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The review provides a detailed analysis of main trends in Russia's economy in 2009. 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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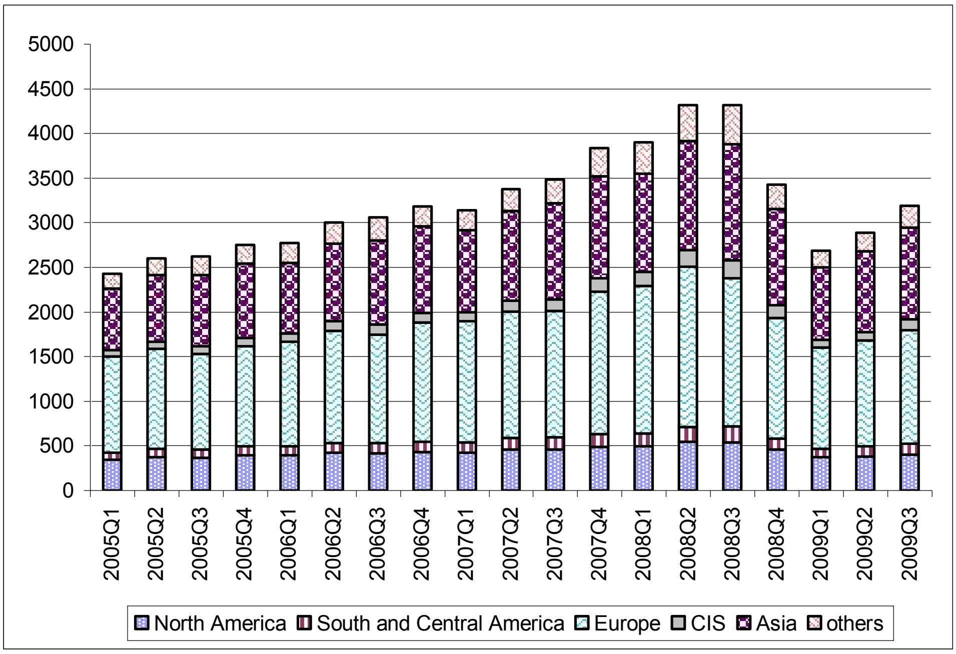
Russia's Foreign Trade in 2009

International Trade in the Wake of the Global Crisis

The World Bank Report[1] on the global economic outlook published in January 2010 states that the global production and trade levels have gained during the 2H 2009 after the preceding decline. Confidence strengthened significantly both in finance and in real economy, as governments' emergency measures allowed for preventing the repetition of the Great Depression. The extraordinary amounts of governments' incentives were the main driver underpinning this global recovery.

Foreign trade landslide commenced in October 2008 and lasted until the 2nd quarter of 2009; moreover, it happened in all the countries simultaneously. If we look at the EU and 10 other leading global exporters / importers (altogether accounting for the 3/4 of international trade), their export and import numbers both declined by 20–30%. Foreign trade turnover was growing in the 2nd quarter of 2008 across all the commodity lines, and in the 4th quarter the recession was obvious practically everywhere, then in the 1st quarter of 2009 the decline became really universal. After that the turnover started growing slowly, but there is still a long way to go to achieve the complete recovery.

As per the WTO data, the global export decline started way back in the 3rd quarter of 2008 (vs. the preceding quarter), however, at that stage it affected only European and North American countries. In the 4th quarter export decline became universal. The overall global export in the 4th quarter of 2008 fell by 20.7% versus the pre-crisis peaks of the 2nd quarter.



Source: http://www.wto.org/english/res_e/statis_e/quarterly_trade_e.xls

Fig. 1. Global Export Dynamics by Quarters (USD bn.)

[1] http://siteresources.worldbank.org/INTGEP2010/Resources/GEP2010-Full-Report.pdf

In the 1st quarter of 2009 the global export decline constituted 37.9% versus the pre-crisis peaks. However, it then started to recover: 7.6% growth in the 2nd quarter versus the crisis minimum of the 1st quarter; 10.4% growth in the 3rd quarter versus the preceding one. Export recovery wasn't evenly distributed between the regions: thus, the maximum decline of export (the crisis minimum of the 1st quarter of 2009 versus the pre-crisis maximums) from North American countries made 32%, in Europe – 37%, in Asia – 35.2%, in South America – 45.8%, and in CIS countries – 51.5%.

The World Bank forecasts that after 12.3% slide in 2009 (versus the preceding year) the global trade will start its slow recovery: 5.8% growth is forecasted for 2010 and 6.3% growth – for 2011.

Table 1

Global Trade Dynamics (% vs. the preceding year)

	2005	2006	2007	2008	2009	2010[1]	2011[1]
Global trade of goods and services	107.5	109.2	107.2	102.8	87.7	105.8	106.3
Import							
Industrially advanced economies	106.1	107.5	104.5	100.5	87.8	105.5	105.5
Developing economies and emerging markets	112.1	114.7	114.5	108.9	86.5	106.5	107.7
Export							
Industrially advanced economies	105.8	108.4	105.9	101.8	87.9	105.9	105.6
Developing economies and emerging markets	111.1	111.0	109.6	104.4	88.3	105.4	107.8

[1] Forecast

Source: http://www.imf.org/external/russian/pubs/ft/weo/2010/update/01/pdf/0110r.pdf

Russian Foreign Trade Outlook: Market Prices Trends for Key Items of Russian Export

The global crisis has led to sharp variations of global prices for the key items of Russian export. At the same time, following the abrupt slide of late 2008 – early 2009 the global markets price dynamics for these commodities started to improve gradually. Oil prices started their rise on a global scale. The average Brent price in December 2009 was reported to gain 79% versus December 2008. The most vigorous growth pf prices fell on the spring months – from mid-February to mid-June, when the level of 70 USD/bbl was reached. During the summer and early fall the prices were fluctuating around 67 USD/bbl, and at the end of the year the new level of 75 USD/bbl was observed.

2009 oil prices growth was driven by the expectations of economic recovery after financial and economic crisis. Information about commencing recovery of some leading economies and about sustainable economic growth in China underpinned the increase in demand for oil worldwide. The USA currency dynamics had its effect on the oil prices as well: weakening of the US Dollar versus the leading global currencies resulted in the dollar-nominated commodities growing more expensive, as well as in the venture capitals partially overflowing from the currency market to the commodities markets. On top of that, OPEC countries were trying to observe the oil production quotas established back in 2008.

The average global price for Russian crude (Urals) in 2009 fell to the lowest level for the preceding four years and made 60.94 USD/bbl being 35.3% below the 2008 level (94.16 USD/bbl). The highest price for Urals in 2009 was registered on November 18 – 78.16 USD/bbl). The lowest price for 2009 was registered as of January 2– 39.39 USD/bbl. Thus, the Urals price practically doubled during the year.

Similar trends were observed at the petroleum products markets, though the growth rates were different by types of products. Thus, in the 3rd quarter of 2009 versus the 2nd quarter fuel oil demonstrated the most dramatic growth by 25%, diesel fuel price grew by 15%, and automotive gasoline – by 11%. As per the overall results of 2009, both crude and oil products prices were 2 times lower compared to the preceding year. Diesel fuel prices showed the most obvious decline in 2009 – by 52%, automotive gasoline – by 37.8%, and fuel oil – by 40%.

The decrease of natural gas prices at the European market started in late 2008 and continued until August 2009. In August the Western European market showed first signs of growing prices, however, the growth rates were very low (and in the US market natural gas prices continued to decline until September 2009). In the 3rd quarter of 2009 natural gas prices in Europe were 15.6% lower compared to the preceding quarter (during 1st and the 2nd quarters the decline was respectively by 24.2% and 31.5%), and they were 52.8% lower versus the 3rd quarter of 2008. It was not until the 4th quarter of 2009 when natural gas prices demonstrated some growth – 13% versus the preceding quarter. As per the overall results of 2009, natural gas prices in Europe were 30.8% lower versus 2008 prices.

In September-December 2008 abrupt decline of metal products prices was observed in the global markets making 40–50% on the average. In early 2009 this downward trend continued, and only starting from June-July 2009 some positive dynamics of global prices for metal products and raw materials was witnessed. Thus, by the end of 2009 global prices remained at the same low level.

For example, the scrap steel price after reaching its peak of 700 USD/t in June 2008 fell down and made 300 USD/t in December 2009 (43% decline). The prices for hot-rolled coil fell down from 1,200 USD/t in July 2008 and by December 2009 made 560 USD/t (47% decline).

Table 2

Average Annual Global Prices

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Oil (Brent), USD/bbl	15.9	28.19	24.843	25.022	28.83	37.4	54.38	65.15	72.32	99.53	62.19
Natural gas, European market, USD/ 1 mln BTU	2.1876	4.3442	3.9764	3.23	3.86	4.4	6.6	9.03	8.93	12.61	8.72
Gasoline, $/gallon	0.529	0.887	0.7922	0.755	0.891	1.197	1.508	1.81	2.06	2.703	1.68
Copper, $/t	1539.9	1863.9	1613.6	1592.9	1785.6	2808.2	3606	6851	7119	6970	5150
Aluminum, $/t	1318.0	1550.0	1444.7	1350.7	1424.7	1693.2	1871	2619	2639	2576	1665
Nickel, $/t	5239.5	8624.0	5966.0	6175.1	9580.8	13757	14692	22038	37230	21108	14655

Source: calculated as per data by London Metal Exchange (London, UK), Intercontinental Crude Exchange (ICE, London), International Monetary Fund (IMF).

The financial crisis evolution in the fall of 2008 led to a sharp decline of major consumers' demand for basic metals. In its turn, it provoked a major fall in prices despite some artificial production-limiting programs. However, signs of global economic recovery facilitated global advance in prices at the global non-ferrous metal market. YTD prices have gone up 1.5 times for nickel and aluminum, and more than 2 times for copper.

Still global non-ferrous metals prices remained at the low lever throughout 2009 as per the LME spot quotations making as of the end of December: 2,182 USD/t or 71.1% vs. July 2008 price (historic peak) for aluminum, 6,970 USD/t or 82.6% vs. March 2008 price for copper, 17,003 USD/t or 54.3% vs. March 2008 price for Nickel.

Global macroeconomics and the overall commodity market environment also had their impact on the price dynamics for other commodities exported from Russia. In 2009 the prices for mineral fertilizers, chemical feedstock and some other commodities were 1/3 below the level of 2008.

The global markets price dynamics for food products and agricultural raw materials were multidirectional throughout 2009. Sugar prices were growing rapidly, meat and vegetable oil prices were mainly growing, while as grain prices were declining. Reduction of global wheat production is expected in 2009/2010 farming year, however, the level of wheat stock in major wheat-producing countries (Argentine, Australia, EU, Kazakhstan, Canada, Russia, the USA and Ukraine) will remain high. The key reason is global demand decline versus its record level in 2008/2009 farming year.

Table 3

Average Annual Global Prices Dynamics for Selected Agricultural Goods

	2006	2007	2008	2009			
				I quarter	II quarter	III quarter	IV quarter
Wheat, USD/t							
Canadian, CWRS	216.8	300.4	454.6	321.9	325.5	271.3	283.2
American, HRW	192.0	255.2	326.0	231.6	250.3	208.7	205.4
American, SRW	159.0	238.6	271.5	187.4	195.6	165.2	195.6
American corn, USD/t	122.9	163.0	223.1	166.9	176.0	151.3	167.8
Barley, USD/t	117.0	172.0	200.5	116.2	129.4	122.0	145.5
Soya beans, USD/t	268.4	384.0	523.0	393.7	460.3	455.3	439.3
Soya bean oil, USD/t	598.6	881.0	1,258	754.7	862.7	857.7	920.3
Thai rice, USD/t	304.9	326.4	650.1	586.4	552.4	540.1	542.3
Crude sugar in the USA, import price, CIF New York, c/kilo	48.76	45.77	46.86	43.8	47.9	57.3	70.5

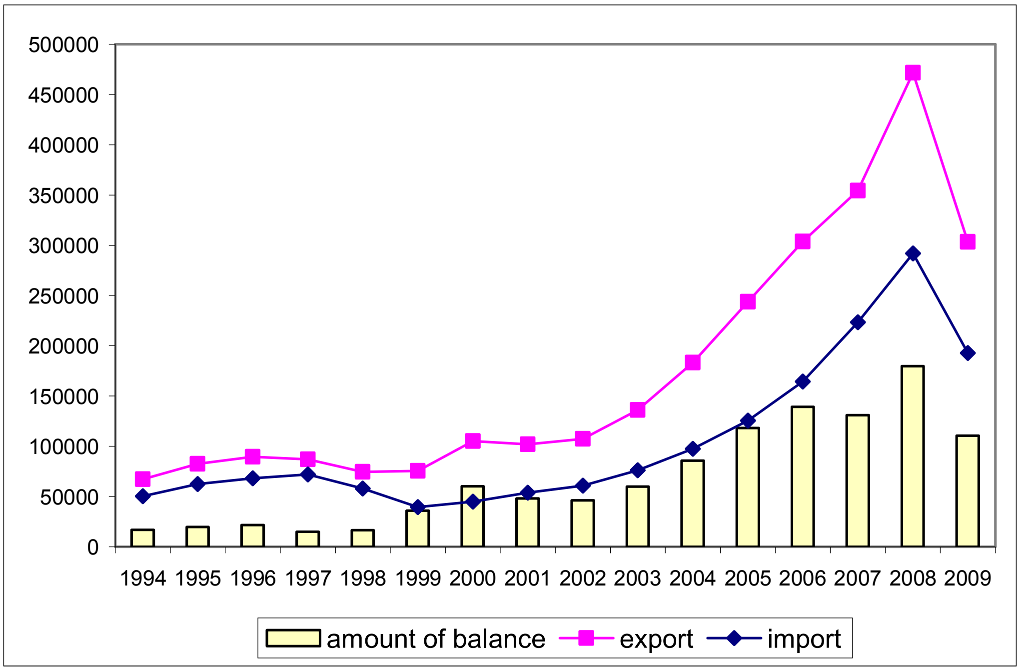
Source: World Bank.

The main reason for sugar prices surge was crop failure in Brazil and India – the major sugar producers in the world. It resulted in dramatic reduction of sugar stock across the globe, and India becoming the net-importer. Meanwhile the estimated export of sugar out of Brazil is expected to decrease versus the previous year, while as it domestic demand for ethanol will be growing. Eventually, the global sugar prices rocketed up to the highest level during the last 29 years.

Key Russian Foreign Trade Indicators

In 2009 Russian foreign trade indicators (*Fig. 2*) were forming in the wake of abrupt slide of prices for the key items of Russian export early in the year, volatile international trade outlook and shrinking of domestic demand predominantly affecting the import dynamics. Overall, 2009 Russian foreign trade dynamics was significantly worse compared to 2008 indicators. The accounts balance based foreign trade turnover made 495.8 bn. USD being 35.15% below the YOY value. The "far-abroad" trade turnover shrank by 35.15% down to 423.7 bn. USD, CIS trade turnover – by 34.5% down to 72.1 bn. USD. Foreign trade turnover imbalance index (export surplus to foreign trade turnover) decreased to 22.6% in 2009 vs. 23.5% in 2008.

However, after an abrupt slide early in the year Russian foreign trade demonstrated some recovery and even growth in 2009. Monthly foreign trade turnover dynamics stayed positive versus the preceding month throughout the whole year due to a certain rise in prices for Russian export items and due to recovery of both domestic and global demand. Thus, the average export prices index for 9 months of 2009 made 62.9%, and during the 4-th quarter of 2009 it amounted to 76.0%, (76.9% in December). Physical export volumes were also growing, the index in the above listed periods making 92.3, 111.9 and 112.7% respectively (*Table 4*).



Source: Central Bank of the Russian Federation.

Fig. 2. Key Russian Foreign Trade Indicators (mln USD)

Table 4

Commodities Export Index

	January-September 2009, % of January-September 2008		December 2009, % to December 2008		2009 as % to 2008	
	Physical volumes	Average prices	Physical volumes	Average prices	Physical volumes	Average prices
Total export,	92.3	62.9	112.7	76.9	97.0	66.5
including: "far abroad" countries	94.1	61.4	108.2	77.8	98.6	65.0
CIS countries	82.3	72.2	143.6	72.2	87.9	76.4

Source: the RF Ministry of Economic Development.

Overall the commodities export in 2009 decreased by 35.5% versus 2008 making 303.98 bn. USD. With that the decrease of export in the 4th quarter of 2008 versus the peak numbers of the preceding quarter made 28.3%; in the 1st quarter of 2009 export decreased by 41.4% versus the preceding quarter. The overall export decline (crisis minimum numbers in the 1st quarter of 2009 compared to the pre-crisis peak in the 3rd quarter of 2008) made 58%. However, the following improvement of the situation resulted in 65% increase of export monetary values in the 4th quarter of 2009 (balance of payments estimate) versus the 1st quarter.

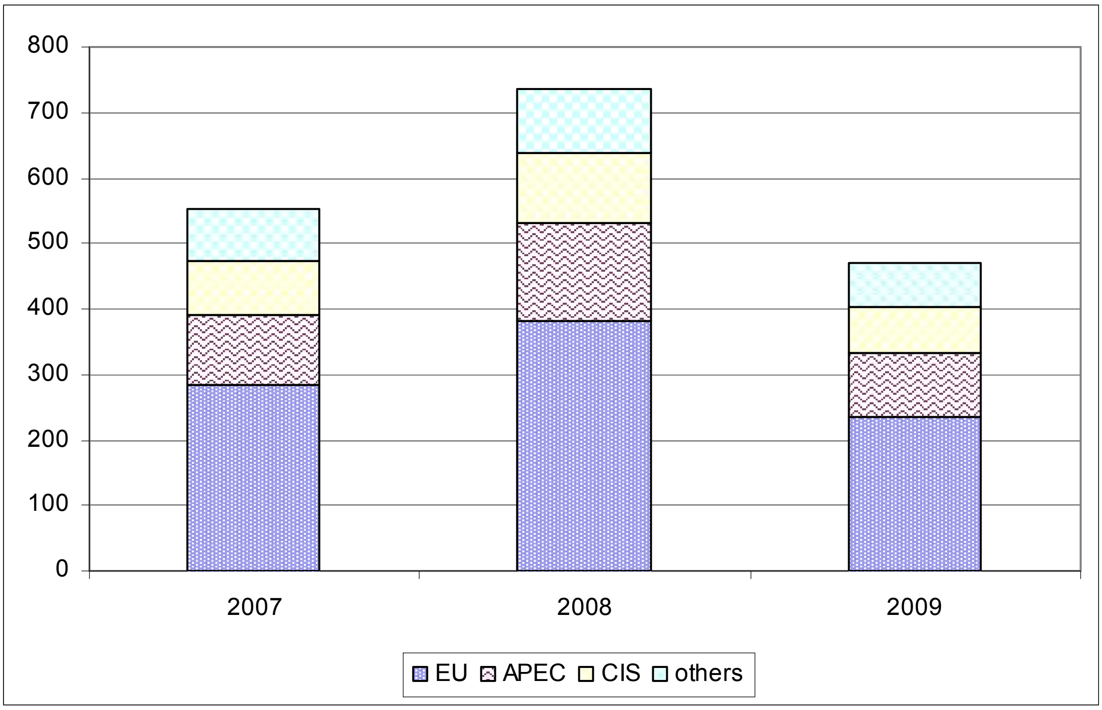
Import demonstrated similar dynamics. Its monetary values showed twofold decline during the 1st quarter of 2009 compared to the 3rd quarter of 2008 (from 82.9 bn. USD down to 38.4 bn. USD). However, during the next three quarters import was recovering rapidly. It increased by 59% in the 4th quarter versus the crisis minimum level in the 1st quarter of 2009 (preliminary payments balance based estimate). It resulted in 83% of the level of the 4th quarter of 2008 level and in 74% of the pre-crisis maximum of the 3rd quarter of 2008.

As a result, the trade balance surplus in 2009 made 112.1 bn. USD (vs. 179.7 bn. USD in 2008). Early in the year there was some concern about the trade balance fluctuating around zero level or becoming negative. However due to the rapid export prices growth, recovery of physical export volumes and quite significant decrease of import in physical terms, material trade balance surplus was successfully maintained. At the same time, it's worth noting: during the 2nd and the 3rd quarters the pace of export monetary values recovery (versus preceding quarters) was outstripping import values recovery pace, but then in the 4th quarter the situation changed: Russian export values grew 15.3% versus the preceding quarter, while as the import values grew by 24%.

Thus, the key outcome of Russian foreign trade development throughout 2009 was maintaining the trade balance surplus. And in neither month it got below the minimal level of 4.6 bn. USD, which was registered in December 2008.

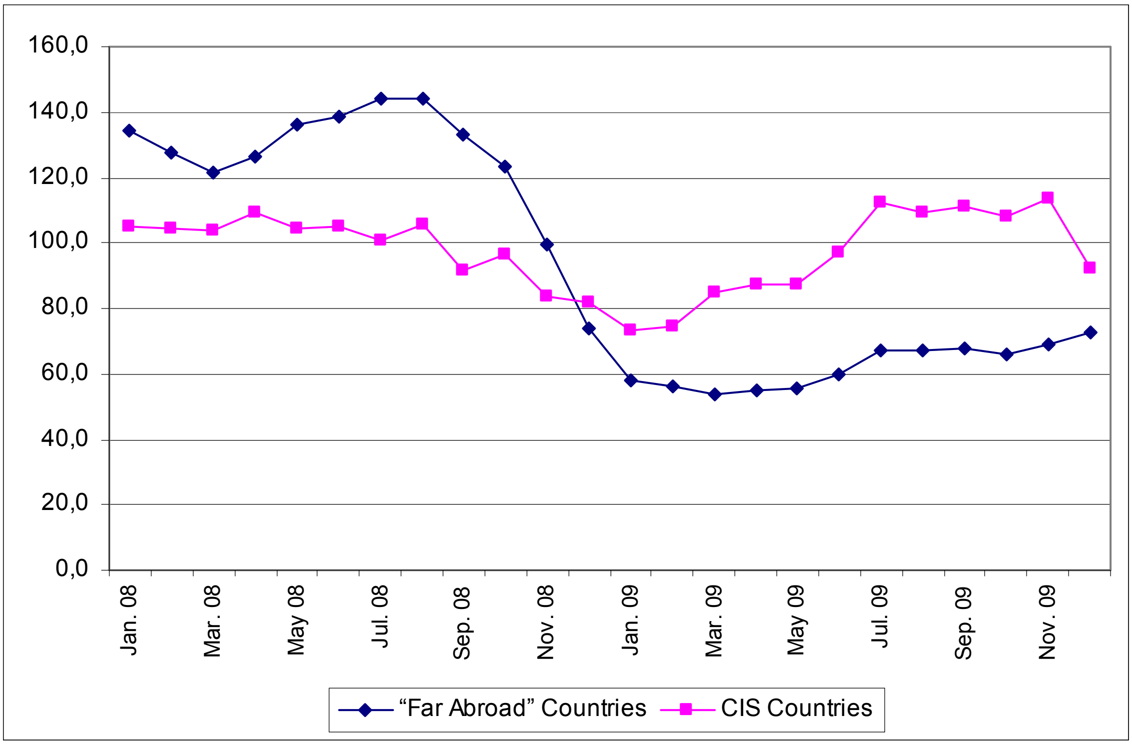
Russian foreign trade turnover decreased in 2009 in terms of most of its partner countries, except for India, Cuba, Singapore, Philippines, New Zealand and Turkmen Republic (*Fig. 3*).

In 2009 trade balance deficit was registered in terms of 20 partner countries (in 2008 it was with 23 partner countries), and their share in the overall Russian foreign trade turnover increased from 22.7 to 24.8%. The countries whose contribution in forming this deficit was the most prominent were China (–6171.7 mln USD), Brazil (–2426.7 mln USD), and Germany (–2520.8 mln USD).



Source: Federal Customs Service of the Russian Federation.

Fig. 3. Geographical Profile of Russian Foreign Trade (bn USD)



Source: RF Ministry of Economics.

Fig. 4. Terms of Foreign Trade

Foreign Trade environment (the ratio of export prices index to import prices index) started to deteriorate in 2008 and significantly worsened in 2009. This was particularly valid for trade with the "far abroad" countries. In July and August of 2009 this environment started to improve, and trade with CIS countries even demonstrated positive dynamics.

Overall, throughout the year the foreign trade environment was unfavorable for Russia due to a deeper slide of export prices versus import prices. Terms of trade index made 67.1 (the base [the respective period of the same year] being 100), while as in 2008 it made 116.0.

Export Profile and Dynamics

Fuel-and-energy commodities are still the basis of Russian export despite the fact that their share decreased from 72.6% in 2008 down to 69.5% in 2009 due to the global energy prices slide. The monetary value of such commodities decreased by 38.6% in 2008.

According to the RF Customs, physical volumes of exported crude increased by 1.9% – from 221.6 mln t in 2008 up to 225.9 mln t in 2009. With that the monetary value of crude export from Russia in 2009 decreased by 38.4% versus 2008 and made 93.5 bn. USD, which is related with the crude prices slide at the global market (*Table 5*).

Physical volumes of petroleum products export in 2009 exceeded the preceding year by 4.5% (120.577 mln t), their monetary value making 46.795 bn. USD versus 78.325 bn. USD in 2008.

Last year Russia exported the total of 150.07 bcm of natural gas for the amount of 39.38 bn. USD. With that Russian export of natural gas to the "far abroad" countries dropped by

23.9% making 120.5 bcm. Russian gas supplies to CIS countries increased by 90.1% reaching the level of 30.3 bcm. Export revenues in this area increased 2.4 times.

Table 5

Monetary Export Values of Russian Crude, Petroleum Products and Gas (mln USD) and Their Share in the Overall Russian Export (%)

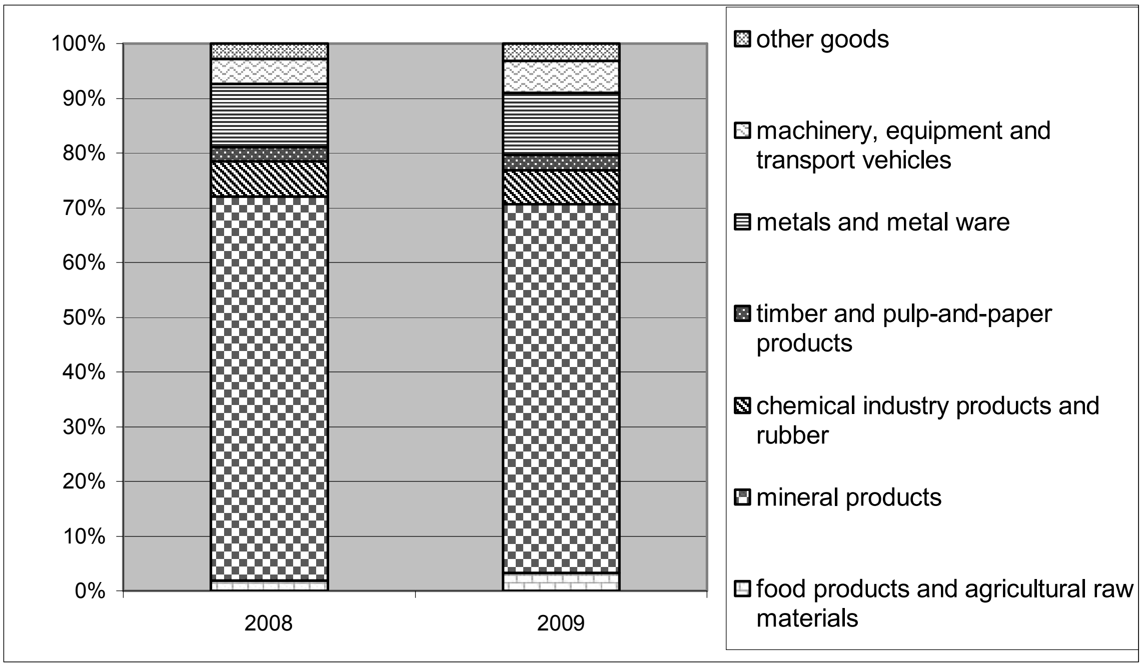
	Crude		Petroleum products		Gas	
	Mln USD	%	Mln USD	%	Mln USD	%
1992	6,662	12.4	2,202	4.1	6,389	11.9
1993	8,061	13.5	3,061	5.1	6,964	11.7
1994	8,948	13.3	3,398	5.0	7,939	11.8
1995	12,297	15.2	4,108	5.1	13,381	16.5
1996	15,578	17.6	7,442	8.4	14,683	16.6
1997	14,346	16.2	7,145	8.1	16,420	18.6
1998	10,254	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	32.4	51,470.4	14.6	42,755.1	12.1
2008	151,668,6	32.4	78,325	16.7	66,399.7	14.2
2009	93,486,5	31.0	46,795.0	15.5	39,380.6	13.1

Resource: Federal Service for State Statistics, Federal Customs.

The relative share of the second biggest group of Russian export items – "metals and metal ware" remained at the same level in 2009 making 11.3% (versus 11.6% in 2008) (*Fig. 5*). Physical volumes of ferrous metals and metal ware export decreased by 6.6%, including: rolled iron and unalloyed steel prefabricated products – by 9.4%, cast iron – by 12.2%. Physical volumes of rolled iron and unalloyed steel export increased by 47.7%, copper – 2.5 times aluminum – by 6.2%, nickel – decreased by 3.1%.

The share of chemical industry products in the export commodity pattern in 2009 stayed at the level of the preceding year – 6.2% (6.4% in 2008). Compared to the previous year, the monetary value of export of such products dropped by 39.0%, physical volumes – by 15.0%. Decrease of monetary values and physical volumes of Russian export occurred practically for all categories of chemical industry products with the exception of nitrogenous fertilizers (15.6% increase of physical volumes), физический объем которых возрос на 15,6%, compound fertilizers (19.3% increase), plastic materials and plastic products (66.8% decrease).

The share of timber and pulp-and-paper products export made 2.9% in 2009 (2.5% in 2008). The physical volumes 2008 downward dynamics was as follows: rough timber went down by 41.0%, pulp – by 17.8%. At the same time the physical volumes of certain goods supplies to the "far abroad" countries demonstrated positive dynamics: sawn timber volumes increased by 4.7%, newspaper fibers – by 12.6%.



Source: Federal Customs.

Fig 5. Russian Export Commodity Pattern (%)

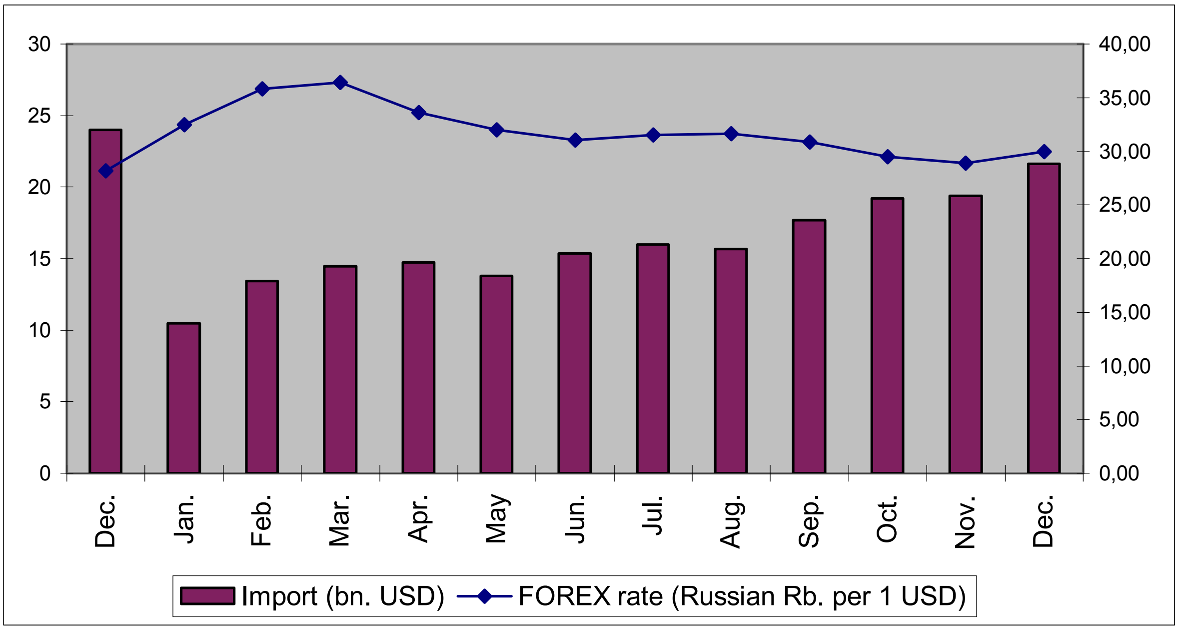
The share of machinery and equipment export increased in 2009 up to 5.8% versus 4.6% in 2008. The monetary value of export supplies of ground transportation vehicles (except for railway transport) increased by 28.5%. At the same time, electric equipment supplies went down by 7.9%, and mechanical equipment – by 5.2%. Physical volumes of cars and trucks export decreased by 18.3% and 25.4% respectively.

Expansive growth of Russian food products export stands out in the overall context of decreased export supplies across practically all commodity categories. The monetary value of their export grew by 32.4% versus 2008, and their physical export increased by 70.8% – mainly due to wheat export (47.6% growth), barley (2.4 times growth), sunflower seeds (2.9 times growth), fresh and frozen fish (5.7 times growth). The share of food products export increased in 2009 up to 3.3% versus 1.9% in 2008.

Profile and Dynamics of Import

In 2009 import of goods demonstrated 34.3% decline versus 2008 and went down to 191.9 bn. USD. This significant decrease was caused by abrupt fall of the Russian economy (7.9% according to the estimates of Federal Service for State Statistics), effective demand shrinkage, credit activity decline leading to additional decrease of investment import, and effective weakening of the Russian rouble. According to the RF Ministry of Economic Development, the effective weakening of the Russian Rouble in real terms taking into account both domestic and foreign inflation demonstrated the following numbers in December 2009 versus December 2008: 0.4% to USD, 6.5% to Euro, 8.8% to British Pound, 8% to Swiss Franc. Russian Rouble strengthened relatively to Japanese Yen by 2.4%. The overall weakening of the effective FOREX rate for the Russian Rouble is estimated at the level of 3.8%.

While the FOREX rate was stabilizing throughout the year, the import dynamics were improving (*Fig. 6*).



Source: Federal Customs, Bank of Russia.

Fig. 6. Import dynamics (left axis) and FOREX dynamics (right axis)

The decrease of import monetary values in 2009 was related with the decease of its physical volumes, while as the average prices of the imported goods practically remained at the last year's level (*Table 6*). With that, the average import prices index made about 97.1% in January-September, but is October-December its level of 103-104% was registered.

Import physical volumes index was gradually growing – from 57.6% for the 9 months of 2009 on the yoy basis up to 81.9% in the 4th quarter of 2009. In December 2009 it made 97.6% versus 2008.

Table 6

Commodities Import Index

	January-September 2009, % of January-September 2008		December 2009, % to December 2008		2009 as % to 2008	
	Physical volumes	**Average prices**	**Physical volumes**	**Physical volumes**	**Average prices**	**Physical volumes**
Total import, including:	57.6	97.1	97.6	102.6	63.3	99.1
from "far abroad" countries	56.3	101.1	90.8	107.4	61.1	103.4
from CIS countries	65.5	76.6	154.7	78.3	76.9	77.5

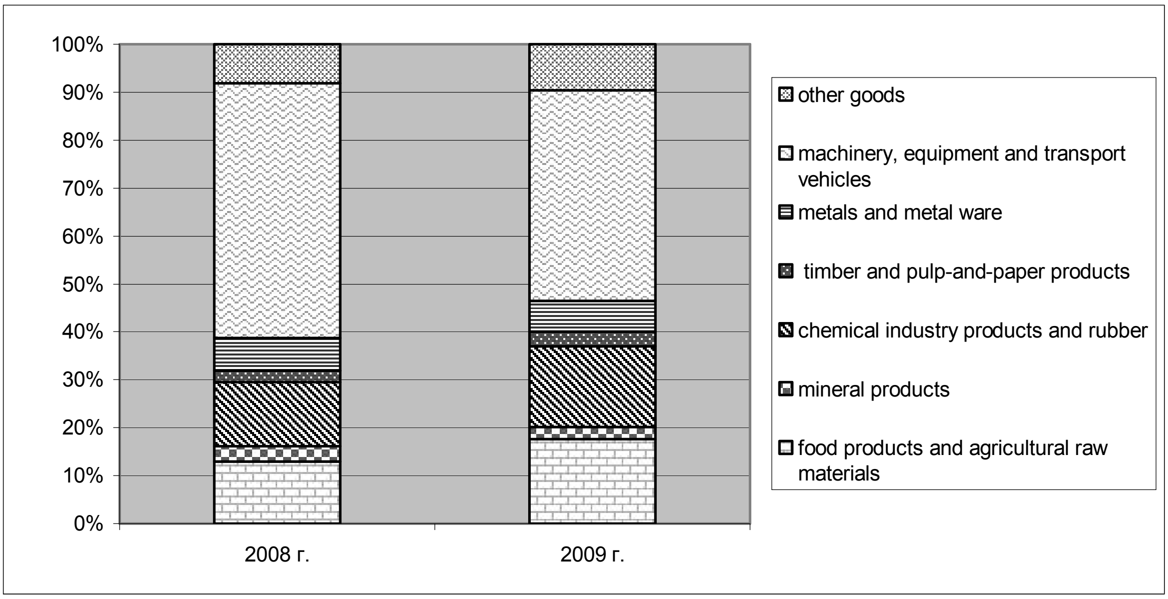
Source: the RF Ministry of Economic Development.

The import profile in 2009 versus 2008 demonstrated smaller share of machinery and equipment, metals and metal ware, and of mineral products (*Fig. 7*).

In 2009 the import of machinery, equipment and transportation vehicles decreased by 48.3%. This category of goods contributed the most to the overall drop of import, and its share in the import profile decreased from 53.2% to 43.9%. Compared to the preceding year, the monetary value of engineering products import decreased by 40.6%, of ground transportation vehicles (excl. railway transportation) – by 70.5%, of electric equipment – by 34.0%, of optical instruments and devices – by 39.3%. Import of cars suffered the most: physical volumes of imported passenger cars decreased by 74.3%, of trucks – by 83.1%.

Thus abrupt decline of cars import may be explained both by erosion of the purchasing power of Russian citizens and by protectionism measures in favor of domestic cars manufacturers. As a result, in January 2009 the customs duties levied on imported used cars practically became of prohibitive character. In September 2009 the period of such elevated duties rates was extended for 9 more months. As of the end of 2009 the import of cars being in use during up to 5 years decreased by 96.6% (almost 30 times) going down to 12.37 thousand cars, and the import of cars being in use for over 5 years decreased by 81.5% (5.4 times) going down to 1340 cars. The import of new cars decreased almost 3 times (by 69%) going down to 498.8 thousand cars. Japan accounted for 28% of all the imported new cars (146 thousand cars), Republic of Korea – for 20.1% (104.93 thousand cars), Germany – for 8.2% (42.71 thousand cars).

The elevated customs duties rate for imported foreign cars will stay in effect until mid-2010. It is planned to resume discussions on the issue in spring (in particular, due to the Common Customs Tariff [CCT] coming into effect for Russia, Belarus and Kazakhstan, these partner countries were forced to significantly increase their customs duties for the imported cars).



Source: Federal Customs.

Fig. 7. Russian Import Commodity Pattern (%)

The share of food products and raw materials for their production in the Russian import pattern made 17.6%, which exceeds the 2008 level by 4.6 percentage points. The monetary value of food products import decreased by 15%. Physical volumes of imported fresh and frozen meat decreased by 19.4%, of poultry – by 20.8, of fresh and frozen fish – by 10.1, of cheese and curds – by 7.8, of butter – by 27.1, of crude sugar – by 48.2%.

The share of chemical industry products in the import commodities pattern made 16.9% versus 13.3% in 2008. The monetary value of imported chemical industry products decreased by 20.6%. The physical volumes of inorganic chemical products supplies decreased 14.2%; of pharmaceutical products – by 5.8%; of lacquer and dyes – by 29.4%; of cosmetic products – by 14.6%; of soap and cleansing agents – by 14.1%; of plastic materials and plastic products – by 30.%; of resin, rubber and respective products – by 35.2%.

The share of imported textile, textile products and footwear made 5.5% (versus 4.2% in 2008). The monetary value of imported textiles and footwear decreased by 17.8% compared to the preceding year. Physical volumes of imported cotton fabrics and genuine leather footwear decreased by 39.3% and 36.0% respectively.

The decrease of imported metals and metal ware share in 2009 was immaterial: from 6.8% to 6.4%. The monetary value of imported goods of this category decreased by 40.9% versus 2008. Physical volumes of imported ferrous metals and ferrous metals products decreased by 42.2%, including: pipes – by 53.7%, rolled iron and unalloyed steel prefabricated products – by 31.7%, ferrous metal work – by 50.3%.

The share of imported timber and pulp-and-paper products in 2009 made 3.1% (versus 2.4% in 2008). Physical volumes of imported products of those categories decreased by 33.8%, their monetary values – by 21.8%.

Russian Foreign Trade Regulation in the Global Crisis Environment

In accordance with Article 3 of the Law of the Russian Federation "On Customs Tariffs", the RF Government over the course of 2009 prepared and enacted 12 Resolutions fixing the rates for export customs duties for crude and petroleum products.

The export customs duty for crude and petroleum products recovered from bituminous rock and exported from Russia beyond the borders of countries participating in the Customs Union agreements was changed on a monthly basis across 2009 based on monitoring Urals crude prices between the 15th date of each calendar month and the 14th date of the following calendar month (*Table 7*).

Table 7

Export Customs Duties for Crude and Petroleum Products in 2009 (USD/t)

	Нефть	Нефтепродукты	
January 1	119.1	92.6	49.9
February 1	100.9	80.3	43.2
March 1	115.3	90.0	48.5
April 1	110.0	86.4	46.5
May 1	137.7	105.1	56.6
June 1	152.8	115.2	62.1
July 1	212.6	155.5	83.8
August 1	222.0	160.3	88.2
September 1	238.6	173.1	93.2
October 1	240.7	174.5	94.0
November 1	231.2	168.1	90.5
December 1	271.0	194.9	105.0

Resource: RF Government resolutions.

On to of that, additional tax incentives were effected in July 2009 to stimulate crude production growth. The RF Government Resolution No.574 of July 16, 2009 "On Amendments to the Customs Tariff of the Russian Federation Pertaining to Crude Oil" set a special downward rate for export duties levied on crude produced in East Siberia. This rate covered 13 oil fields of this region and constituted 5% of the dutiable value of exported crude. The rate was set for the period of 9 months starting from the moment of the Resolution coming into effect (2 months after the date of issue).

Late in 2008 and early in 2009 the focus of customs tariff policy was shifted from traditional regulatory and fiscal functions to anti-crisis support of Russian economy and of domestic producers' competitiveness. The mechanism of tariff regulations allows for prompt government decision-making in extreme situations. On-going control of the imported goods share at Russian domestic markets was required along with improved efficiency of monitoring import volumes to create preventive protection mechanism. Weekly foreign trade and domestic market environment monitoring was organized for those purposes with regards to sensitive industrial and agricultural goods qualified as the most vulnerable ones for foreign competition in the crisis environment. Communications and interface with the Russian business community was set-up. In most cases such system allowed for prompt response to the external market signals and threats, to find solutions satisfying both manufacturers and consumers.

The RF Government enacted over 60 Resolutions correcting the import duty tariffs. The customs duties rates were not only raise, but also decreased for quite significant group of products – mainly, the rates of import duties on hi-tech equipment. Overall in 2009 the import duties were changed for 600 commodity items, and for 350 (out of these 600) items the duties were increased.

The increase of import duties pertained to certain sensitive industries and goods categories subject to high import pressure, as well as import with damping and subsidies. The crisis environment caused accumulation of huge finished stock, and many manufacturers were ready to export them at discount prices. That is why the Russian Government actions may be qualified as enforced protection. However, overall in 2009 the average weighted import duty rate decreased versus the preceding basis: 11.45% in 2008 and 10.7% in 2009.

The most important industries benefiting from such protective actions supporting their competitiveness were automotive industry, agricultural engineering, ferrous metallurgy, machine-tool building.

To support Russian agricultural producers the RF Government adopted a number of Resolutions about increasing the import customs duties for a series of agricultural and food products (rice, cheese, dairy products, vegetable oils, etc.). In addition to those measures, duty-free regime was introduced for importing growing pedigree chicken and eggs for incubators, which allowed for increase of their volumes and had a positive impact on domestic poultry husbandry.

All the Resolutions were introducing measures for the period of 9 months, during which the effect was monitored. At the end of this period decisions were made about extending the respective measures for another 9-month period, as well as about either introducing a permanent import duty or about bringing it back to the previous level.

The performed analysis has shown that for a number of commodity items the enacted measures had certain positive effect, however, it is difficult to say something in terms of improving the demand for those products.

Measures targeted at improving the domestic manufacturers' competitiveness included not only increasing of import duties, but decreasing them if necessary. In particular, the import rates for certain types of passenger aircrafts and freight carriers which are not produced in Russia were set to nil.

This measure is part of systemic solutions aimed at supporting Russian air carriers. It will allow domestic companies not to lose their positions and to remain competitive at the global market using foreign planes under the conditions equal with foreign competitors.

Also, to assure favorable conditions for Russian productive sector several decisions were made focused on expanding the resource base, increasing the capacity utilization ratio in the financial crisis environment (canceling import duties for raw materials, parts and process equipment not manufactured in Russia).

Measures to promote television engineering in Russia may be named as an example of integrated approach to developing the competitive positions of domestic manufacturers. In addition to import duties plasma panels and LCD panels, duties for the ready-made plasma and LCD TV sets were reduced to nothing. Also zero rates were introduced for integrated electronics used for TV sets manufacturing. Russian manufacturers' savings on zero rates for these parts made over 6 mln USD during January-July 2009 providing positive effect on decreasing the production costs and respectively – on improving the competitiveness.

The new economic cycle currently starting in Russia requires additional analysis of approaches to customs tariffs policy department. Immediate and prompt anti-crisis measures focused on protecting the domestic market proved to be positive overall. It is obvious that once setting the course of post-crisis development some re-thinking will be required will be required with regard to rational protection of domestic market.

Considering a real threat of import replacing some of the goods in certain sector of the economy, tariff-based protection mechanisms will still be required. At the same time artificial barriers against imported goods decrease the incentives for improving the competitiveness of Russian manufacturers, infringe the interests of the customers, lead to domestic prices growth. Due to this it is necessary to continue the practices of monitoring the competition at commodity markets which were subject to commercial protection.

Resolving the problem of Russian economy competitiveness the government needs to be based on the fact that decreasing the customs duties is an important but not the only instrument for supporting the competitive position of the domestic manufacturers and should be used in combination with other economic policy measures.

Contrary to developed industrial economies Russia uses a limited set of customs-and-tariffs policy measures, which ahs an unfavorable impact on the domestic market environment and decreases the competitiveness of Russian goods. In relation with that a conclusion may be made: fully utilize the practices of other countries in the sphere of domestic markets protection applying a comprehensive set of all legal protective measures traditional for international trade practices recognized by GATT / WTO.

Currently 13 commodity items are included into the list. Russia is building the protection of its domestic market mainly on using tariff and fiscal limitations for importing certain categories of goods. In the meantime, such instruments as quantitative limitations, licensing requirements and variable fees, technical, anti-dumping rules and countervailing measures are being neglected.

The current customs tariff in Russia is focused mainly on the following things: 1) budget revenue additions (up to 50% of federal budget revenues come from customs duties), 2) protection of weaker sectors of the economy (thus increase of import duties for many categories of foreign products), 3) adjustment to WTO requirements (Russia is negotiating ascendance with WTO and is forced to decrease the highest customs tariffs according to the agreed schedule).

Special attention should be paid to evaluation of the effectiveness of the customs tariffs policy measures in terms of their impact on the inflation processes. Thus, when it comes to supporting Russian farmers and food products manufacturers in certain cases increase of import duties for the respective kind of goods may lead to retail prices growth and not lead to production growth, it may create the prerequisites for higher level of monopolization.

In 2009 trading partners initiated 4 anti-dumping investigations, 5 revisions of previous anti-dumping measures and 10 specialized protective investigations with regards to Russian goods. As of December 31, 2009, 95 restrictive measures were registered as applied by foreign states, including 41 anti-dumping measures, 7 specialized protective measures and 47 measures of non-tariff regulation of trade including administrative regulation measures. The maximum number of restrictive measures is effective in Belarus (24), in the EU (17), in Ukraine (13) and in the USA (11). The markets with the biggest number of problems (aggressive protectionism against Russian goods) which are at the same time of special interest for Russian exporters are EU, Mexico, Australia, the USA, India, Kazakhstan, Uzbekistan, Belarus and Ukraine. More than half of all anti-dumping measures introduced against Russia are focused on Russian ferrous metals and metal ware. Mineral fertilizers and chemical agents are the second point of focus.

During 2009 trading partners of Russia, especially South-East Asian countries, applied a wide spectrum of anti-crisis measures, mainly – the selective protection measures – to protect their national producing sectors from the global financial crisis. Thus, special protective investigations were initiated in India with regards to Oxon-spirits, flat hot-rolled product; the revision of anti-dumping measure against polytetrafluoroethylene was launched. China simultaneously initiated two anti-dumping investigations with regards to Russian polyamide and transformer steel. Based on the revision results China extended the anti-dumping customs duties with regard to polyvinyl chloride and butadiene-styrene rubber. Turkey extended specialized protective measure to limit the import of flat glass. Pakistan started anti-dumping investigation with regards to Russian hot-rolled products. The Philippines government decided to introduce a specialized protective import duty on unalloyed steel L-bars.

CIS countries also activated application of their domestic markets protection measures. Thus, Kazakhstan and Kyrgyzstan started specialized protection investigations with regards to products from absorbent cotton and glass, as well as with regards to flour and sugar. Ukraine started specialized protection investigation with regards to liquid chlorine and и glass plates, as well as revision of anti-dumping duty for wood-fiber boards. Besides, Ukraine introduced a specialized protective customs duty for matches.

Armenia introduced differentiated excise rates for domestic and imported alcohol.

Simultaneously due to active dialogue with the trading partners on preventing or canceling limitations on importing Russian goods some positive results were achieved. For example, in India despite lack of cooperation on behalf of Russian producing stakeholder, the anti-dumping investigation with regards to potassium carbonate was finished without introducing any measures. Ukraine terminated specialized protective duty for imported Russian abrasive tools and roofing felt. Kazakhstan cancelled the protective measure with regards to confectionery products. The anti-dumping import duty for Russian high-carbon ferrochrome was terminated in Brazil. In Thailand, despite the decision to extend anti-dumping duties for hot-rolled steel, the metal ware being of special interest for Russian exporters received the exemption, and the revision of current duties rates was initiated. Kyrgyzstan finished specialized protective investigation with regards to Russian sugar without suggesting any protective measures.

Brazil cancelled the import limitations introduced by their Ministry of Agriculture, Fishery and Supplies with regards to mandatory double treatment of each batch of Russian wheat grain with methyl bromide. Besides, the prohibition was removed for importing wheat grain from

Russia to Brazilian states Parana, Santa-Catrina and Rio-Grande-du-Sul. Kazakhstan cancelled import limitations for the seeds of beans, sunflower, cotton plants and for oil-bearing crop.

Free access was provided for Russian wheat to the Chinese markets. The competent authorities of Russia and China achieved an agreement about guarantees for Russian wheat subject to importing into China to be grown in the dwarf bunt - free zones so there is no reason for establishing quarantine in China. It is worth noting that this issue remained outstanding back from 2005.

Government Priorities in the Sphere of Foreign Trade: Customs Union and WTO

The crisis year of 2009 was characterized by significant change of approaches to setting the priorities in Russian foreign trade. For many years accession to WTO had been set as the key priority for Russia, however, in 2009 it was announced that the preparation work on creation of the Customs Union between Russia, Belarus and Kazakhstan had been completed and the common customs territory was to be launched starting from January 1, 2010. This marked the start of changing Russia's attitudes towards WTO. In reality, as the beginning of common customs territory functioning has demonstrated, there still are many unresolved issues and frictions between the partners of the Customs Union, so fine-tuning of the mechanisms will at least take quite some time. Meanwhile, the mechanism for Russia approaching the WTO is still pretty vague given the new environment.

The decision to set-up the Customs Union was made by the presidents of the EurAsEC countries in October 2007. At the same time they approved of the Action Plan to create the required legal and organizational framework during the period of 2007–2010.

The Customs Union (CU) assumes cancellation of customs duties for mutual trading of goods originating within the common customs territory or goods from third countries being in free circulation within this customs territory, as well as non-application of economic limitations (except for specialized protective, anti-dumping and compensatory measures). Besides, CU assumes adoption of standard customs tariff for trading with third countries, applying uniform trading policy towards them, developing and application of uniform legislation in the sphere of customs, as well as setting up a common Customs management system.

At the Customs Union meeting in Almaty on September 25, 2009, it was declared about finalizing the work on establishing and standardization of the standard customs tariff.

Forming the common customs territory means cancellation of customs borders between the member countries and transferring all types of government control (except for border management) to the customs border of the Union. It is planned to cancel the border control between Russia and Belarus starting from July 1, 2010, and between Russia and Kazakhstan – starting from July 1, 2011.

The meeting in Almaty approved the draft Uniform Customs Code, as well as draft agreements to be submitted for review and signing by the leaders of the Customs Union member countries.

The clauses of the International Convention on Customs Procedures Simplification and Harmonization (the Kyoto Convention of 1973) were laid in the foundation of the Uniform Customs Code and are underpinning all the key innovations.

The Code consists of 8 Sections containing 50 Chapters and 372 Articles of Common and Specialized Parts.

The key innovations of the enacted Customs Code pertain to fixing the clauses about the customs procedures which were understood as customs regimes in Belarus, Kazakhstan and Russia. Such changes are caused by the need to use the terminology of the Kyoto Convention.

Several more novelties in the sphere of customs regulation should be emphasized:

– introducing the concept of “common customs territory of the Customs Union”;
– creating uniform conditions for transit of goods within the Customs Union territory;
– cancellation of customs clearance and customs control of goods originating from the territories of the Customs Union member countries and foreign goods issued for unlimited consumption within the common customs territory of the Customs Union member countries;
– mutual acceptance of measures securing payment of customs payment and taxes across the whole territory of the Customs Union;
– introducing the institute of authorized economic operator, as well as the concept of “Customs representative”.

The Union Customs Code contains clauses about detention of goods and their back-up documents not being subjects of administrative violations or offence for the purposes of customs control. These clauses are new for Russia.

The draft Customs Code was approved by the Commission, but received a few comments and amendments and is currently being finalized.

In the course of the meetings the scheme of customs payments distribution between national budgets of the member countries was agreed. These will be the payments collected for the goods imported into their common customs territory. Two options were discussed. The first option stipulated the RF Treasury becoming the administrator and the distributor of the payments. The second plan was proposed by Kazakhstan and supported by negotiators from Belarus, it stipulated a certain proportion of distribution the customs payments and other fees among the member countries irrespective of where and in which particular country they were paid. Eventually, the second option was adopted.

The approved scheme will be in effect for 18 months as a pilot one (starting from January 2010 and finishing in June 2011). All this time the member countries will be jointly monitoring collection of import duties by national Customs of Russia, Belarus and Kazakhstan and the procedure of mutual settlements between the countries.

During the meeting of the Supreme Body of the Customs Union which took place in Minsk on November 27, 2009, the presidents of Belarus, Russia and Kazakhstan signed a set of documents authorizing the creation of the Customs Union starting from January 1, 2010. This package of documents comprised 15 agreements, including the Customs Union Agreement, the Standard Customs Tariff Agreement, the Standard Product Mix Agreement and other documents forming the legal framework for interaction between the member countries in the sphere of trade and economics in general. A number of foreign trade regulations were discussed at the meeting, including keeping the statistics, functioning of the uniform system of prohibition and limitation, staged cancellation of economic restrictive measures in the sphere of mutual trade between the three member countries.

Starting from January 1, 2010, the Standard Customs Tariff for the Customs Union of Russia, Belarus and Kazakhstan came into force. The Standard Customs Tariff (SCT) is the first document for the Customs Union to directly pertain to all the market participants. It lists the categories for all the commodities which may be imported into or exported from the member countries. Each commodity was assigned a certain code being the basis for the Customs to calculate the duty. This document sets the rates for import duties. Export duty rates shall be established separately by other documents.

This is how the SCT import duty rates are different from those in Russia: for household appliances and electronics they were decreased, for big buses and biomedical engineering – decreased, for clothes – increased, for certain types of pearls and diamonds – decreased, for certain types of pipes and scrap metal – changed. Coding was partially changed (SCT codes are different from Foreign Economic Activity Commodity Classification of the RF).

Despite the uniform Customs Code and Standard Customs Tariff, exemptions and exceptions are inevitable for each country.

Due to introduction of the Standard Customs Tariff starting from January 1, 2010, and other instruments for foreign trade regulation within the Customs Union, consultations will be held between the major partners about changing the trading regime.

Foreign trade regulatory function was transferred to the Customs Union Commission starting from January 1, 2010. It will be in charge of changing the import duty rates for the three member countries, as well as for enacting the Standard Product Mix for Foreign Trade, setting tariff privileges and quotas, defining the system of tariff preferences, introducing non-tariff regulatory measures, carrying out specialized protective anti-dumping and compensatory investigations. The Commission resolutions shall apply to the territories of all three countries.

During 2009 the format of Russia and other countries of the Customs Union joining WTO was changed a number of times. Before June 2009 there still were 6 systemic outstanding issues at the negotiations about Russia joining WTO, the key of them being the level of government aid to agricultural enterprises, meat import regime, export duties and the activities of government-owned trading organizations (the pricing commitments were actually squared up with the EU during the St.-Petersburg Forum, at the same time basic resolution pertaining to transparency obligations were agreed with the USA).

On June 17, 2009, during the informal consultations in Geneva Russia, Belarus and Kazakhstan notified the WTO member countries about their inclination to start practical steps for setting up the Customs Union starting from January 1, 2010, and suspended their negotiations on the issue of joining WTO until developing a common position on the format and content of further process of joining WTO.

In accordance with the decisions of the Customs Union Commission of August 12 2009 the single negotiation group was formed to represent Russia, Belarus and Kazakhstan on the issue of joining WTO.

At bilateral and multilateral consultations in Geneva in October 2009 the common position of Russia, Kazakhstan and Belarus was presented, according to which the three countries will be joining WTO subject to agreeing the terms between themselves and completely harmonizing them on the issues that are falling under the Customs Union competence. The Customs Union delegation notified the WTO members that the countries are to continue their accession process in the capacity of sovereign countries, because any other approach might be associated with some major judicial and procedural problems and may significantly delay the negotiations. The representatives of WTO Work Groups for accession of Russia, Kazakhstan and Belarus shall be making the decision on resuming the negotiations upon reviewing the data about the Customs Union. In the 4th quarter of 2009 the members of the single negotiation group were having expert consultations with WTO Secretariat and the key partners.

During the recent times WTO has been undergoing a systemic crisis worsened by global economic commotion. The WTO development agenda – DOHA negotiations started in 2001 –

is stuck due to the inability to agree the interests of the developed and emerging economies. The first group would like to maintain their subsidies (mainly in agriculture), while as the second group is not ready to unreasonably open their markets. The 7^{th} WTO ministerial conference in December 2009 did not contribute to breaking this deadlock, though the appeals to finish the DOHA round in 2010 were heard all the time.

The only practical outcome of the conference was signing the agreement between 22 emerging economies stipulating 20% customs tariffs decrease with regards to 70% of imported goods. The key objective of the agreement is to give the impetus to South-South trade relations and to demonstrate the solidarity of emerging economies conventionally referred to as “the southern countries’, while as wealthy “northern” economies are not able to reach any agreement and would not meet halfway.

It’s quite possible that in future WTO will be developing through such regional or group agreements. The Customs Union may then become one of such blocks inside WTO.