exchanges; and soaring prices for crops. All these factors exercise different by its intensity effect on the dynamic of foreign trade flows.

In 2007, the indicators, which characterize Russia's foreign trade, continued their steady rise and hit 17 years-high values.

Calculated by the balance-of-payments methodology, the nation's 2007 foreign trade turnover made up USD 578.2 bn, thus outrunning at 23.4% the respective index of the prior year.

The share of export in the said amount stood at 61.4% (in 2006 it was 64.9%), while that of import – 38.6% (35.1%), which predetermined some deceleration of the nation's growth rates of goods turnover as a result of a substantial decline of growth rates of its export, which accounted for 116.9% vis-à-vis 124.7% reported in 2006.

In 2007, the major trend of Russia's foreign trade was a considerable disequilibrium between growth rates of import and those of export in favor of the former over the first 9 months of the year. The trend reversed only in the 4th quarter. Overall, the trend has resulted in contraction in the 2007 positive balance of foreign trade at 5.1% against the year of 2006 (USD 132.1 bn vs. 139.2 bn). Some experts foretell a far greater contraction rate, and it was just the price rise for oil at the end of the year that cushioned the envisaged process. In the 4th quarter 2007, the balance of foreign trade accounted for USD 39.9 bn, or at 42, 4% up against the respective index of the 4th quarter 2006 (USD 28.045 bn). Interestingly, the balance of Russia's trade with Far-Abroad countries dropped by 8.5%, while the balance of its trade with the CIS countries surged at 16.3%.



Source: the Central Bank of RF.

Fig. 29. Russia's Foreign Trade Turnover (USD bn)

The foreign trade turnover imbalance coefficient (the foreign trade balance to the foreign trade turnover) plunged from 29.7% in 2006 to 22.8% in 2007.

The proportion of import in GDP soared from 16.7% in 2006 to 17.5% in 2007. By contrast, the proportion of export in GDP shrank from 30.8% in 2006 to 27.4% in 2007.

#### Situation on the World Market

In 2007, the world prices for main Russian exports basically remained favorable – they were greater on average than in 2006, with the price rise for energy commodities accounting for 1.9% and that for non-energy ones – 8.2%.

The world oil market was extremely volatile in 2007. The warm winter in the US and other countries of the Northern Hemisphere, as well as some OPEC nations' loose observance with their obligations to cut back their oil output engendered a sharp rise in the world prices for oil in early 2007, but since February they have been on a gradual rise<sup>2</sup>.

The 2007 prices for goods of ferrous and non-ferrous metals were likewise on the rise.

In the 2<sup>nd</sup> and 3<sup>rd</sup> quarters 2007, there was some slight price rise for ferrous metals, but, overall, the 2007 prices for ferrous metals proved to be at 1.7% down on average vs. the 2006 ones.

The price rise on the world market for main non-ferrous metals in the 1<sup>st</sup> quarter and through mid-April was followed by some stabilization in May and June, and after that the prices began to sink.

<sup>2</sup> For greater details, see section 3.1.

After some fall in January and February, the world price for copper at the London Metal Exchange has been soaring and remaining at a fairly high historical level. It ultimately proved to be at 4.1% higher than in 2006.

Behind a serious price rise for nickel had been long-standing shortages on the respective market. On May 9, 2007, the price for the metal hit all-time record value – that is, USD 53,000/t. It began to fall since June, but remained at a fairly high level. By results of 2007, it was at 68.5% greater than in 2006.

The world aluminum prices were also at a fairly high level, albeit falling short of hitting their peak value in May 2006 – USD 2,861.5/t. The 2007 average price for aluminum ultimately was at 0.8% greater than in 2006.

Underlying the 2007 price rise for ferrous metals were such main factors as a high industrial demand for them (particularly China's), a low level of the nickel inventory, and contracted copper inventory.

Table 45

### The Average World Prices

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Oil (Brent), USD/brl.	17.4	14.1	15.9	28.19	24.843	25.022	28.83	37.4	54.38	65.15	72.32
Natural gas/1 m. BTE	1.9642	2.5469	2.1876	4.3442	3.9764	3.3857	5.461	5.993	8.870	12.2	7.27
Gas USD/Gallon	0.615	0.511	0.529	0.887	0.7922	0.755	0.891	1.197	1.508	1.81	2.06
Copper USD/t	2,369.7	1,775.3	1,539.9	1,863.9	1,613.6	1,592.9	1,785.6	2,808.2	3,606	6,851	7,129
Aluminum USD/t	1,554.0	1,413.5	1,318.0	1,550.0	1,444.7	1,350.7	1,424.7	1,693.2	1,871	2,619	2,639
Nickel USD/t	7,312.4	5,352.5	5,239.5	8,624.0	5,966.0	6,175.1	9,580.8	13,757	14,692	22,038	37,134

Source: By the data of the London Metal Exchange and International Petroleum Exchange (London).

As the stock of raw materials was contracting, while demand was rising at an unusually great pace, which left the production expansion rates behind, and more and more volumes of crops have been used to produce biofuel, and the progress in production of freighters was being insufficient and values went up, the world market saw the price rise for food stuffs. Meanwhile, as many countries attempt to ensure a partial replacement of the mineral fuel with the biological one, the contemporary world agrarian production has fallen short of meeting such these requirements.

Table 46

### The Dynamics of the Average World Prices for Some Agricultural Goods

	2005	2006	2007					
			July	August	September	October	November	December
Wheat, USD./t								
Canadian, CWRS	197.6	216.8	277.7	294.9	357.7	386.3	391.0	473.2
US, HRW	152.4	192.0	238.4	259.7	326.5	335.1	321.8	368.6
US, SRW	135.7	159.0	225.6	253.9	325.7	325.5	307.7	345.4
US corn, USD./t	98.7	122.9	138.5	150.3	164.1	164.2	171.3	180.2
Barley, USD/kg	95.0	117.0	178.0	159.0	185.0	197.0	188.0	199.0
Soya beans, USD/kg	274.4	268.4	375.5	385.0	426.0	450.0	489.0	515.0
Soya oil, USD/t	545.1	598.6	885.4	909.0	959.0	1,012.0	1,138.0	1,155.0

Source: the World Bank.

The price rise for dairy products was fueled by a growing demand on the part of a number of developing Asian North African and Middle East economies, as well as their large con-

sumers, that is, the EU and the US. According to OECD, in 2007–2008 and through 2016 prices for powder milk and other dairy products are going to stay high, and they will be under the impact of the world economy's health (particularly of rates of economic advancement of the Asian, African and South American countries), rather than short-term factors (unfavorable weather conditions, exchange rate fluctuations, and quantitative production constraints).

As for prices for other Russian natural exports (except for timber), in 2007 they were higher than in 2006.

## Export

The persisting favorable state of affairs on the world markets has had a positive effect on the Russian export, which in 2007 became in excess of its annual values reported in the past 17 years. Nonetheless, its increment rates in 2007 were far lower than in recent years. Its value equivalent grew at 16.9%, while in 2004 it was 34.8%, in 2005 – 33.1% and 24.7% in 2006. The growth rates of the physical volumes of export of goods were smaller than the price rise growth rates for them.

*Table 47*

### Dynamics of Russian Export

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Export, USD bn	89,7	86,9	74,4	75,6	105,0	101,9	107,2	135,4	183,2	245,3	303,9	355,2
Including:												
Far Abroad	71,1	67,8	58,7	63,6	90,8	86,6	91,0	113,9	152,9	211,6	260,6	301,5
Growth rate, as % to the previous period												
Index of physical volume	100,1	101,8	99,7	109,4	110,2	104,2	115,0	109,5	110,7	104,7	105,8	105,0
Price index	108,6	98,1	84,2	92,1	128,2	93,8	86,0	113,4	122,7	126,9	119,7	110,9

*Source:* CBR, the RF Ministry for Economic Development and Trade.

It was in the 4<sup>th</sup> quarter 2007 that export volumes reached their peak, with its value demonstrating a 37.2% growth vs. the respective period of the prior year.

Meanwhile, the group of main exports remained practically unchanged – it was still the export of produce of the fuel and energy complex that dominated in the group, albeit the share of the FEC exports in the overall volume of the nation's export continued shrinking. In 2007, it accounted for 64% vs. 65.4 reported in 2006. This can be explained largely by the declining physical volumes of gas export, which in 2007 accounted for 191 bn cub. m. (94.2% to 2006), with 153.67 bn cub. m. exported to the Far-Abroad and Baltic states (95% to 2006) and another 37.32 bn cub. m. exported to the CIS countries (97.7%).



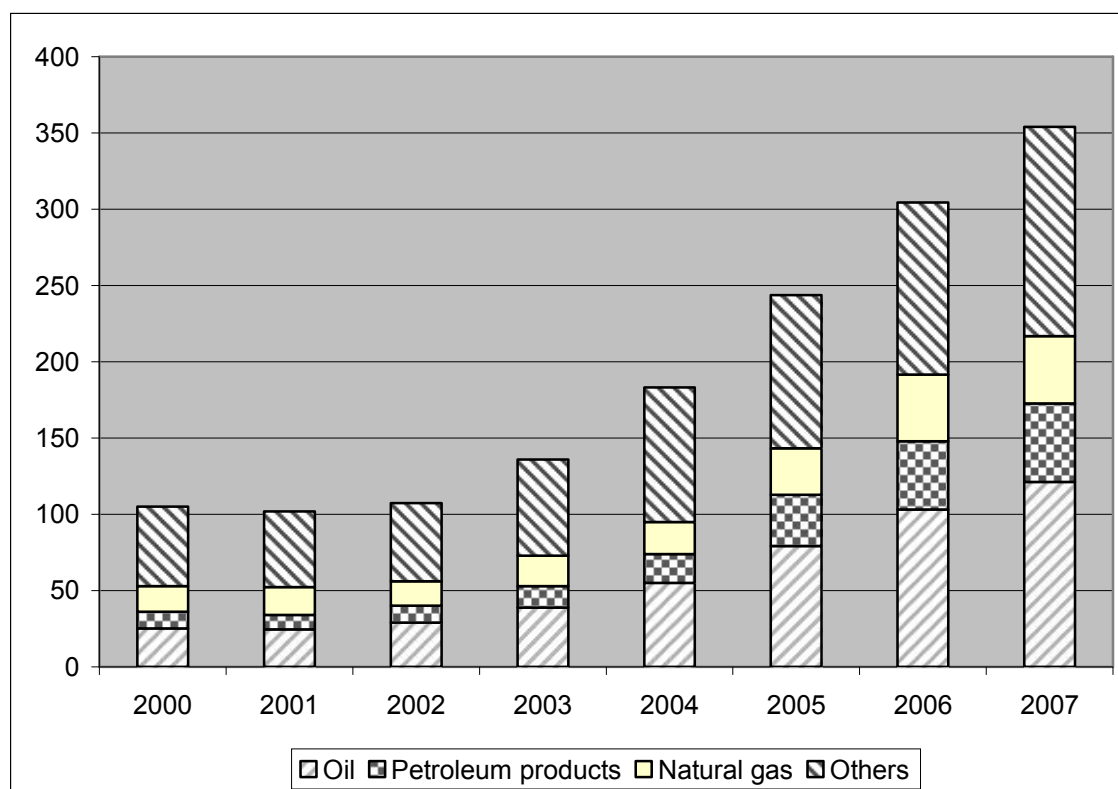


Fig. 30. Russian Export (as USD bn)

The growth in the value of overseas supplies of oil and petroleum derivatives slowed down dramatically when compared with 2006. That happened in the conditions of a loose rise in their physical volumes. In 2007, the country exported as much as 258.96 m t. of oil (104.2% to 2006), with 222.56 m t. supplied to the Far-Abroad and Baltic states (105.4% to 2006), while supplies to the CIS countries accounted for 36.4 m t. (97.7%). Notably, the Russian oil supplies to Ukraine and Belarus were scaled back against their increase to Kazakhstan.

In 2007, Russia exported metals and metal products worth a total of USD 49.9 bn (119.4% to 2006), including the USD 42.8 bn-worth supplies (117.3% to the Far-Abroad countries) and 7.1 bn-worth (134.1%) supplies to the CIS countries.

The proportion of metals and metal products in Russia's export commodity structure accounted for 14.2% (13.7% in 2006), including 14.6% (14.1%) to the Far-Abroad countries and 13.9% (12.6%) to the CIS countries.

The 2007 volume of export of ferrous metals accounted for USD 22.5 bn (119.1% to 2006), including 18.7 bn (115.8%) – to the Far-Abroad countries and 3.8 bn (140.7%) – to the CIS countries.

Table 48

**Value Volume of Russian Export of Oil, Petroleum Products, and Gas  
(in USD m) and Their Share in the Overall Volume of Russian Export (as %)**

	Oil		Petroleum products		Natural gas	
	USD m	%	USD m	%	USD m	%
1992	6,662	12.4	2,202	4.1	6,389	11.9
1993	8,061	13.5	3,061	5.1	6,964	11.7

1994	8,948	13.3	3,398	5.0	7,939	11.8
1995	12,297	15.2	4,108	5.1	13,381	16.5
1996	15,578	17.6	7,442	8.4	14,683	16.6
1997	14,346	16.2	7,145	8.1	16,420	18.6
1998	10,254	13.7	4,262	5.7	...	...
1999	14,101	18.8	4,713	6.3	...	...
2000	25,284	24.1	10,938	10.6	16,644	16.1
2001	24,576	24.1	9,402	9.4	18,303	18.3
2002	28,950	27.0	11,227	10.5	15,897	14.9
2003	38,816	28.6	14,064	10.5	19,981	15.0
2004	55,024	30.0	18,998	10.5	20,918	11.5
2005	79,216	32.5	33,650	13.6	30,424.2	12.9
2006	96,675	31.7	44,217	14.5	42,815	14.1
2007	114,145.2	34.4	51,470.4	14.6	42,755.1	12.1

*Source:* data by Rosstat and the Federal Customs Service.

It was rolled items that dominated the structure of export of ferrous metals. The physical volume of rolled ferrous metals made up 26.8 m t. (94.6% to 2006), with 87% of the ferrous metal exports shipped to the Far-Abroad countries, while the remaining 13% – to the CIS countries.

The 2007 supplies of rolled items to the Far-Abroad countries (in physical equivalent) dropped at 7.9% to the 2006 level, including: sectional iron – at 16.6%, sheet products – at 17.9%. The contraction was caused by the fall of shipments to the Northern American countries (at 85%) and the Asian region (at 40%), while Russia boosted its supplies to the western and eastern Europe at 20% and to the Middle East – at 60%.

Export of steel pipes plummeted by 20% to the 2006 level, as the EU had undertaken measures to protect its domestic market.

The average export prices for semi-finished steel (to the Far-Abroad countries) grew by 25.2% to the 2006 level, those of sectional iron – by 42.6%, and sheet products – 20.4%.

Supplies of rolled items to the CIS countries (in physical equivalent) displayed a 16.1% growth, including those of sectional iron – at 3.2%, sheet products – 34.5%, steel pipes – 2.5%.

The 2007 volume of export of main non-ferrous metals (raw aluminum, refined copper, and raw nickel, which account for 80% of all the non-ferrous metal exports) was worth a total of USD 17.8 bn (122.8% to the 2006 level), including the one to the Far-Abroad countries – USD 17.6 bn (122.2%) and USD 180m (185.5% – to the CIS countries). Meanwhile, the physical volume of export of raw aluminum to the Far-Abroad countries soared by 10.5%, copper – 2.3%, while supplies of nickel were down by 5.5%. The average export prices for aluminum rose by 17%, those for copper – at 10%, and nickel – at 48%.

In 2007, the share of chemicals in Russia's export was 5.9% (against 5.6% in 2006), with its main export items being mineral fertilizers (37%), collastic (8.8%), automobile tiers (5.8%), plastics and artificial resin (5.3%), paint materials (5.2%), and ammonia (4.7%).

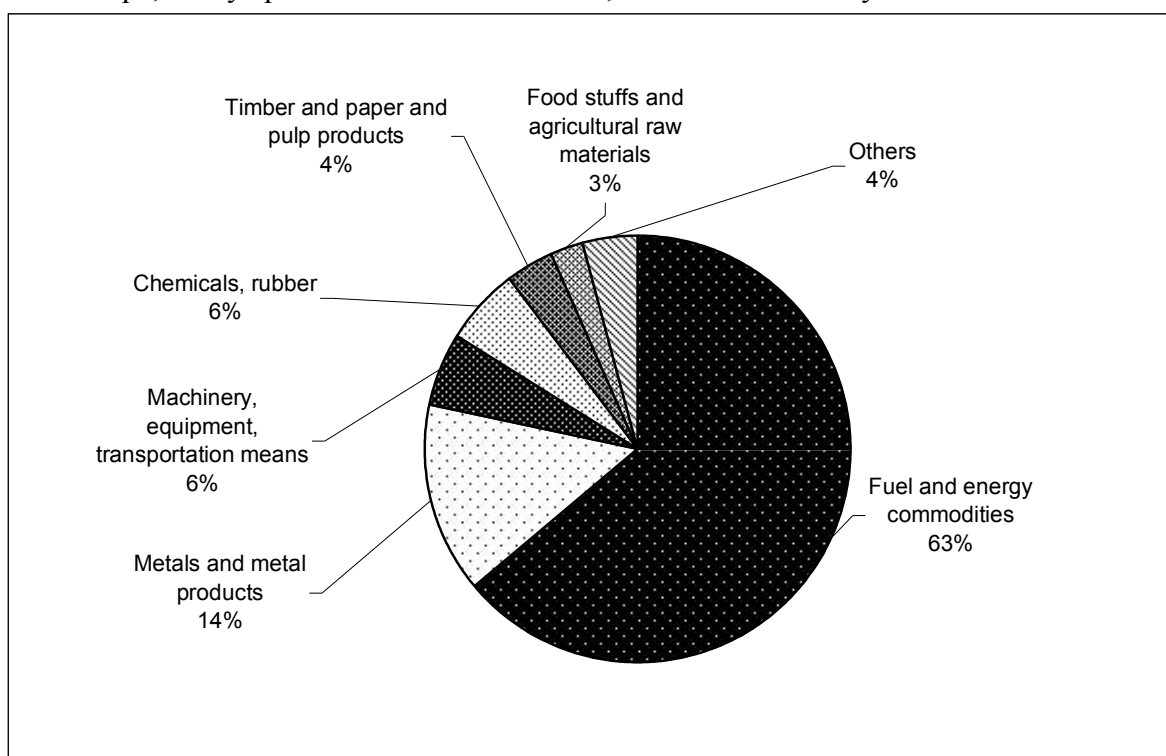
The year of 2007 saw a considerable rise in export supplies of main chemical products. More specifically, export of carbinol rose at 20.1%, mineral fertilizers – 8.5% (including potash fertilizers – at 21.2%), collastic – 0.7%. Meanwhile, there was a fall in export of compound fertilizers (99.5%) and nitrogenous fertilizers (98.1%), as well as ammonia (86.1% to the 2006 level).

The proportion of timber and paper-and-pulp products in the 2007 overall export volume posted a 3.5% growth vs. the 3.2% indicator back in 2006. This occurred due to the price rise for timber, which was likewise noted across practically all the main commodities that fall under this group. For example, the average contractual price for exported plywood was 42.8% up, lumber – 32.3% up, wood pulp – 24.9%, round timber – 31.7% up.

A significant rise in food exports in the structure of Russia’s export is worth a particular attention. In 2007, the displayed a 64.2% growth vis-à-vis the respective period of the prior year, while the proportion of food stuffs and agricultural raw material in the overall volume of Russia’s export rose to 2.6% vs. 1.8% in 2006.

In the current agricultural year (between July 2007 and July 2008) Russia is going to boost its grain export up to 15m t. The country’s 2007 corn crop totaled 87.1m t., which enables the nation both to meet the domestic needs and secure export supplies. In 2007 alone, Russia exported 11.85m t. of grain, and another 12. 5m t. was due to be supplied by January 29, 2008. Since that date a new, greater, wheat export duty came into effect. It makes up 40% of the respective customs value, but not less than Euro 105/t. The duty per se became a prohibitive one, as earlier it was 10% of the customs value, but not less than Euro 22/t.

High wheat prices boosted Russia’s wheat, as well as rye exports. According to the national Corn Union, between July 1 and December 10, 2007, the country exported 63.3 Thos. t. of rye, while in 2006 as a whole – only 30,000 t. The greater export volumes of rye were fueled by a greater rye production in 2007 and high prices for rye on the world market. In 2007, Russia cropped 3.6–3.7 m t. of rye, which meets the nation’s need and enables the country to refuse its importation. In 2006, the crop was 2.96 m t. and import accounted for 20,000 t. In Europe, the rye prices are 310–315 USD/t., while in Russia they are close to USD 230/t.



Source: FCS of RF.

Fig. 31. The 2007 Structure of Russia's Export (as %)

The machine-building export was growing at a far slower pace (13% vs. 2006), with the proportion of machinery, equipment and means of transportation in the overall volume of Russia's export falling from 5.8% reported in 2006 to 5.6% a year later.

Export in this group of goods was propelled chiefly thanks to sales of military equipment. In 2007, the overall amount of export supplies of the Russian military equipment via the state intermediary – Rosoboronexport – made up USD 6.1bn (vs. 5.3 bn in 2006). Behind the record-breaking sales was the renewal of large-scale export sales of Sukhoy-30 MK (52 units, including 16 interceptors and 8 units for the licensed assembly of Sukhoy-330 MKI to India, 6 Sukhoy-30 to Algeria, 10 Sukhoy-30 MKM to Malaysia, and 12 Sukhoy-30 MK2V to Venezuela). The overall value of all the aircraft, along with armament and spare parts, accounted for a half of Russia's overall machine-building export. The aircraft supplies should remain great in 2008, so there should not be a significant drop in the nation's machine-building export sales.

The favorable state of affairs on the world market secured a dramatic rise in contractual prices for Russia's main exports.

In 2007, the proportion of export in production proved to be lower than in 2006 by many major Russian exports.

Table 49

**The Average Contractual Prices for Main Russian Exports  
(supplies to far abroad, as USD/t/)**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Crude oil	118.5	74.4	110.9	179.9	156.4	162.4	181.2	231.9	344.3	429.8	485.4
Oil products	115.7	75.7	94.5	171.9	145.2	147.9	180.2	230.3	340.6	430.1	464.1
Natural gas, thos. cub.m.	88.6	72.2	55.31	85.91	105.21	91.4	112.3	113.6	154.7	–	240.6
Ammonia	113.0	83.1	53.0	97.5	81.7	72.4	118.5	158.3	176.2	195.7	224.2
Nitrogen fertilizers	<b>90.3</b>	<b>58.3</b>	<b>36.8</b>	<b>57.9</b>	<b>61.8</b>	<b>60.6</b>	<b>76.0</b>	<b>103.1</b>	<b>139.1</b>	<b>146.0</b>	<b>197.3</b>
Potash fertilizers	<b>79.7</b>	<b>87.4</b>	<b>86.4</b>	<b>86.6</b>	<b>76.8</b>	<b>74.9</b>	<b>77.8</b>	<b>94.3</b>	<b>133.9</b>	<b>150.3</b>	<b>174.5</b>
Round timber, cub.m.	<b>57.5</b>	<b>46.9</b>	<b>43.5</b>	<b>43.4</b>	<b>45.6</b>	<b>44.8</b>	<b>47.8</b>	<b>56.2</b>	<b>59.6</b>	<b>63.8</b>	<b>84.0</b>
Pulp	373.5	342.9	274.0	352.2	293.4	300.0	321.7	371.9	386.1	436.7	545.6
Commercial paper	383.4	394.0	349.5	386.6	421.7	332.2	338.3	387.9	455.3	498.6	527.0
Cast iron	124.2	104.3	66.8	80.7	86.2	91.1	126.8	242.7	274.4	244.4	313.6
Ferro alloys	819.2	740.8	548.2	625.6	601.7	625.7	634.6	1,097.8	1,582.5	1,492.3	1,673.2
Copper	2,099	1,655	1,495	1,675	1,465.3	1,371.4	1,564.9	2,587.6	3,389.8	6,361.7	6,657.8
Nickel	6,733	5,140	5,761	8,629	5,730.9	6,143.9	8,584.0	12,660.0	14,242.5	22,674.4	33,852.1
Aluminum	1,401	1,352	1,157	1,296	1,176.3	1,036.9	1,050.0	1,162.1	1,299.2	1,633.5	1,984.0

Source: the Federal Customs Service.

Table 50

**The Share of Export in Production of Major Goods (as %)**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Crude oil	41.7	41.6	45.2	44.2	44.8	46.5	49.7	53.1	56.1	54.0	57.0	52.8
Oil products	32.4	34.7	32.9	33.6	36.3	35.5	40.8	40.9	42.1	46.7	47.8	49.1
Natural gas.	33.1	35.2	34.5	34.6	33.2	31.2	31.2	32.7	33.9	34.2	31.3	28.9

Coal	15.8	14.5	15.7	16.7	25.7	22.2	23.8	30.8	52.9	51.8	53.8	40.4
Nitrogen fertilizers	85.9	80.6	86.5	83.2	82.9	81.8	78.1	76.1	78.5	74.5	62.7	63.2
Raw timber	23.2	29.3	34.1	40.1	42.4	53.4	51.0	46.1	49.6	60.1	61.2	57.2
Pulp	85.7	82.8	77.6	79.1	82.4	83.7	85.1	82.9	77.5	79.7	79.2	79.3
Commercial paper	72.2	70.1	74.6	70.6	69.0	67.4	68.6	66.0	65.6	61.2	57.3	60.9
Sheet iron and steel	59.7	58.6	63.5	60.6	55.3	43.0	50.5	47.1	46.1	48.4	39.7	41.2
Passenger cars	10.4	4.9	8.3	7.3	12.2	10.1	12.3	11.7	11.8	12.5	10.7	10.0
Trucks	17.4	10.7	9.6	8.3	7.0	12.3	20.8	19.3	23.0	22.8	20.6	27.3

Source: Rosstat, the Federal Customs Service.

In 2007, the growth rate in export to the CIS countries considerably outpaced those of export on the whole. Export to the Near-Abroad countries soared by 23.9%, while to the Far-Abroad ones – just by 15.7%. The value volumes of export chemical produce to the CIS countries surged at 25%, those of forestry and wood-working products – at 27%, ferrous metals – at 58%, products of the power machine building – 32%, electric machinery – 38%, means of ground transportation – at 29%.

This evidences that the CIS countries still form a critically important market for the Russian export of highly-processed produce, while the continuous advancement of the post-Soviet economies allows one to extend the volumes of supplies therein.

## Import

The year of 2007 saw a record-breaking volume of import, which has proved to be considerably greater than in the past 17 years. Russia imported goods worth a total of USD 223.1 bn, or at 35.4% more than in 2006. The non-CIS countries contributed with their USD 191.2 bn-worth supplies (up 35.4%), while the proportion of import from the CIS countries totaled USD 31.9 bn (up 29.6%). The share held by the non-CIS countries in the overall volume of the 2007 Russian import accounted for 85.7% (vs. 84.6% in 2006).

As in the previous year, the 2007 upsurge in import to Russia likewise became possible thanks to the growing physical volumes of import, whose growth rates were considerably greater than in 2006, while price rise growth rates were fairly moderate over the year. The role played by the price factor intensified in the second half of the year – more specifically, that was noted in the segment of food stuffs and agricultural raw materials.

Table 51

### Russia's Import (in USDm)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Import, total	68.1	72.0	58.0	39.5	44.9	53.8	60.5	76.1	97.4	125.3	163.9	223.1
Including:												
Far-Abroad countries	47.3	53.4	43.7	29.2	31.4	40.3	48.2	60.1	76.4	103.5	138.6	191.2
Growth rates, as % to the prior year												
The physical volume index	98.1	121.1	89.0	84.4	129.2	129.1	117.6	119.2	124.2	122.4	130.1	127.1
Price index	100.2	94.8	92.3	82.1	86.7	94.3	93.4	98.7	106.1	106.5	105.5	107.6

Source: CBR, MEDT.

Main factors behind the rising imports were high growth rates of the national economy and the population's incomes, plus the continuous appreciation of the Rb. The goods structure of Russia's import is dominated by machinery and equipment (49.1% of the overall volume of

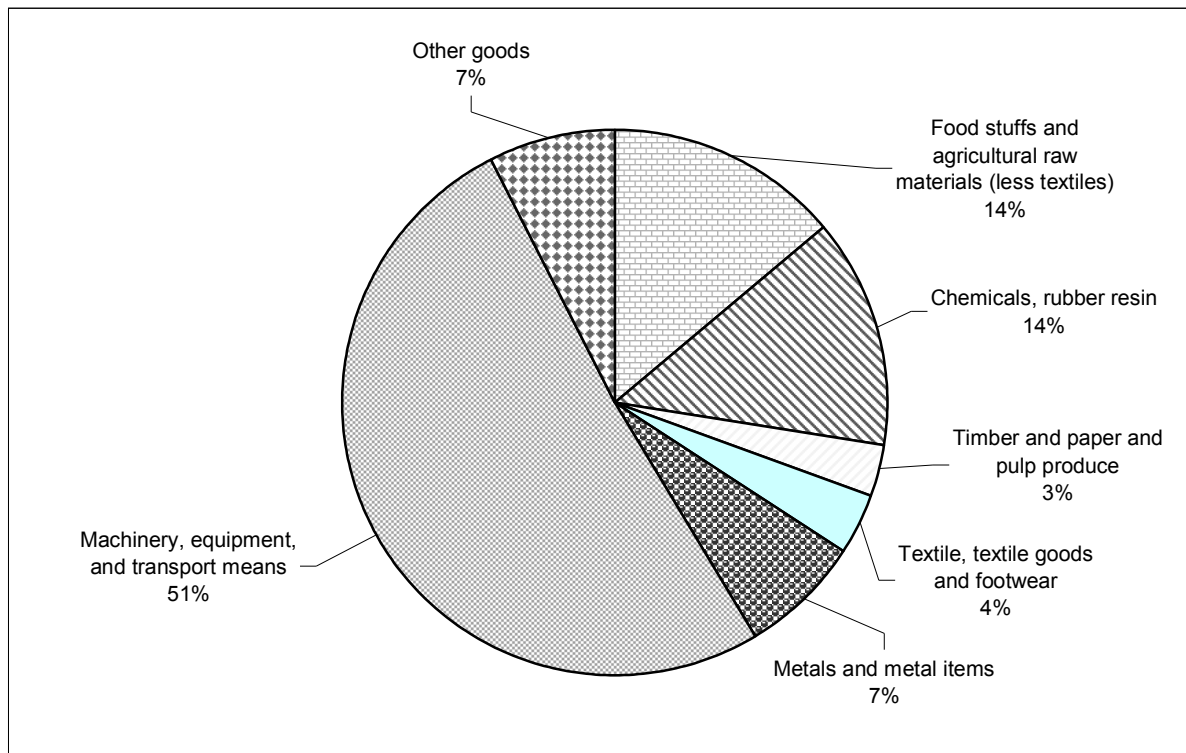
import vs. 47.7% reported in 2006). The value volume of import of machinery and equipment grew by 56.1%.

The share of chemical products accounted for 13.9% vs. 15.9% reported in 2006. The goods assortment of the chemical and petrochemical import is considerably broader than the nation's export supplies of analogous goods, and, while the latter are mostly formed by raw materials, imports largely are products of intense processing.

The specific weight of food stuffs and agricultural raw materials in 2007 accounted for 13.7% vis-à-vis 14.3% in 2006. Import flows were to some degree affected by the price rise for foods stuffs on the world markets. Thus, the import of wheat fell by 66.7% as compared with 2006, while that of corn – at 68.4%. At this point, it should be noted that other imported food items likewise grew at a rate slower than the average one.

The greatest growth rates in import supplies were noted in the following sectors: footwear (twofold), Apparel (at 90%), electric machinery and equipment (51%), ferrous metals and products (95%), means of ground transportation and spare parts (81%). Considered in terms of the proportion held in the value structure of import supplies, it is means of ground transportation and spare parts that clearly dominate (17.6%) therein. So one can draw a conclusion that one of the critical factors that propelled import flows in value equivalent in 2007 became the booming automobile production in the frame of industrial assembly agreements concluded between the RF Government and the largest international automakers.

As well, it is worth noting an impressive growth in the value flows of import of power production equipment units (up 47% vs. 2006). Given their great costs and weight in the aggregate volume of the value import in Russia (17%), it can be assumed that large-scale investments in the Russian power-generation sector have also fueled the rise in import.



Source: FCS of RF.

*Fig. 32. Commodity Structure of Russia's Import in 2007 (as %)*

Whereas the importation of spare parts for automakers operating in Russia's territory can be viewed as import of intermediate goods, while that of power-generation equipment – as investment import, it can be argued that in addition to consumer imports, these two sectors have begun playing a notable part in shaping import flows.

As concerns the situation with import of clothing, footwear, electric machinery and equipment, its analysis shows that the rise in the value volume of these goods to a significant extent can be explained by progress in the customs administration's operational standards and a consequent pulling transactions involving the goods in question out of the effect of the so-called "gray schemes". That said, one should expect a further substantial deceleration of the growth rates of value volumes of import across these groups of goods.

That the customs authorities' assault on the "grey import" has been a serious success can be proved by comparing the data by CBR and those by FCS. The former are prepared according to the balance-of-payments methodology and appear somewhat different from the FCS's ones. The CBR's statistical data accounts import without crossing the customs border (such as fuel purchases by Russian vessels from overseas ports, among other things), while, most importantly, the Bank of Russia adds the "gray import" volumes. Accordingly, FCS estimates the 2007 import at the level of USD 191bn, while CBR cites the figure of 223.06bn, so the approximate estimation of the "gray import" totals USD 23.4 bn (vs. 27.2 bn in 2006). It means that we witness a sustained reversal – in 2000–05 the "gray import" accounted for 21–24% of the aggregate volume of the nation's import, in 2006 – 20.1%, while in 2007 it shrank to 10.5%.

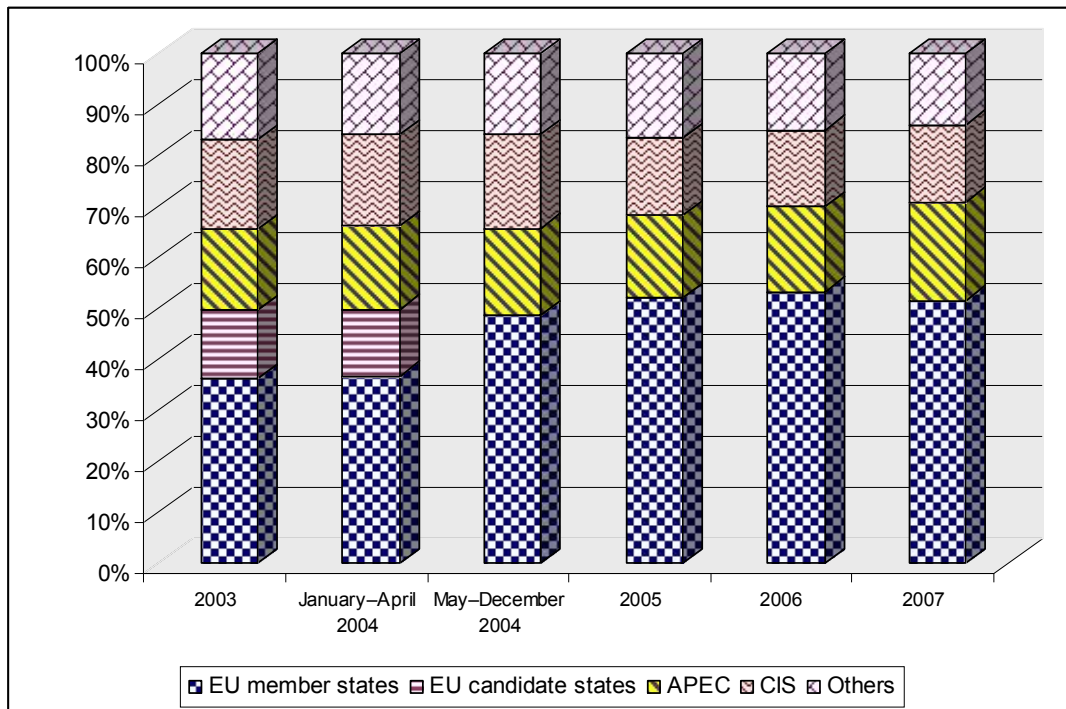
### The Geographical Structure of Russia's Foreign Trade

The country's 2007 geographical structure of foreign trade was still dominated by the EU member states – the volume of the Russia-EU foreign trade turnover posted a 15.6% growth vis-à-vis the respective period of the prior year and made up USD 224.6 bn, with exports soaring at 6.1% and imports up at 42.8%. Notwithstanding the impressive indicators, the proportion of the EU countries in Russia's foreign trade turnover slid at 2.9 percentage points vs. 2006 and stood at 51%.

The EU member states left behind the second biggest group of countries, that is, the APEC member states. Their specific weight in Russia's foreign trade turnover in 2007 climbed up to 19.2% vs. 17.1% in 2006 and was worth a total of USD 83.6 bn. All the figures were up: 49% by the foreign trade turnover, 16.6% – by export, and 64.2% by import.

The CIS countries, which held a 14.9% share in Russia's foreign trade turnover, held the third position, with the trade volumes surging by 25.4%, export – by 20.3% and import – by 35.4%.

That the geographic structure of Russia's foreign trade underwent changes vs. 2006 can be attributed to a growing share of the Asian countries in its total volume of goods turnover: specifically, China's share grew from 6.4% to 7.3%, Japan's from 2.7 to 3.6% and the Republic of Korea's – from 2.2% to 2.7%.



Source: FCS RF.

Fig. 33. The Geographical Structure of Russia's Foreign Trade

Meanwhile, the alarm bell tolled for some European nations, as Germany, the Netherlands and Italy's shares in Russia's foreign trade turnover began to shrink from 9.7% to 9.5%, 9.1 to 8.5%, and 7.2% to 6.5%, respectively.

By contrast, some CIS countries boasted a greater trade turnover with Russia: Kazakhstan – from 2.9% to 3.1% and Belarus – from 4.6% to 4.7%, and that was propelled by growing imports, as well as exports.

Nonetheless, Germany has retained its position as a leading Russia's trade partner among the Far-Abroad countries, with the Russian-German goods turnover worth a total of USD 52.9 bn (123.0% up vs. 2006), followed by the Netherlands – 46.6 bn (120.9%), China – 40.3 bn (140.6%), Italy – 36.1 bn (117.0%), Turkey – 22.5 bn (132.1%), Japan – 20.1 bn (164.1%), Poland – 17.9 bn (120.4%), USA – 17.5 bn (116.2%), UK – 16.7 bn (118.4%), and France – 16.4 bn (121.4%).



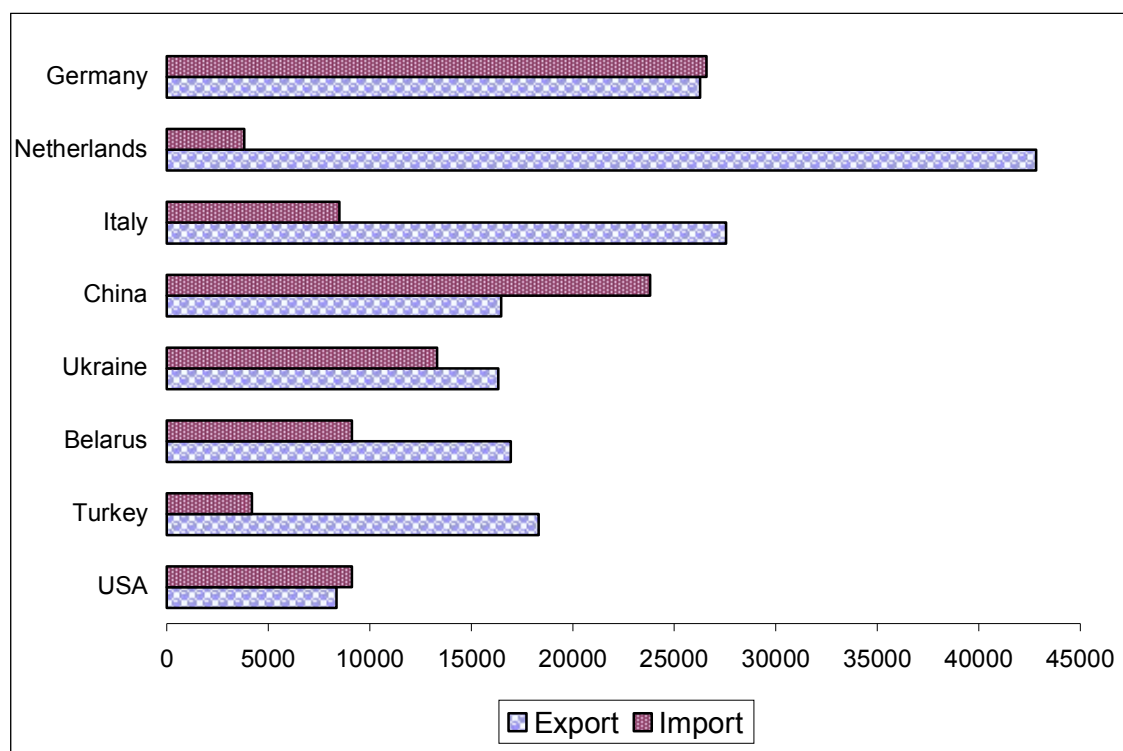


Fig. 34. Major Trade Partners (in USDm)

Meanwhile, despite impressive figures, the number of the countries in trade with which Russia has negative balance between export and import has been on the rise in 2007 (24 vs. 19 in 2006).

The change in the correlation between export and import was most dramatic in Russia's trade with Germany, US, and China. In 2006, Russia enjoyed steadily positive trade balances with these countries, which in 2007 became negative.

The 2007 bilateral Russia-China's trade turnover hit a new record value of USD 48.61bn. and posted the 44.3% growth vs. 2006. This is the greatest value since 1992. It was China's import to Russia that displayed the greatest growth rates.

China's supplies of machinery and equipment have formed a key import group, whose growth rate in 2007 was close to 90%, or USD 8.7 bn in value equivalent. Import of vehicles was likewise on the rise and practically doubled over the year. The traditional Chinese exporters were equally happy with a 278% rise in their supplies.

Russian supplies to China grew by humble 12%, or USD 12.7bn, with oil, round timber and chemicals still dominating its export thereto.

The analysis of the current structure of the Russian-US trade exposes its asymmetry: while Russia's export is formed mostly by oil and petroleum products (52.3%) aluminum and aluminum goods (11.7%), ferrous metals (7.3%) and inorganic chemistry items (7%), its machinery, equipment and vehicles account for just 12%, followed by other major exports, such as uranium, platinum, nickel, as well as garments and seafood.

Traditionally, Russian imports from the US are dominated by various machinery and equipment (oil and gas equipment, aircraft, electric equipment, optical and measuring devices, and medical equipment), as well as grain and meat products. So, Russia's export to the US is

dominated by raw materials, while the share of finished products is low, and Russia's imports from the US are formed by technologies and food stuffs.

The negative balance of Russia's trade with Germany appeared the most surprising phenomenon. Russia has been the biggest oil and gas exporter to Germany, and the negative balance of trade can to some extent be attributed to the downfall in oil prices in the beginning of 2007, while the last warm winter told on the volume of Russian supplies of natural gas. These factors aside, the major cause became a dramatic (at 44.5%) surge in import supplies from Germany, which were formed chiefly by production equipment and vehicles.

## Foreign Trade Regulation

### *General Regulation*

In December 2006, the State Duma passed the Federal Act "On special economic measures", which took effect as of January 2007. Special economic measures are the prohibition to exercise certain activities with regard to a foreign state and (or) foreign organizations and citizens and (or) laying an obligation to exercise the noted activities, and other restrictions. Such measures can be aimed at: suspension of implementation of all or a part of economic and technical cooperation programs, as well as military collaboration programs; prohibition of financial transactions and imposition of restrictions on their exercise; prohibition of foreign trade operations or imposition of restrictions on their exercise; termination or suspension of the effect of international trade agreements or other international agreements in the area of foreign-trade connections the RF has entered into; prohibition or limitation of calls to the RF ports and usage of the RF air area or its certain areas; imposition of restrictions on exercise of tourist operations; prohibition of, or refusal from participation in international research and scientific programs and projects.

Special economic measures are of temporary nature, and they are applied independently of other measures that aimed at protection and securing the RF interests, as well as its citizens' rights and freedoms. They are employed in the event there arises integrity of circumstances that require an immediate reaction to an internationally unlawful act or a hostile act by a foreign state or its authorities that poses a threat to the RF's interests and security and (or) violates its citizens' rights and freedoms, as well as in compliance with the UN Security Council's resolutions.

On January 11, 2007, the presidential Decree "On improvement of the state regulation of export and import of precious metals and precious stones" came in effect. The Decree lifts quantitative limitations on export of these items.

Export of the following precious metals and precious stones requires license: affined gold and silver, in the form of bars, powder, granules; affined platinum and other platinoids, in the form of bars, powder, granules; nuggets of precious stones not subjected to affinage; natural pearls, natural precious stones, both shone and unshone, unique amber substances; as well as, ashes, concentrates and semi-finished products of nonferrous metals, ores and concentrates of precious metals, scrap and waists of precious metals, and unprocessed precious metals.

Licenses are not required for export of items made of precious metals, items of production and technical nature of precious stones, those of precious stones, and coins of precious metals.

Private individuals are exempt from customs duty if they export precious metals and stones worth up to USD 10,000.

The RF President has banned export and transit of firearms and goods and technologies that can be used for production of ABC weapons. The ban also concerns transportation of the said goods by Russian vessels and aircraft, provisions of related services and training of the respective cadres, conduct of financial transactions with individuals who take part in creation of ABC weapons or support such activities, purchases of the said goods by Russian private individuals, visits of private individuals, who support or encourage creation of ABC weapons, to the Korean People's Democratic Republic (Decree No. 665 of May 27, 2007).

### *Export Regulation*

#### **Non-Tariff Measures**

The RF Government set procedures with regard to re-export of certain goods originated from the RF territory by other member states of the Eurasian Economic Community. Specifically, organizations from these countries may re-export such goods only if they have a due permit in writing issued by the RF MEDT. The Ministry grants such a permit providing an applicant consequently transfers to the RF budget an amount of export customs duty at a rate effective in RF as of the date of the customs clearance of the re-export operation (RF Government's Resolution No. 66 of February 3, 2007).

With his Decree No. 1083 of August 20, 2007, (effective as of November 24, 2007) the RF President approved the list of microbes, toxins, and equipment and technologies subject to export control.

#### **Tariff and Tax Measures**

In 2007, export duty rates were modified across 63 items, save for oil and petroleum products. As for the latter (73 positions), duty rates were modified once in two months in compliance with the RF Act "On customs tariff".

Export customs duties with regard to crude and oil products produced of bituminous rock, as well as light and dark-oil products exported from RF to outside of the states that participate in the Customs Union, were modified as follows (see *Table 52*).

*Table 52*

#### **Export Duty Rates on Oil and Oil Products in 2007 (as USD/t)**

	<b>Oil</b>	<b>Oil products</b>	
February 1	179.7	133.4	71.8
April 1	156.4	117.7	63.4
June 1	200.6	147.5	79.4
August 1	223.9	163.2	87.9
October 1	250.3	181	97.5
December 1	275.4	197.8	106.6

*Source:* Resolutions of the RF Government.

Keen to lower the export volumes of unprocessed timber, the RF Government radically changes its export policy with regard to wood-working produce. Presently, Russia holds 40% of the world market of raw coniferous timber, and it lags far behind the countries with the most advanced forestry sector, so far as the intensity of processing of raw timber is concerned. Given that, Russia nonetheless has lately retained a very liberal customs regime in respect to these

goods. The export duty rate on round timber was just 6.5% of its customs value, which was far lower than those applied by Brazil, Canada, US, and other exporters.

The raw timber export volume to the Far-Abroad countries tripled over the past 10 years. In 2005, it accounted for 47.4m. sq.m., in 2006 – 50.4m sq.m. It is worth noting, however, the 2006 export growth rate was 6.3% vs. 15.8% reported in 2005. The slowdown of the export growth rate can be partly explained by the increase of the specific component of the export duty from 2.5 Euro to 4 Euro/cub.m. effective since June 1, 2006.

Radical integration into the world market necessitates pursuance of a certain export policy strategy, which primarily concerns raw timber. In February 2007, the RF Government produced its Resolution No. 275. Its core issue is a three-stage increase in the level of export customs duties on individual kinds of raw timber, except for small merchantable birch wood, as well as finewood and hardwood – since June 1, 2007, the specific component of the export customs duty was set at the level of Euro 10/1 m<sup>3</sup>, since April 1, 2008 – Euro 15/1 m<sup>3</sup>, since January 1, 2009 – Euro 50/1 m<sup>3</sup>.

The Government earlier undertaken measures to reduce export of raw timber and encourage the domestic wood working. Specifically, it zeroed import duties on main kinds of high technological equipment not produced in Russia (over 600 items) and abrogated export customs duties on over 300 kinds of forestry and paper products with a high value-added (slabs, plywood, commercial pulp, mass kinds of paper and cardboard). At the same time, the Government increased export customs duties on individual kinds of timber. To protect the domestic market, import customs duties on furniture were adjusted, while exporters received support in the form of a subsidized interest on export loans.

The Customs Code of RF was modified with regard to coniferous and hardwood (birch and asp) sawnwood, while the respective import customs duty rates remained unchanged. Meanwhile the export customs duty rate on converted (parallel to grain) wood (birch and asp) and coniferous sawnwood (in the form of molded strips) was set at the rate of 0% of their customs value (vs. the previous 10%), but no less than Euro 5/1 m<sup>3</sup>. The RF Government Resolution on the subject took effect on June 14, 2007 (adopted on April 10, 2007, No. 15).

The RF Government set zero export customs duty rates on some kinds of 6mm-plus thick sawnwood since June 22, 2007, with the respective rate on sawnwood falling under position 4407 10 being 3% of its customs value, but not more than Euro 2.5/1 m<sup>3</sup>, while those on positions 4407 93, 4407 94 and 4407 99 – 10% of their customs value, but not more than Euro 5/1 m<sup>3</sup> (the RF Government's Resolution No. 290 of May 15, 2007).

Since June 19, 2007, natural calcium phosphates and other complex mineral fertilizers containing azote and phosphorus became subject to zero export customs duty rates, while prior to that date they had accounted for 6.5% of the customs value of calcium phosphates and 3% – on the said mineral fertilizers (Government Resolution No. 291 of May 15, 2007).

Since July 16, 2007, the export customs duty rate on coal coke and coal char was lowered from 6.5% of their customs value to 0% (Government Resolution No. 369 of June 12, 2007).

The Government ruled to exempt from export customs duty the export of rapeseed and spring rape originated from the territory of the Special Economic Zone in Kaliningrad Oblast, which had previously accounted for 15% of their customs value, but not less than Euro 3/t. (Government Resolution No. 570 of September 10, 2007).

With its Resolution No. 660 of October 10, 2007, the RF Government set the export duty on wheat at the level of 10% of its customs value, but not less than Euro 0.022/kg, as well

as on barley – at the level of 30%, but not less than Euro 0.07. The Resolution came in effect in 30 days upon its publication and will be effective through April 30, 2008. This is one of key measures the Government has undertaken in the frame of its fight against the price rise on the domestic market, for it has to strike a balance between interests of the domestic agrarian producers, the struggle for whose products, primarily, grain, has intensified on both domestic and international markets, and the domestic consumers. High grain prices on the world market have enabled the Russian agrarians, for the first time in many years, to collect profits and bolster their output. In 2007 to 2006, Russian wheat exports grew 2.6 times in value equivalent, with the wheat prices soaring at 77.5% and physical volumes – at 48.8%. Once introduced in November against the background of declining world prices, the export duties on grain lowered the export capacity and created surplus on the domestic market.

### *Import Regulation*

#### **Non-Tariff Measures**

The Federal Customs Service has revised application of individual provisions of Federal Act No. 248-FZ of December 29, 2006 “On introducing amendments to the Federal Act “On state regulation of production and turnover of ethyl alcohol and alcoholic products”. Since January 2007 one no longer needs to seek licenses to import alcoholic products packed into metal cans with a capacity not more than 450 ml; to import ethyl alcohol and alcoholic products for the official use by diplomatic or other official representations of foreign states; to import ethyl alcohol and alcoholic products designated for the displaying as samples at exhibitions or conduct of their certification in quantity of not more than 5 bottles or other tare (Letter by FCS of RF No. 01-06/3517 of February 1, 2007).

Since June 27, 2007, Bulgaria and Romania have been excluded from the list of countries eligible for the RF foreign trade preference scheme (Government Resolution No. 173 of March 22, 2007).

The Federal Service for Veterinary and Phytosanitary Supervision imposed restrictions on import of rice, sesame and peanut from India (Letter by FCS No. 06-73/17473 of May 10, 2007).

The Federal Service for Veterinary and Phytosanitary Supervision stated that rice originated from Thailand should be imported since May 2007 under submission of certificates of the Thai Ministry for Agriculture and Cooperatives (Letter by FCS No. 06-73/17961 of May 15, 2007).

### *Tariff and Tax Measures*

In 2007, the Government modified customs import duty rates by 1,570 tariff positions, including 307 goods of the agricultural group. The 2007 average weighed import customs duty accounted for 11.25%.

In the late-2006, the RF Government amended the customs tariff with regard to automobile components imported for the sake of industrial assembly, as well as assembly parts and a series of raw materials required for production of aircraft engines. These goods were subjected to temporary (for the term of 9 months beginning January 2, 2007) customs import duty rates between 0 and 5% of their customs value vs. the previously applied 10–20% rates.

Once the said term was over, the decision was made not to extend it, but to make the duty-free import of the said goods permanent. With its Resolution of October 1, 2007, No. 628,

the Government set, on a permanent basis, zero import customs duty rates with regard to automobile components imported for the purpose of industrial assembly and a series of raw materials for production of aircraft engines.

Thus, the RF Government is keen to bolster the domestic industrial assembly of foreign automobile brands and to give impetus to production of aircraft engines. As a reminder, import customs duties on imported cars are a. 25%, while assembly parts imported for the purpose other than industrial assembly are subject to the 15% customs duty.

As a reminder, the concept of “industrial assembly” should meet three criteria:

1. The period, in which the cycle of the welding, painting and assembly of automobile bodies should be arranged, should make up 18 months for an already operating production facility and 30 months – for a newly created one.
2. The latter production facility should have the annual capacity of not less than 25,000 units under the two-shift operational mode.
3. Volumes of imported components should be down at 10% within 24 months upon the welding/painting/assembly cycle is put in operation, at another 10% within 42 months, and at yet another 10% within 54 months from the start (i.e. at 30% in total within 10 years).

The agreements on industrial assembly have already attracted into Russia Ford, Renault, Kia, and Toyota, while Fiat and SsangYong have opted for a joint-venture and Volkswagen, Nissan, GM, Peugeot-Citroen and Suzuki expressed their interest in establishing automobile plants, as per respective agreements with Russian counterparts.

Since February 10, 2007, the RF authorities imposed temporary customs import duty rates effective for 9 months on toluene and isocyanate, PVC resins, polyethylene glycol with the hydroxyl number not more than 100 of 0% of their customs value and the 5% rate of the customs value – on foamed polystyrene. The permanent customs import duty rates on these chemicals were 5 and 5%, as well 10 and 10%, respectively (Government Resolution No. 13 of January 16, 2007).

Since February 19, 2007 through December 31, 2007) the effective customs duty rates on fresh and deep-frozen veal imported over the 2007 tariff quota were lowered from 40% of the customs value, but not less than Euro 0.4/kg, to 30%, but not less than Euro 0.3/kg (Resolution No. 17 of January 17, 2007).

Since February 23, 2007, temporary customs import duty rates were set with regard to black and green tea supplied in packages over 3 kg. The permanent customs duty rate on these goods is 5% of their customs value (Resolution No. 2 of January 18, 2007). The term of effect of the temporary customs duties was 9 months, and they triggered positive changes and helped saturate the market. Thus, in the 9 months of 2007 the physical volume of import supplies of tea in RF grew at 9.4%.

On November 10, 2007, the Government ruled to set the permanent zero import duty on black and green tea, which does not originate from Russia, and some kinds of unprocessed skin. The latter measure is aimed at ensuring the domestic producers would have enough of stock of raw material to keep the leather production on the rise.

As well, the Government passed its Resolution on setting the temporary zero rate of import customs duties on individual kinds of nuts and seeds for the term of 9 months since February 26, 2007, including such products as shelled cashew, almond, hazelnut, and sesame seeds. The previously applied rate was 5% of the customs value (Government Resolution No. 41 of January 23, 2007). With its Resolution No. 756 of November 6, 2007, the RF Govern-

ment introduced permanent zero customs import duty rates on the following kinds of nuts and seeds: shelled cashew, shelled and unshelled almond, shelled hazelnuts, and sesame seeds.

Also, the seasonal duty was introduced on imported rice and rice products – it totaled Euro 0.12/kg between March 13 and May 31, 2007 and between October 1 and December 31, 2007. The regular rate is Euro 0.07/kg (Resolution No. 85 of February 8, 2007).

Since July 26, 2007, a nine-month temporary import customs duty rate was set on some kinds of new agricultural combine harvesters. It amounted to 5% of their customs value. The permanent rate is 5% of the customs value, but not less than Euro 100 per kWatt of their engine capacity (Resolution No. 393 of June 20, 2007).

As well, the Government set zero temporary import customs duty rate on corrosion-resistant sheet steel rolled items that contain nickel. The duty was to be effective for 9 months beginning August 3, 2007. The earlier set permanent duty was 5% of the customs value of the said goods (Resolution No. 416 of June 29, 2007).

Temporary customs import duty rates were introduced on individual kinds of tropical oil for the term of 9 months, beginning September 12, 2007. Zero rate was introduced on technical or industrial-use oil, while the 5% rate was set on oil packed in boxes, canisters, barrels with the net weight of up to 200kg. The previous rates were 5 and 15% of the customs value of the said goods, but not less than Euro 12/kg. (Resolution No. 435 of July 9, 2007).

Vessels registered with the Russian International Ship Register became exempt from the import customs duty since July 26, 2007 (Resolution No. 448 of July 16, 2007).

Temporary customs import duty rates on individual kinds of rolled goods of aluminum alloys amounting to 10% of their customs value became effective as of September 16, 2007 (Resolution No. 506 of August 11, 2007).

Since September 16, 2007, the unalloyed aluminum became subject to zero customs import duty rate effective for 9 months, while this rate had earlier accounted for 10% of the customs value of such goods (Resolution No. 507 of August 11, 2007).

Since October 16, 2007, civil aircraft became subject to temporary customs import duty rates: the aircraft with the weight up to 20 t. and the number of seats up to 19 are subject to the rate of 10% of their customs value, while other aircraft with the weight over 15 t are subject to the duty rate of 20%. The previously applied rate was 20% of the customs value of aircraft (Resolution No. 508 of August 11, 2007).

Individual kinds of garments from natural fur are subject to a temporary customs import duty rate. The rate is 10% of their customs value but not less than Euro 30/pc and it became effective as of September 18, 2007. Children's apparel from lambskin, rabbit or hare fur is subject to the 7.5% rate (of their customs value), but not less than Euro 10/pc. The permanent duty rate on these kinds of apparel had was 20% of their customs value, but not less than Euro 30/pc and 15% of their customs value, but not less than Euro 10/pc., respectively (Resolution No. 518 of August 15, 2007).

In the period between October 28, 2007 and July 27, 2008, the temporary customs import duty rate on module construction structures for medical purposes is in effect. The rate accounts for 5% of their customs value, while module construction structures for other purposes are still subject to the previous, 20%, duty rate (Government Resolution No. 532 of August 23, 2007).

The RF Government approved zero temporary import customs duty rate on digital cameras for the period between October 7, 2007 and July 6, 2008. The previous rate was 5% of their customs value (Government Resolution No. 552 of September 3, 2007).

The RF Government introduced a temporary customs import duty rate for the term of 9 months on videogames with the use of TV-receiver, effective as of October 11, 2007. The temporary rate is 10% of their customs value, while the earlier set permanent rate was 20% (Government Resolution No. 564 of September 7, 2007).

The temporary customs import duty rates that equal 10% of the customs value of the respective goods were set on hydride-nickel, lithium-ion and other electric accumulators, other parts for telephone units and digital integral monolith electronics. The rates were introduced for the term of 9 months, effective since mid-October 2007. The earlier set permanent rates on these goods were 5, 10, and 10% of their customs value, accordingly (Government Resolution No. 582 of September 11, 2007).

With its Resolution No. 674 of October 15, 2007, the RF Government lowered import duties on dairy products – from 15 to 5% of their customs value. The rate is effective for 6 months.

This change concerns milk, butter, and cottage cheese, while regular cheese, which, depending on the sort, to which differentiated rates (Euro 0.65–0.7/kg) had been applied, has become subject to a uniform rate of Euro 0.3/kg.

The world has presently faced shortages of dairy raw materials, which were fueled by a considerable growth in consumption of dairy products, which resulted in the price rise for them. And if it was not enough, the situation was aggravated by an intense drought in the producer countries and the price rise for feeders. Challenged by a drastic shortage of raw materials on the market and rising prices for powder milk, Russian producers had to raise their prices in order to compensate for their losses.

This has recently become a common trend on the market, and the noted cuts in duty rates will to some extent help bridge the gap between the domestic and international prices, rather than reverse the general trend to price rise for dairy products.

## Accession to WTO

Russia has presently found itself at the final stage of negotiations on its accession to WTO. In 2007, there took place a series of multilateral consultations on agriculture and application of sanitary and phytosanitary measures, and several rounds of talks on systemic issues.

The country signed protocols on completion of bilateral negotiations on accession to Russia's market of goods with El Salvador, Costa Rica, Guatemala, Vietnam and Cambodia. So, Russia has successfully completed bilateral talks with 58 out of 60 members of the Task Force on Russia's accession to WTO.

As noted above, the talks are held both in the multilateral and bilateral formats. The country has to deal with multiple counterparts to negotiate two major issues: namely, duties on export of round timber and a maximal permissible degree of support of its agricultural sector. The most problematic remains the issue of subsidies to the agrarian sector. Plus, there has been no notable progress so far at the negotiations with EU on export duties on timber. As a reminder, the Russian party's fundamental stance is a limited access to Russian subsoil resources for foreign companies and the bolstering of the domestic wood-working sector, and the Russians will unlikely to compromise on these issues.



Bilateral meetings, too, engender problems. For instance, Saudi Arabia and the UAE are keen to get access to Russia's strategic oil and gas fields, while Georgia frowns at Russian customs posts in Abkhazia.

Meanwhile, Russia and Saudi Arabia are close to concrete agreements on goods in the frame of the process of Russia's accession to WTO, but so far as services are concerned, the negotiations are in full swing, for the Saudi insist on Russia's undertaking obligations on granting them access to its natural resources.

The negotiations with the UAE have progress farther than those with the Saudi, as their requirements are far narrower, and the parties have practically agreed on the services sector. However, the Russian received a new inquiry regarding the trade regime with regard to the following goods: aluminum, porcelain, ceramics, bricks, among others.

At a meeting with the Georgian delegation in Geneva on February 20, 2008, the parties have agreed on joint approaches to the Georgian' party's requests, particularly in respect to the border control checkpoints and control over the bilateral trade. The experts continue to seek conciliation on the remaining individual issues and are getting ready for the next round due in late March through early April 2008.

The RF Government forecasts possible timelines of completion of all the talks with much caution, as there may soon arise new participants and new issues. Once Ukraine joins WTO in 2008, it is most likely to set additional barriers for Russia. Once granted a legitimate membership in WTO, Ukraine will enjoy the right to immediately enter the Task Force on Russia's accession to WTO and to announce its intention to launch bilateral talks with Russia on accession to markets for goods and services, as well as on systemic issues, including pricing, customs procedures, protectionist measures in trade, etc.

Despite various statements on inappropriateness of such negotiations, one should proceed from the assumption that the Ukrainian party can put forward quite stringent requirements in respect to a broad array of problems associated with the bilateral trade and economic relations. Suffice it to say, presently Ukraine finds itself among the group of Russia's leading trade partners that raise the biggest number of trade disputes and effective restrictions. The Ukrainians, for their part, estimate the imbalance in the bilateral trade with Russia to make up a. USD 6bn, and they claim that their losses from Russia's protectionist measures make up USD 3bn (Ukraine's 2007 export accounted for some USD 50 bn).

Ukraine has already declared its eagerness to resume talks on the problematic bilateral Free Trade Agreement (which had been signed in 1993, but since then never promulgated), numerous provisions of which the Russian party conceives of as unacceptable. Hence it is hard to foretell timelines and results of the bilateral negotiations.

It is worthwhile to note yet another critical aspect related to Ukraine's very liberal obligations in the area of access to the markets for goods and services: specifically, its average weighed import tariff on industrial goods will be under 5%, and that on agricultural products – 10.7%. In the services sector, the country has assumed obligations on opening practically all the sectors to overseas suppliers. The volume of the annual support to the national agriculture in the frame of the "yellow" basket was fixed at the minimal permissible level, that is, 5% of the sector's gross output plus an additional amount of USD 613m.

As concerns the Task Force, its Report contains fundamentally new obligations that go far beyond the WTO's requirements and rules, including export duties, protection of intellectual property rights, public trade corporations' operations, etc.

So, Ukraine's joining WTO sets an unfavorable for Russia precedent that shapes *de-facto* new standards of membership in the Organization basing on the "WTO+" provisions, which are expected to affect Russia's future rights and obligations as a WTO member.

The negotiations on Russia's accession to WTO have already been in progress for more than 13 years. Russian producers' concern has been that once Russia joins WTO, imports would supplant domestic goods from the national market. But import duties will be cut down just by 3% on average. Speaking of particular kinds of goods, the duties on industrial products will be cut from 11 down to 7.5% and those on agricultural products – from 22 to 18%, while import duties on the basic products, such as grain, meat, and milk, will remain unchanged. There are of course products the import duty on which will be cut back by more than 3%, but this implies a long transitional period. For instance, import duties on automobiles will be cut down from 20% to 15%, but only in seven years after Russia joins WTO. In such sectors as pharmaceuticals, footwear or textiles, cuts in the respective import duties on finished products will be synchronized with cuts in import duties on technological equipment used by these sectors, as well as on raw materials Russian producers are short of (for instance, some substances for the pharmaceutical sector). As for liberalization of the domestic market for services, it will be taking a fairly moderate pace. The government will be in a position to employ instruments that will help support domestic producers, and it will retain the right to introduce restrictions for foreign capital in the event of privatization of domestic corporations, while public services may remain the state monopolist's reign.

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To assess the Russian economy's prospects, it is extremely important to answer the question as to for how long, given the current trends in export and import areas, it will be able to maintain positive balance of its foreign trade.

In the medium run, export may continue to dominate over import, providing observance with a series of conditions: first, the situation on the world commodity markets, as the continuous price rise for oil, metals, chemical raw material, and timber allows one to hope for growth in the value volume of exported raw materials, regardless of the stagnation in the physical volume of export. Second, the CBR's exchange rate, which in many ways determines foreign trade flows. Third, depletion of the production and technological base the CIS countries inherited from the USSR creates preconditions for boosting supplies of the manufacturing sector's produce thereto. Finally, the process of fighting against various import schemes, primarily with regard to electronic goods, may form a cause for a slowdown in growth rates of value volume of import across these positions in 2008–2009.