GAIDAR INSTITUTE FOR ECONOMIC POLICY

RUSSIAN ECONOMY IN 2012
TRENDS AND OUTLOOKS
(*ISSUE 34*)

Gaidar Institute
Publishers
Moscow / 2013

UDC 330(470+571)
BBC 65.9(2Рос)-04

Agency CIP RSL

R95 **Russian Economy in 2012. Trends and Outlooks.**
(Issue 34) – Moscow: Gaidar Institute Publishers, 2013. 548 pp.

ISBN 978-5-93255-374-9

The review provides a detailed analysis of main trends in Russia's economy in 2012. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; 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.

UDC 330(470+571)
BBC 65.9(2Рос)-04

ISBN 978-5-93255-374-9

Sergey Prikhodko, Nadezhda Volovik

Russia's Foreign Trade in 2012

The State of Global Economy

In 2012 the global economy was developing in the situation of high uncertainty. Although the economic recovery after the global financial crisis continued, its growth rate has slowed down: if in 2010 the global GDP has grown by 5.1%, in 2011 - by 3.8% and in 2012 - by 3.2%.

The major threat to the economy came mainly from the Eurozone, which failed to cope with the sovereign debt crisis. Although most governments in European countries have taken a ply to reducing the budget deficit, significant progress in the fight against the debt crisis could not be reached. According to the second tentative estimates of Eurostat[1], the GDP of 27 countries of the European Union (EU-27) in 2012 as compared with the previous year has decreased by 0.3% and GDP of 17 Eurozone countries – by 0.6%. Herewith, in the Eurozone countries the GDP decrease was observed throughout the year. Thus, in Q1 as compared with the same period of 2011, the Eurozone GDP has decreased by 0.1%, and in the Q2 - by 0.5%, in the Q3 - by 0.6%, in the Q4 – by 0. 9%. According to the forecast of the European Central Bank (ECB), the countries of Europe, experiencing the economic crisis can start recovery by the middle of 2013. However, the transition to worldwide economic growth in the region will be visible only by the beginning of 2014.

Throughout 2012 the leading economy of the world - the United States was able to maintain growth, and in Q3 even significantly accelerate its rate. Thus, having slowed down in the Q2 from 2.0 to 1.3% of GDP, the growth rate in annual terms has accelerated in Q3 to 3.1% (according to the US Bureau of Economic Analysis[2]). However, in Q4 the GDP has declined by 0.1% for the first time since 2009, when the global economy was in a recession. Nevertheless, as per results of 2012, the US economy has demonstrated growth in the amount of 2.2%. Such growth cannot resolve all economic problems, but it represents a further step on the path to sustainable growth and reduction of unemployment, which is an encouraging indicator for the global economy.

Downturn in the Eurozone, the risks associated with the sovereign debts' crisis, forecasts on cooling the global economy and fluctuations of financial markets have provided a significant impact on the economies of developing countries. Throughout the year there was a slowdown of the Chinese economy growth. As a result, over the year the national GDP has grown by 7.8%[3], which is the lowest level in the latest 12 years.

The growth rate of the Brazilian economy continues to decrease. The growth rate slowing was started at the beginning of Q1 2010, when Brazil economy has grown by 9.3%. Then, the GDP growth rates were declining steadily from quarter to quarter. In 2012 the economic growth rates have fallen sharply: quarterly growth has never exceeded 1%. Thus, in Q2 2012, the GDP growth rate in annual terms has decreased from 0.8% to 0.5%, in Q3 there was a

[1] http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-06032013-AP/EN/2-06032013-AP-EN.PDF
[2] http://www.bea.gov/national/index.htm#gdp
[3] https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html

slight acceleration to 0.9%. Overall, in 2012 Brazilian GDP has increased as compared with 2011 by 1.3% (whereas in 2011 the growth made 2.7%, in 2010 - 7.5%)[1].

In the economy of India in 2012 there were noted the slowest rates in three years. Thus, in Q1 2012, the GDP has grown by 5.3% in Q2 - by 5.5%, and in Q3 it has again slowed down to 5.3% against the relevant period of the previous year. In general, the Indian economy has grown by 5.4%[2], which is the weakest indicator in the last decade.

International economic organizations during 2012 were repeatedly reducing their forecasts for further development of the global economy. Thus, in October Bulletin Prospects and Outlooks for the Growth of the Global Economy, the International Monetary Fund has cut down its outlook for global growth in 2012 to 3.3% in 2013 to 3.6% in 2013. In the July issue of the Prospects and Outlooks for the Growth of the Global Economy for 2012, the relevant forecast was presented at the level of 3.5 and 3.9%. And even earlier, in the April 2012 Prospects and Outlooks for the Growth of the Global Economy, the outlook for growth in the world economy has been higher than in July. Herewith, the forecasts for both, the countries with advanced economies and for those of emerging market and developing countries. In the January 2013 issue of the Bulletin the forecasts for nearly all countries were downgraded again (See *Table 46*).

In November 2012, the Organization for Economic Cooperation and Development (OECD)[3] has also decreased its forecast for the global economy development, having warned that the greatest threat to global economic growth remains the indebtedness crisis in the Eurozone. The OECD report "Economic Perspectives" has forecasted the global GDP growth in 2012 by 2.9% and by 3.4% in 2013. Thus, there was also a significant adjustment of the forecast given in May 2012. Then the organization was assuming that in 2012, the global economy would grow by 3.4% and in 2013 - by 4.2%. The GDP growth in OECD countries is expected to reach 1.4% in 2013, accelerated in 2014 to 2.3%.

Table 46

Dynamics of the Global GDP and Global Trade Growth Rate in% against the Preceding Year

				IMF estimates		Difference between the forecasts made in October 2012 and in January 2013	
	2010	2011	2012	2013	2014	2013	2014
Global GDP	**5.1**	**3.9**	**3.2**	**3.5**	**4.1**	**–0.1**	**–0.1**
Countries with advanced economy	**3.0**	**1.6**	**1.3**	**1.4**	**2.2**	**–0.1**	**–0.3**
USA	2.4	1.8	2.3	2.0	3.0	–0.1	0.1
Eurozone	2.0	1.4	–0.4	–0.2	1.0	–0.3	–0.1
Germany	4.0	3.1	0.9	0.6	1.4	–0.3	0.1
France	1.7	1.7	0.2	0.3	0.9	–0.1	–0.2
Italy	1.8	0.4	–2.1	–1.0	0.5	–0.3	–0.0
Spain	–0.3	0.4	–1.4	–1.5	0.8	–0.1	–0.2
Japan	4.5	–0.6	2.0	1.2	0.7	0.0	–0.4
Great Britain	1.8	0.9	–0.2	1.0	1.9	–0.1	–0.3
Canada	3.2	2.6	2.0	1.8	2.3	–0.2	–0.1
Other countries with advanced economy	5.9	3.3	1.9	2.7	3.3	–0.3	–0.1
Newly industrialized Asian economies	8.5	4.0	1.8	3.2	3.9	–0.4	–0.2
Emerging markets and developing countries	**7.4**	**6.3**	**5.1**	**5.5**	5.9	**–0.1**	**0.0**
Central and Eastern Europe	4.6	5.3	1.8	2.4	3.1	–0.1	0.0

[1] https://www.cia.gov/library/publications/the-world-factbook/geos/br.html
[2] https://www.cia.gov/library/publications/the-world-factbook/geos/in.html
[3] http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-outlook-volume-2012-issue-2_eco_outlook-v2012-2-en

CIS	4.8	4.9	3.6	3.8	4.1	–0.3	–0.1
Russia	4.3	4.3	3.6	3.7	3.8	–0.2	–0.1
Outside Russia	6.0	6.2	3.9	4.3	4.7	–0.5	–0.1
Developing Asia	9.5	8.0	6.6	7.1	7.5	–0.1	00
China	10.4	9.3	7.8	8.2	8.5	0.0	0.0
India	10.1	7.9	4.5	5.9	6.4	–0.1	0.0
Latin America and the Caribbean	6.2	4.5	3.0	3.6	3.9	–0.3	–0.1
Brasilia	7.5	2.7	1.0	3.5	4.0	–0.4	–0.2
Mexico	5.6	3.9	3.8	3.5	3.5	0.0	0.0
World trade in goods and services	**12.6**	**5.9**	**2.8**	**3.8**	5.5	**–0.7**	**–0.3**
Imports							
Advanced economies	11.4	4.6	1.2	2.2	4.1	–1.1	–0.4
Emerging markets and developing countries	14.9	8.4	6.1	6.5	7.8	–0.1	–0.1
Exports							
Advanced economies	12.0	5.6	2.1	2.8	4.5	–0.8	–0.4
Emerging markets and developing countries	13.7	6.6	3.6	5.5	6.9	–0.2	–0.2

Source: http://www.imf.org/external/russian/pubs/ft/weo/2013/update/01/pdf/0113r.pdf

The US economy will grow in 2013 only by 2.0%, while in May the OECD was forecasting the growth at 2.6%. The most serious internal risk to the favorable growth of the U.S. economy is the possibility of a sharper-than-planned budget reduction, if the U.S. politicians fail to reach an agreement on the prevention of substantial automatic tax rates growth and the schedule of costs reduction in early 2013. In the worst-case scenario, the amount of the budget adjustment can reach more than 4% of GDP. Financial adjustment in 2013 will have an impact on the economy of the U.S. and its major trading partners, as well as on the export of raw materials (due to lower cost of raw materials).

In October 2012 the World Trade Organization (WTO) has published the annual package of documents, presenting the detailed statistics on the volume of trade flows and on tariff rates in 2011[1], according to which the growth of trade in goods in 2011 was 5% under the global GDP growth by 2.5%. In 2010 those indicators were 13.8% and 3.8%, respectively. In the pre-crisis period of 1990-2008 the average indicators of the annual growth rates of trade in goods were at the level of 6%.

In 2011 the largest exporter of goods in the world (in value terms) was China, the exports of which had increased by 20% to $1.898bn. The share of China's share in the global exports made 10.4%. The USA takes the 2nd place with the exports of $1.48bn, and Germany is at the 3rd place, which has exported goods worth $1.472bn. Russian Federation with exports of $522bn has come up to the 9th place from the 12th, which it held in 2010.

In terms of the volume of imports in 2011 at the 1st place was the United States, which has purchased abroad the goods for $2.266bn. The 2nd place is held by China, imports of which amounted to $1,743bn; the third place is held by Germany, which imported goods for the amount of $1.254bn. The Russian Federations rose from 18th place, which was occupied in 2010, to the 17th place, having bought abroad goods for the amount of $324bn.

In 2012 the foreign trade turnover of the U.S. made $3.82 trillion[2], China - $3.87 trillion[3]. Therefore, as of 2012 results, China became the leader of the global trade in goods, having overcome the United States, which was the leader in this regard since 1945.

WTO has reduced the forecast for growth of the global trade for 2012 to 2.5% from 3.7%, which was given by the organization in the previous forecast, made in April 2012.

For 2012, the growth of exports from developed countries was projected by 1.5%, and from developing countries by 3.5%. Import of the first group of countries will increase by 0.4%, i.e., it will be almost stagnant, and of the second group by 5.4%. The forecast for April

[1] http://www.wto.org/english/news_e/news12_e/stat_23oct12_e.htm
[2] http://www.trade.gov/press/press-releases/2013/export-factsheet-february2013-020813.pdf
[3] http://english.customs.gov.cn/tabid/47819/Default.aspx

2012 was more optimistic: there is expected growth by 1.9 and 6.2%, accordingly. Relevant indicators are lowered also for 2013: WTO finds that the global trade will grow by 4.5% instead of 5.6%. Herewith, further adjustment can take place in case of continued uncertainty in the European financial system.

The need to revise the WTO forecast in April is largely due to the decline in trade within the EU and the EU trade with the outside world.

Terms of the Russian Foreign Trade: Market Prices for the Major Exported and Imported Goods

In addition to the global slowdown in economy, commodity markets in 2012 were influenced by other factors. The major event in the global energy market was the development of shale oil and gas fields in the U.S. Shale gas production has led to a significant decline in prices in the domestic market. Right now they are lower than in Europe or Asia. Meanwhile, the growth of oil production affects the world market through the reduction in demand from the U.S., which slows down the growth of prices.

The tense situation in the North Africa and the Middle East, as well as the introduction of the EU and U.S. sanctions against Iran have prevented from the sharp fall in the price of energy sources. In 2012 the EU has joined the U.S. stringent sanctions regime in regard to Iran with the purpose to influence the nuclear program of that country. Many traditional buyers have drastically reduced or restrained from purchases energy sources from Iran. In general, tightening of the U.S. and the EU sanctions has led to reduction of oil exports from Iran. Increased supply from Saudi Arabia, Iraq and other countries - OPEC members helped to smooth the effect of the reduction in the supply of Iranian oil to the global market.

One of the most anticipated events of the year was the launch of quantitative easing program (QE3) by the U.S. Federal Reserve. With the expectations of new injections of liquidity by the U.S. Federal Reserve and the rise in the global economy activity commodity quotes after a serious correction in the H1 2012 began to rise in the H2 of the year. However, due to the sustained poor dynamics in both, the developed and the developing countries the launching of a new program of asset purchases by the U.S. Federal Reserve was not enough. After a short-term growth, quotations of many primary assets quickly returned to the previous levels achieved before the launch of QE3.

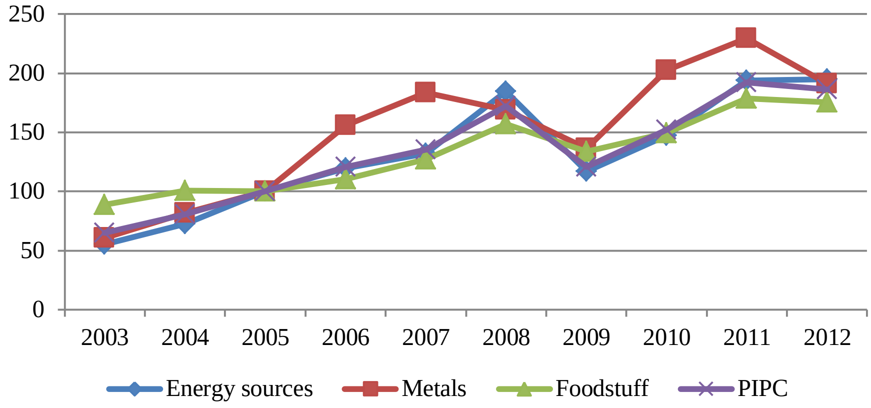
In some regions of the world in 2012 there were noted abnormally hot and dry weather conditions, which affected crop areas of Russia, Australia, Brazil, India. The most serious damage was caused to the agricultural sector of the United States, where by a number of assessments the drought has been the most significant in the last fifty years. Badly damaged were the harvests of soybean, grain, and a number of forage crops. Against this background, food prices began to grow.

However, in general, in 2012 the average FAO Food Price Index[1] made 212 points, which is by 7% lower than in 2011. The most significant was the decline in sugar prices index (17.1%), dairy products (14.5%) and vegetable oils (10.7%), to a lesser extent were reduced prices for cereals (2.4%) and meat (1.1%).

The price index of primary commodities (PIPC)[2] calculated by the IMF, in 2012 was also lower than in 2011 - 186.2% against 192.2%. A significant reduction was observed in the

[1] FAO Food Price Index (Food and Agriculture Organization) is a measure of the change in a basket of international prices of food commodities over the last month.
[2] PIPC is a weighted average price index of 51 types of primary commodities, grouped into three main groups – energy sources, industrial resources (mainly base metals) and foodstuff.

group of metals, the price index of which has decreased from 229.7% in 2011 to 191% in 2012. In the group of energy sources there was a slight increase from 193.8% in 2011 to 195.2% in 2012.



Source: IMF.

Fig. 48. IMF price index of primary commodities (PIPC) (2005 = 100)

As a result of the "shale revolution" in the United States, the global energy market got split into two mutually independent parts - the Eurasian market, where high oil and gas prices are retained, and the U.S. market, where a decrease in the prices of these commodities is observed. The U.S. market is almost entirely dependent on the state of the U.S. economy, the continuing tensions in the Middle East are not affecting energy prices in the region. Elsewhere in the world market prices of oil are driven by the demand in Europe and Asia, tensions in the Middle East, as well as the problem of Iran.

As a result, the price dynamics in the global oil market in 2012 was different depending on the brand. Thus, the price of Brent crude oil on average for the year increased by 0.9% to $111.97/bbl, while crude oil WTI price, by contrast, fell down by 0.7% to $94.1/bbl.

Throughout the 2012 difference between the prices of European Brent crude oil and American brand WTI increased by cheaper WTI. In November 2012 Brent price was by $23 more than WTI, despite the fact that until the mid-2009 the U.S. WTI crude oil cost was by $2-3 more expensive than Brent.

Global market prices for Brent crude in 2012 did not demonstrate nether any downfalls, no sharp upsurges. They have reached the maximum level on March 17, having risen to $126.16/bbl. One of the main factors affecting the price dynamics of the oil market in this period was intensified conflict between Iran and the EU: the rise in prices in Q1 was due to the decision taken by the EU on sanctions against Iran and termination of oil imports from this country from July 1. Due to the fears of possible shortages of raw materials the oil price has grown up to the maximum level of the first year above $120/bbl. Brent oil price was sustained from mid-February to mid-April.

In mid-April prices have begun to decline. On June 1 Brent crude fell to $98.53/bbl. and for 1.5 months was kept below $100/bbl. During this period, once again debt problems in Greece were aggravated. The Euro rate against dollar fell down to a two-year minimum. Besides Iran, after eighteen-month pause has resumed negotiations on its nuclear program with the mediators (Russia, Britain, China, the U.S., France and Germany). There was hope that the opposition of the parties could be settled without a conflict. As a result, the price of Brent oil on June 21 has reached an annual minimum - $89.48/bbl.

In Q3 price growth has resumed, and its main cause was the entry into force of the embargo on imports of Iranian oil. Although Saudi Arabia and other OPEC countries increased production and prevented oil shortage, the major role was played by psychological factor. In addition, the market situation was affected in this period Euro strengthening against dollar.

In Q4 of the price dynamics was more regular: the price of Brent crude oil was fluctuating around the value of S110/bbl. The average price of Brent in 2012 has grown by 0.92% as compared with 2011 to $111.97/bbl.

Following the dynamics of the world market, the price of Urals oil in early 2012 began to rise dramatically, and in March its monthly average price exceeded the level of $123/bbl, maximum since 2008. However, in Q2 it began to decline. In June the price was $93.3/bbl, which is the lowest level since December 2010. In Q3 and Q4 the price dynamics got improved. As a result, throughout 2012, the average price of Urals oil surpassed that of 2011 by 1% and reached S110.41/bbl. Recall that in 2011 the Urals oil price increased by 40% as compared with 2010.

The global market for natural gas in 2012 was also rather volatile. In the U.S., because of the large supply of gas produced in shale deposits, its market price for the H1 was below the level of $2.68/ 1 million BTU. Herewith, in April the price in the U.S. has dropped down to $1.95 / 1 million BTU, and in October it has grown up to $3.32 / 1 million BTU. But still the U.S. gas remains the cheapest in the world.

In Southeast Asia the situation was different. Because of the strong earthquake that occurred in 2011, the demand for liquefied natural gas was sharply increased in Japan. The price of gas in this region is the highest in the world. In Europe gas prices are also much higher than in the U.S. However, Qatar, which until recently was supplying large volumes of liquefied natural gas to the U.S. market, was forced refocus on Europe, and as a result, prices there have gone down: under the spot contracts the gas sold for $320 per 1000 m^3.

The global market of non-ferrous metals began to deteriorate from the end of 2011, which is due to the overall macroeconomic problems – European debt crisis and its impact on the global economic growth and on the slowdown of economic activity in the U.S. and China. A short-term growth rates in the first two months of 2012 was replaced with their downgrading, which lasted until the H2 of August. At the end of Q3 2012, the market has been recovered due to the Euro growth against the dollar, as well as because of promoting measures announced by the U.S. and China to support their economies.

However, according to the London Metal Exchange, in 2012, prices for aluminum were lower than in 2011 by 15.8%, for copper – by 9.8%. The worst of all was the price situation in the nickel market, which has fallen down by 23.4%. Further price decline will be likely restrained by the reduction of metal production and higher production costs.

Under the current trends of the global market, the terms of trade in 2012 in Russia, although remained favorable, have significantly deteriorated as compared with 2011. If in 2011 the terms of trade (the ratio of export price index versus the import price index) was 125.3 points, in 2012 it made only 104.4 points.

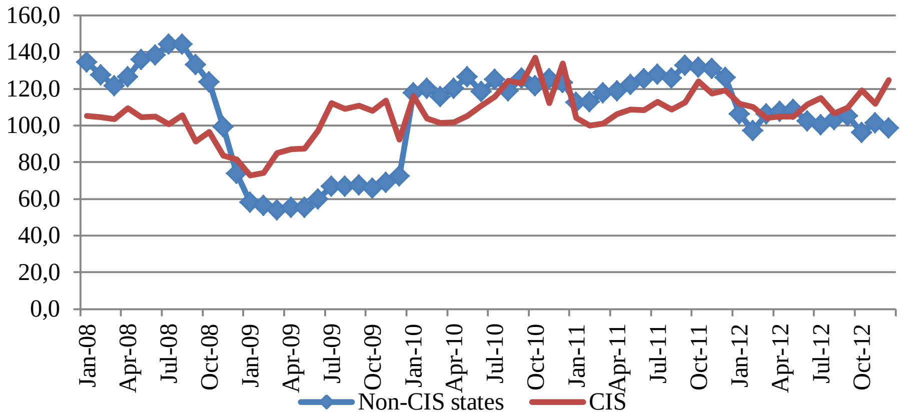
Table 47

Average Annual Global Prices

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Oil (Brent), $/bbl	25.02	28.83	37.4	54.38	65.15	72.32	97.64	61.86	79.64	110.9	111.97
Oil WTI, $/bbl	26.09	31.11	41.44	56.44	66.04	72.28	99.56	61.65	79.43	95.05	94.16
Natural gas(USA), $/1m BTU	3.36	5.49	5.89	8.92	6.72	6.98	8.86	3.95	4.39	4.00	2.75
Natural gas, European market, $/1m BTU	3.05	3.91	4.28	6.33	8.47	8.56	13.41	8.71	8.29	10.52	11.47
Natural gas(Japan), $./1m BTU	4.28	4.73	5.13	5.99	7.08	7.68	12.55	8.94	10.85	14.66	16.67
Copper, $./ton	1559	1779	2866	3679	6722	7118	6956	5149	7534	8828	7962.4

Aluminum, $./ton	1350	1431	1715	1898	2570	2638	2573	1665	2173	2401	2023.3
Nickel, $./ton	6772	9629	13823	14744	24254	37230	21111	14655	21809	22910	175476

Source: estimated by the data of the London Metal Exchange (UK, London) and the World Bank



Source: Ministry of Economic Development of Russia.

Fig. 49. Terms of Foreign Trade Index

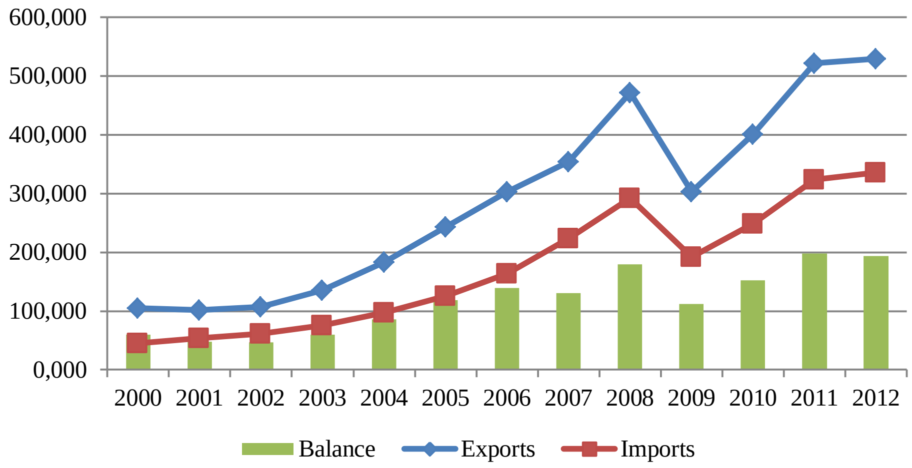
Key Indicators of the Russian Foreign Trade

In 2012 the national foreign trade turnover, computed by the balance-of-payments methodology amounted to $864.7bn, which is by 2.2% higher than the relevant indicator of the last year, while with non-CIS countries it rose by 3.1% to $735.5bn, and with the CIS countries it has decreased by 2.4% to $ 129.2bn.

Foreign trade quota in 2012 decreased as compared to 2011 from 44.5% to 42.9%, though the share of foreign trade in GDP OS remained significant.

It is worth noting that in January 2012 the foreign trade turnover has grown by 28.8% (with respect to January 2011). Imports began the year with the growth by 22.7% and exports - by 31.7%. Then, at the background of the expansion of the debt crisis in the Eurozone and the slowdown in the Russian economy, the dynamics of international trade began to weaken. While in 2011 the average monthly exports growth made up 30.3% and imports - 32.2%, in 2012 they made 2.4% and 4.3%, respectively.

The average monthly growth of Russian exports to the non-CIS countries was reduced from 29.7% in 2011 to 3.2% in 2012 and to the CIS countries from 35.7 to 1%. Average monthly growth of imports to Russia from foreign countries in 2011 was 31%, in 2012 - 5.7%. After an average monthly growth of 39.3% in 2011, in 2012 imports from the CIS countries was falling down monthly by 2.9% on average.



Source: RF Central Bank.

Fig. 50. Key Indicators of the Russian Foreign Trade, $bn

Sustainability positive dynamics of Russian exports throughout the year was mainly due to the price factor. Import growth was based on the increase in its volumes accompanied with lower average prices.

Table 48

Russian Foreign Trade in % vs. Preceding Year

	2010		2011		2012	
	Measured by volume	**Measured by average prices**	**Measured by volume**	**Measured by average prices**	**Measured by volume**	**Measured by average prices**
Exports	110.0	119.8	97.8	132.9	99.9	101.6
Imports	135.4	101.6	122.2	109.1	105.1	97.3

Source: Federal Tax Service of Russia.

The trade balance in 2012 was positive - $193.8bn, which is by 2.2% less than in 2011.

The coverage ratio of exports to imports has dropped from 161.2% in 2011 to 157.8% in 2012.

The imbalance of foreign trade ratio (the ratio of surplus to the trade turnover) has also decreased from 23.4% in 2011 to 22.4% in 2012.

Exports Structure Dynamics

External demand for the goods produced in Russia remained weak in 2012. The volume of Russian exports exceeded that of the previous year by 1.4%, having grown to $ 529.3bn. The growth was due to an increase by2% of export to foreign countries, where the Russian goods were exported at the amount of $446.8bn. To the CIS countries there were sold goods worth of $ 82.5bn, which is by 1.6% less than in 2011. The total share of the non-CIS countries in exports has increased from 83.9 to 84.4%.

Table 49

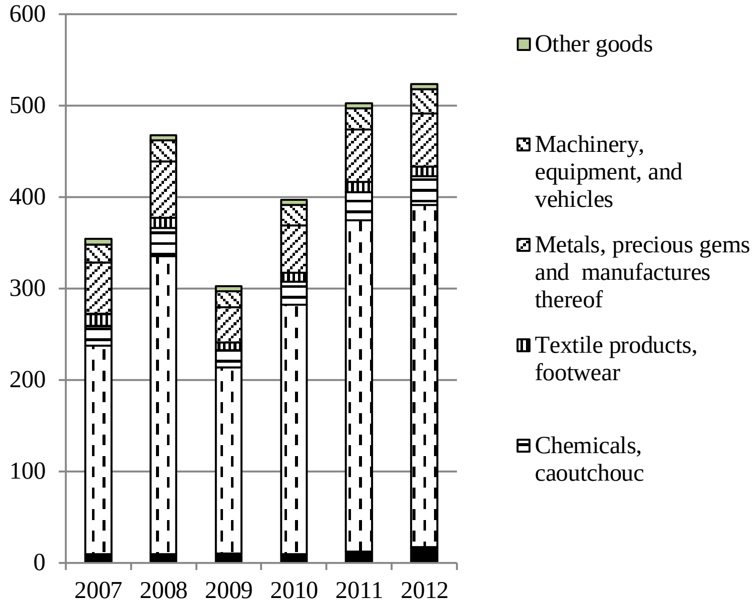
Russian Exports Dynamics, $bn

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Exports, $bn Including	101.9	107.3	135.9	183.2	243.8	303.6	354.4	471.6	303.4	400.6	522.0	529.3
Non-CIS countries	86.6	90.9	114.6	153.0	210.2	260.2	300.6	400.5	255.3	338.0	438.2	446.8
Growth rates in % vs. preceding year												
Volume index	104.2	115.0	109.5	110.7	104.7	105.8	105.0	96.8	97.0	110.0	97.8	99.9

Price index	93.8	86.0	113.4	122.7	126.9	119.7	110.9	137.4	76.4	119.8	132.9	101.6

Source: the Bank of Russia, Ministry of Economic Development of Russia.

The share of energy products in the Russian exports remains excessively high, and the share of machinery, equipment and vehicles is rather insignificant. As of the end of 2012, the share of exports of mineral products made 71.4% (including fuel and energy products in the amount of 70.4%), the share of machinery, equipment and vehicles - only 5%, like in 2011.



Source: Federal Tax Service of Russia.

Fig. 51. Russian Export Commodity Structure, $bn

In 2012 exports of fuel and energy products increased by 2% as compared with 2011, mainly due to the price component.

According to the Ministry of Energy, the volume of Russian oil exports in 2012 has decreased by 1% as compared with 2011 - up to 239.64m tons. Oil supplies to the non-CIS countries have decreased by 0.34% - up to 211.48m tons, to the CIS countries - by 5.7% to 28.17m tons.

In 2012 the sales of Russian gas abroad have been decreased by 8.7% against 2011 – to 186.1bn m^3. The decline in demand for it on the international market was due to the increased competition from other suppliers and the reduction of gas consumption in Eurozone. The Russian gas supplies were decreased to both, CIS and non-CIS countries.

OAO Gazprom in its report for Q3 2012 also provides data on the decline in sales abroad. As compared with 2011, the sales decreased by 10.8%. Basically this result is due to a sharp decline in exports to Ukraine. However, as can be seen from *Table 50*, in 2012 almost all countries have reduced the purchase of Russian gas.

Table 50

Natural Gas Imports of OAO Gazprom in 2012

Country	m^3 bn	In % vs. 2011
Germany Italy	33.16	97.4
Italy	15.08	88.3
Turkey	27.02	103.9
France	8.04	84.4

Finland	3.75	89.5
Austria	5.22	96.1
Greece	2.5	86.5
Netherlands	2.31	52.9
Switzerland	0.3	97.4
UK	8.11	99.4
Hungary	5.29	84.6
Poland	9.94	96.7
Slovakia	4.19	71.1
Czechia	7.28	95.9
Rumania	2.17	76.7
Bulgaria	2.53	90.4
Serbia and Montenegro	0.74	53.2
Slovenia	0.5	94.3
Bosnia and Herzegovina	0.26	92.9
Macedonia	0.08	60.4
Ukraine	32.87	82.2
Belorussia	20.26	101.3
Moldavia	3.08	99.3
Lithuania	3.32	97.4
Latvia	1.12	94.5
Estonia	0.62	93.1
Kazakhstan	0.93	99.1
South Ossetia	0.03	115.4
Armenia	1.94	120.5
Georgia	0.25	133.7
Total	**202.89**	**91.8**

Source: http://www.gazprom.ru/f/posts/21/499896/qr0412.pdf

According to the International Monetary Fund (IMF), average contract prices for Russian natural gas on the border of Germany have increased over the year on average by 13.8% to \$431.3/1000 m^3, but in Q4 2012 they have decreased as compared with the same period in 2011 by 3.7% to \$418.2/1000 m^3. According to the Ministry of Economic Development of Russia, due to increased production of gas from shale deposits in the U.S. and the increased share of spot contracts, OAO Gazprom will no longer be able to maintain high prices for its long-term contracts. Russian gas price in the markets outside the CIS is forecasted as follows: in 2013 - at the level of \$362/1000 m^3, in 2014 - \$352/1000 m^3, in 2015 - \$366/1000 m^3.

The volume of oil products supply to the non-CIS countries increased by the results of 2012 by 0.9% to 121.0m tons. Herewith, there was almost a nearly twice decrease in exports of gasoline (from 2.4m to 1.4m tons), which is not only due to the increased export duty. Also during this period, there was a 0.1% reduction in the export of diesel fuel - up to 33m tons, however, exports of liquid fuels (heating oil) rose by 3.5% - to 72.9m tons. As a result, the share of heating oil in the total exports of petroleum products to the non-CIS countries has grown, and as of 2012 it amounted to 51.5% against 48.9% in 2011. The growth occurred despite the introduction in 2011 of a new formula for calculating the export duty ("60-66"), which led to a substantial increase of taxes on heavy oil products.

Exports of metals and products therefrom have decreased in 2012 as compared to 2011 by 6.5% (from \$47.5bn to \$44.5bn). The share of this product group in the total Russian export has decreased to 8.5% against 9.2% in 2011.

Throughout 2012 there was observed a significant increase in the volume of exports of non-ferrous metals: copper export and its products in physical terms has increased by 36.9%, aluminum and its products - by 3.9%, nickel and its products - by 11.9%. Growth of the physical volume of exports of non-ferrous metals to some extent has compensated the loss of revenue of the Russian companies from falling global prices for base metals. Nevertheless, in price terms, exports of aluminum in 2012 have decreased by 4.6% to \$ 6.5bn, nickel - by 17.3% to \$ 3.7bn, copper exports rose by 18.4% to \$1.9 bn. Virtually all exports of copper and nickel were carried out to non-CIS countries. To the CIS countries there were supplied only 8.900 tons of copper and 0.500 tons of nickel.

Exports of chemical products in 2012 amounted in price terms to $32bn, which is lower than the same period of 2011 by 2%. Its share in the total exports of major commodities in 2012 has decreased to 6.1% against 6.3% in 2011. The leading position in this product group occupy fertilizers (2.1% of the total exports of essential goods), inorganic chemistry products (1.4%) and synthetic caoutchouc (0.5%).

In 2012, there was a significant reduction in the export of timber and pulp-and-paper products. While in 2011 the goods of this group were sold abroad in the amount of $11.3bn, in 2012 they were sold only for $10.1bn, i.e., by 10.2% less. This decrease was due to both, lower contract prices, and to reducing the physical volumes. The physical volumes of exports of raw timber have decreased by 16.8%, of timber - by 3.4%, of newsprint - by 6.5%. Physical export volume of pulp has been increased by 12.4%.

In the consolidated list of commodity items the only commodity group, which experienced strong growth in exports in 2012 became the group "foodstuffs and raw materials for production thereof". Cost volume of supply of these products has increased by 24.5% to $16.6bn, and physical volume - by 25.3%. The share of this group has been increased to 3.2% from 2.6% in 2011 due to the high growth dynamics of exports in H1 of the year, during which it increased nearly twice. However, the crop failure prevented from maintaining a high rate of growth in the supply of foodstuffs.

Physical volume of exports of food products were increased primarily due to the export of crops. In addition, the volume of exports of sunflower seed and oil has been significantly increased.

Exports of wheat and meslin increased by 22.9% to $4.5bn mainly due to an increase in contract prices (by 16.6%). In physical terms, this indicator amounted to 16.6m tons, which is by 5.4% more than last year. The main part of the grain – 15.49m tons ($4.36bn) was exported to the non-CIS countries.

At the same time, the rate of the Russian grain exports from the beginning of the agricultural season (started from July 1, 2012) is lower than in the past. According to the RF Ministry of Agriculture, grain exports from July 1, 2012 to January 30, 2013 amounted to 13.5m tons, as compared to 19.4m tons a year earlier. This is based on the reduced crop harvest due to the drought: in 2012 in the Russian Federation there was harvested 70.7m tons of grain against 94.2m tons in 2011.

As of the of 2012 results, the Russian exports of rice has reached its historical maximum of 334,000 tons, which is more than twice higher than in 2011, and by1.7 times higher than the previous record in 2010. According to the RF Ministry of Agriculture, rice harvest in Russia in 2012 amounted to about 1.5m tons, which almost completely satisfied domestic demand and supply the excess to the world market. 169,000 tons of paddy and 165,000 tons of rice grains were sold abroad. The largest buyers were Libya, which acquired 30% of Russian rice, and Turkey, which has purchased 25% of Russian exports of rice. The overwhelming share of purchases of both countries is paddy. Rice grains are traditionally exported to the former Soviet Union countries: Turkmenistan, Tajikistan, Azerbaijan and Kyrgyzstan.

According to the Russian Union of Sugar Producers, in 2012 there were exported 1.4m tons of sugar of the beet production complex, which is the absolute maximum for the entire post-Soviet period. This happened due to the increased investments in the upgrading of basic production assets and increase of the capacity of the recycling of beet pulp in sugar mills, which were previously considered as waste product.

Exports of machinery, equipment and vehicles increased in 2012 as compared to the previous year by 1.8%. According to the Federal Tax Service of Russia, compared to the 2011, the supply of railway equipment increased by 20.1%, of mechanical equipment - by 11.8%, of optical instruments and apparatus - by 6.3%, of electrical equipment - 2.0%. The cost volume of supply of land transport (except railway equipment) increased by 10.4%.

Imports Structure and Dynamics

Russian imports in 2012 have increased as compared to 2011 by 3.6% to $335.4bn. Imports growth was due to increasing imports from the non-CIS countries, from where the imported goods made $288.7bn, which is by 4.9% exceeds the relevant indicator of 2011. Imports from the CIS countries have decreased by 3.7% to $ 46.8bn. The share of non-CIS countries in the total imports has increased from 85.0% to 86.1%.

Table 51

Russian Imports Dynamics, $bn

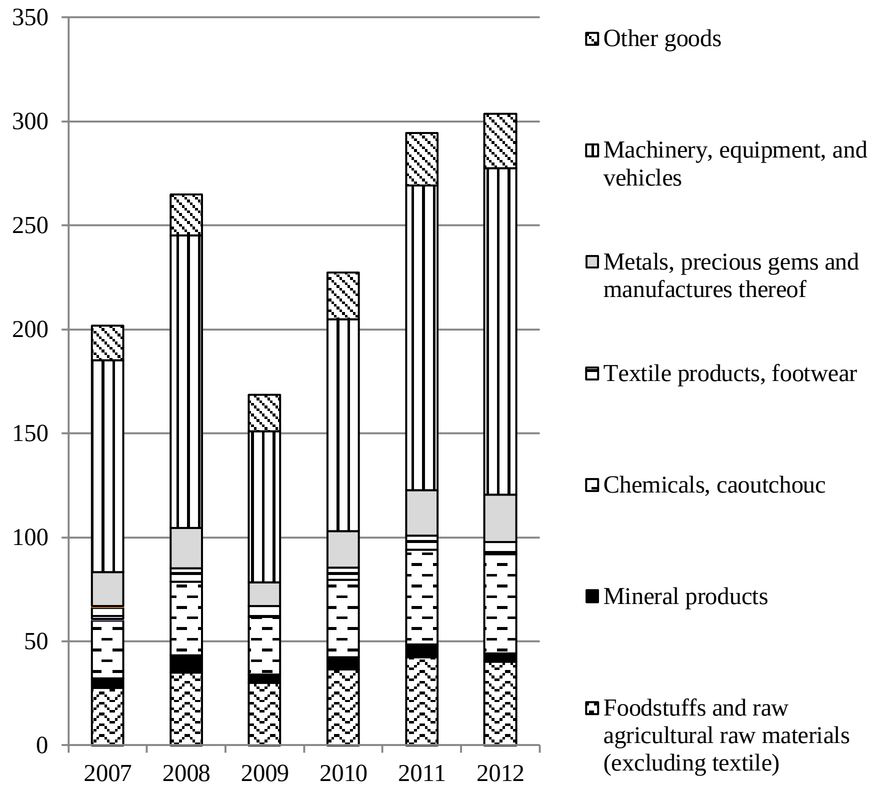
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Imports,$ bn, Including:	53.8	61.0	76.1	97.4	125.4	164.3	223.5	291.9	191.8	248.6	323.8	335.4
Non-CIs countries	40.7	48.8	61.0	77.5	103.5	140.2	191.7	252.9	167.7	213.3	275.3	288.7
Growth rates in % vs. preceding year												
Physical volume index	129.1	117.6	119.2	124.2	122.4	130.1	127.1	113.5	63.3	135.4	122.2	105.1
Price index	94.3	93.4	98.7	106.1	106.5	105.5	107.6	117.8	99.1	101.6	109.1	97.3

Source: Bank of Russia, Ministry of Economic Development of Russia.

The major trend in 2012 was the slowdown of imports, which has occurred in all major product groups. Imports supplies of food products, metals, products thereof and mineral products were decreased. Imports of machinery, equipment and vehicles, textiles, textiles footwear, chemicals have slightly increased.

Slower growth rates in imports are due to the deterioration of the dynamics of domestic demand at the background of slowing economic growth in Russia. The deterioration of the industrial production dynamics has led to a decline in investment demand. Consumer demand in Russia in 2012 was growing not so much due to increasing incomes, but rather due to the increasing consumer lending and reduction of savings rate. In view of the above, it was difficult to maintain stability of the active consumer demand. Already in July, consumer crediting in the country started to slow down, and against the background of rising interest rates the disposition of population to savings started to increase.

Imports structure in terms of commodities in has not changed much in 2012. The share of the foodstuffs and agricultural raw materials has decreased compared to 2011 by 1 p.p. and amounted to 12.9%. The share of machinery, equipment and vehicles has increased by 1.9 p.p. to 50.5%.



Source: RF Federal Tax Service.

Fig. 52. Russian Imports Commodity Structure, $bn

In 2012 in the Russian Federation there were imported foodstuffs and agricultural raw materials for $40.2bn, which is by 5.5% less than in 2011. The physical volume of deliveries of foodstuffs as compared to 2011 has been decreased by 12.3%.

As a result of the growth of sugar self-sufficiency of Russia, imports of raw sugar in 2012 for the first time in recent history have decreased to 0.5m tons. For comparison, in 2011 there were imported 2.3m tons, and in 1999 – 6.1m tons of sugar.

For some items, a growth of average contract prices is recorded. The utmost growth in the contract prices is noted in fresh meat and ice cream (by 6.9%), poultry (by 3.9%) and tea (by 3.6%).

Table 52

Foodstuffs Imports

	2010		2011		2012	
	Tons, thou.	**% vs. 2009**	**Tons, thou.**	**% vs. 2010**	**Tons, thou.**	**% vs. 2011**
Fresh and frozen beef	1442	100.3	1429	99.1	1399	97.9
Fresh and frozen pork	681	102.1	717	105.3	735	102.4
Fresh and frozen poultry	688	69.8	493	71.7	527	107.0
Fresh and frozen fish	792	99.6	705	89.0	736	103.7
Milk and dairy products	677	144.1	383	56.6	367	95.8
Butter	109	106.5	104	96.5	101	96.8
Cheese and curd	421	119.3	421	99.9	393	93.2
Potatoes, fresh or chilled	710	178.9	1511	by 2.1 times more	460	30.4
Raw sugar	2086	166.7	2332	111.8	520	22.3

Source: Russian Statistical Service.

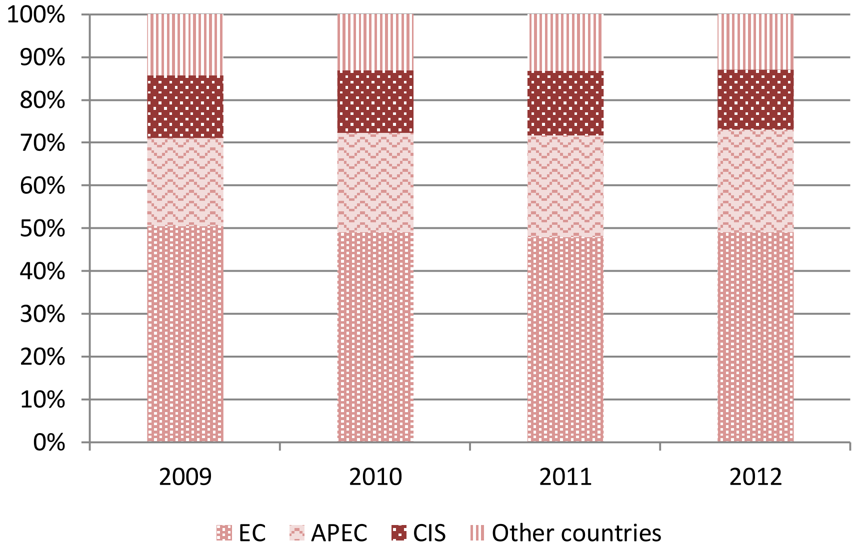
Imports of metals and products thereof decreased by 2.3%. In general, this was mainly due to decrease in the supply of ferrous metal pipes, which in 2012 were decreased by 47.7% as compared to 2011, and according to Russian Statistical Service, production of steel pipes in 2012 decreased against 2011 by 3.3%. The main reason for the drop in production and imports reduction is the completion of the implementation of major pipeline projects. The share of imported pipes in the domestic market in 2012 made 9.4%, which is below the annual average indicator for 2011 by 16.2%, for 2010 by 15.3% and for 2009 by 10.8%.

Import of the chemical complex products in 2012 in the cost terms has reached $47.7bn, having increased against the relevant period of 2011 by 3.6%. The share of imports of chemical products in the total volume of the Russian imports during this period has increased as compared to the same period of the last year from 15.1 to 15.3%, among which pharmaceutical products made 4.1%, plastics and articles thereof - 3 7%, hygienic items - 1.1%, rubber and products thereof - 1.6% and dyes - 0.9%.

The main items of the Russian imports are still machinery, equipment and vehicles. Import of goods under this article has increased in 2012 in comparison with 2011 by 6.1% to $157.1bn. The share of machinery, equipment and vehicles in the total volume of Russian imports increased to 50.3% from 48 4% in 2011.

Russian Foreign Trade in Terms of Geography

The major international trading partner of the Russian Federation is still the European Union. In 2012 the share of the EU in the geographical structure of Russian foreign trade turnover has increased as compared to 2011 by 1.1 p.p. to 49%, while the top trading partner in this group of countries were the Netherlands, the share of which has increased by 1.6 p.p. and amounted to 9.9%. The second place belongs to Germany, with its share in the Russian foreign trade turnover has increased from 8.7% in 2011 to 8.8% in 2012. Italy in 2012 was the third in terms of foreign trade with Russia among the EU countries; its share made 5.5%, having decreased by 0.1 p.p. as compared to 2011. In general, the EU countries in 2012 have increased the volume of foreign trade with Russia in comparison with 2011 by 4.1%, including the volume of the Russian exports grown by 4.2% and imports by 3.8%.



Source: RF Federal Tax Service.

Fig. 53. Russian Foreign Trade in Terms of Geography, %

The share of the Asia-Pacific Economic Cooperation (APEC) countries in the Russian foreign trade has increased from 23.8% in 2011 to 24.0% in 2012. The main trade partner of Russia in this group of countries is China, its share in the foreign trade turnover has increased by 0.4 p.p., having reached 10.5%. The second place in this group holds Japan, the share of which has increased from 3.6 to 3.7%. The share of the United States, by contrast, has decreased from 3.8 to 3.4%, bringing the U.S. from the second to the third place in this group of countries. The volume of Russia's trade with APEC countries in 2012 has increased as compared to 2011 by 2.4%. Foreign trade turnover growth with these countries was due to the increase in the Russian imports by 5.6%, while Russian exports to these countries have declined by 1.2%.

The share of CIS countries in the Russian foreign trade has declined in 2012 as compared to 2011 from 15.1 to 14.1%. Major trading partners in the group are Ukraine and Belorussia, which share in 2012 accounted for 5.4% and 4.3%, respectively. Overall, Russia's trade turnover with the countries of this group in 2012 against 2011 has decreased by 5.3%, Russian imports - by 10.1%, Russian exports - by 2.5%.

The trade balance in 2012 was positive for all groups of countries, with the exception of APEC countries (-17.9 $ bn).

In 2012 Russia had a negative balance of trade with 27 countries, whose share in the total turnover of Russia was 35.6%. The most significant contribution to the formation of negative balance of trade in Russia have made China (-$16.1bn), France (-$3.2bn), USA (-$2.4bn), Germany (-$2.7bn) , Canada (-$2.1bn), Austria (-$1.9bn).

Russian Foreign Trade Regulation

In 2012 there were developed and adopted 16 resolutions of the Government of the Russian Federation on amendments to the customs duties on the goods exported from the territory of the Russian Federation outside to the member-states of the Customs Union, including 12 resolutions "On Approval of Export Duties on Crude Oil and Certain Categories of Goods Produced from Oil" 2 regulations "On Establishing the Export Customs Duty on Unalloyed Nickel, "one regulation "On the Approval of the Export Duty on Soybeans".

Since October 1, 2011 there were harmonized export duties on oil and oil products. Earlier, the export duty for light petroleum products was calculated by a factor of 0.7 of the export duty on oil, for black oil products - by a factor of 0.4. Currently, all ratios for oil products are 0.66.

As a result of the new formula, the export duty on heavy oil products has increased significantly in 2012 as compared with the last year. On average, over the year it has grown over the same period of 2011 by 28.9%. The duty on light oil products has decreased on average by 2.6%. Herewith, the automobile and straight-run petrol are excluded from the list of light oil products, duty on which from mid-2011 makes 90% of the duty on crude oil.

It was assumed that the new formula will make exports of dark oil products less profitable and the export of light petroleum products more profitable and therefore will encourage oil companies to invest more in the more enhanced refinery. As demonstrated by the current results, this goal is not achieved yet: the share of heavy oil in the total exports of refined products exports has decreased.

Table 53

Export Duties on Oil and Oil Products in 2011-2012, $/t

	Oil	Oil products	
		light	heavy

2011			
January 1	317.5	226.2	121.9
February 1	346.6	232.2	161.8
March 1	365.0	244.6	170.4
April 1	423.7	283.9	197.9
May 1	453.7	304.0	211.8
June 1	462.1	309.0	215.8
July 1	445.1	298.2	207.8
August 1	438.2	293.6	204.6
September 1	444.1	297.5	192.0
October 1	411.4	271.5	
November 1	393.0	259.3	
December 1	406.6	268.3	
2012			
January 1	397.5	262.3	
February 1	393.7	259.8	
March 1	411.2	271.4	
April 1	460.7	304.0	
May 1	448.6	296.0	
June 1	419.8	277.0	
July 1	369.3	243.7	
August 1	336.6	222.1	
September 1	393.8	259.9	
October 1	418.9	276.4	
November 1	404.5	267.0	
December 1	396.5	261.7	

Source: RF government regulations.

Since May 28, 2011 the export duty on nickel is determined based on its average price at the London Metal Exchange for the previous quarter. In accordance with this, from March 5, 2012 the export duty on unalloyed nickel exported outside the Customs Union, was reduced from $2117.8 to $1245.5/ton, and from June 5, 2012 it was increased from $1245.5 to $1447.6/ton.

At the end of 2011 there was introduced a progressive rate of export duty on refined copper, which should also be based on the average world prices at the London Metal Exchange for the previous quarter. From June 5, 2012 the rate of export duty on refined copper (cathodes and sections, semiproducts for the manufacture of wire and rolling, etc.) amounted to $893 per 1 ton. Previously it was 10% of the customs value.

By the Government Decree No. 408 of May 2, 2012 "On the approval of becoming the export duty rate on soybeans exported outside the member-states of the Customs Union", the rate of export duty on soybeans exported outside the Customs Union is reduced to 5% of the customs value, but not less than Euro 8.5 per 1 ton (previously - 20% of the cost, but not less than Euro 35 per 1 ton).

EurAsEC Customs Union Commission by the Decision No. 913of January 25, 2012 has established, that from May 1 to July 31, 2012 the seasonal customs duty on import of raw sugar will not be reduced to $50/ton, but remain at $140/ton. The adoption of such measure is due to the record harvest of sugar beet in 2011 in the amount of 46.3m tons, out of which there was produced 5m tons of beet sugar. Carryover stock of sugar made 2m tons. These resources are sufficient to meet domestic needs and the saturation of the market before the next harvest season.

Earlier there were two scales of customs duties on raw sugar in the Customs Union. From August to May, sugar mills secured the market with its own raw materials, so the support of the domestic sugar market was intensified: in this period the duties on imported raw sugar (cane sugar) were kept at $140-270/ton (depending on the global prices). From May to August, when the plants have no own raw materials, the duty were be reduced to the minimum of $50/ton, which made it possible to process cane sugar.

On August 22, 2012 the protocol of accession of the Russian Federation to the Marrakesh Agreement on Establishing the World Trade Organization (WTO) came into effect, and thus Russia became the 156th member of the organization.

In the course of negotiations the Russian part managed to defend the most of its priority positions, including:

- maintaining cars' industrial assembly regime up to July 2018;
- establishing the permitted volume of agricultural support at a different level (decrease from $9bn to $4bn by 2018);
- maintaining the tariff quota regime in imports of pork (to the end of 2019), beef and poultry (for indefinite term);
- ban on opening of branches of foreign banks;
- a nine-year moratorium on the opening of branches of foreign insurance companies;
- preservation of the current regime of benefits for SEZ in Kaliningrad and Magadan regions up to April 2016.

On August 23, 2012 there came into force a new version of the Single Commodity Nomenclature of Foreign Trade of the Customs Union (CU FT SCN) and the Single Customs Tariff of the Customs Union (CU HS code), designed to meet the obligations of the Russian Federation to the WTO and approved by the Board of the Eurasian Economic Commission (EEC) on July 16, 2012.

CU SCT includes 11,271 commodity items. The new tariff, like the previous one, mainly consists of ad valorem rates of customs import duties, which are set as a percentage of the customs value of the goods. They account for 84% of the tariff - 9473 items. The lowest ad valorem rate, different from zero, is set at 2% and is applied to the cathodes made of copper and blades for chainsaws. The highest ad valorem rate in the amount of 65% is set on imports of pork exceeding the tariff quotas.

The number of specific rates that are charged in the specified amount per unit of taxable goods includes 235 items (among them 142 in Euro and 93 in dollars). Specific rates in the U.S. dollars are applied only to raw sugar (HS code 1701), because the amount of the import duty is calculated based on the average price on the New York Commodity Exchange.

The lowest specific rate of Euro 0.04 per 1 kg is established on maleic anhydride. The highest specific rate of Euro 22 per 1000 pcs is set on the jars of up to 1 liter for canning beverages.

Combined rates, in which the specific duty and ad valorem duties are summed up, include 1563 items. The lowest combined rate of 5%, but not less than Euro 0.02 per 1 kg is established on some citrus fruit and bananas. The highest combined rate of 100%, but not less than Euro 2 per 1 liter, is set on ethanol.

For 1606 commodity items, which is 14.3% of total import duty rates, a zero duty rate is established.

According to the ad valorem component, the most secure are such groups of the Single Commodity Nomenclature of Foreign Trade of the Customs Union as meat and meat by-products (an average ad valorem rate of 37%), carpets and floor coating (20%), weapons and ammunition (19%), alcoholic and non-alcoholic beverages (19 %), textile articles (18%), natural pearls (average ad valorem rate 18%).

The new tariff provides for reduction on about 1,000 commodity items. First of all, of import duties that were increase during the crisis in 2008-2009 are returned to their previous level.

The most notable changes occurred in tariffs for foodstuffs and other consumer goods. Thus, the duty on pork imports within the quota is reduced from 15 to 0%, and for pork imports beyond the quota - from 75 to 65%. Import duty on finished meat products is reduced from 25%, but not less than Euro 0.4 per kg to 20%, but not less than Euro 0.4 per kg.

New duty on the import of butter is 15%, but not less than Euro 0.29 per kg against the previous 15%, but not less than Euro 0.4. The import duties for many cheeses are changed. In particular, the import duty for young cheese with a fat content of more than 40% is reduced to 15%, but not less than Euro 0.25 per kg; earlier this specific component made Euro 0.3 per kg. For example, a specific component of the duty on imports of cheeses such as camembert and brie is reduced by 2 times.

In the segment of fruit import duties are reduced on apples, as well as lemons and limes, among vegetables for tomatoes and cucumbers. For example, the import duty on the import on cucumbers is set at 15%, but not less than Euro 0.08 per kg - this rate will be in effect for the entire year. Earlier in the period from May 16 to October 31 the duty was 15%, but not less than Euro 0.12 per kg, and only from November 1 to May 15 the specific component was decreased to Euro 0.08 per kg.

According to the commitments to the WTO, Russia has left unchanged the prohibitive import duty on alcohol, but within three years it will reduce import duty on most of the strong liquors from Euro 2 per 1 liter to Euro 1.5. Also duties on mineral water, beer, wine, champagne, vermouth are significantly reduced.

Duties on finished fish products are reduced slightly - from 15 to 12.5-12% between for the period of 1-3 years. As for the raw fish, many of the types of fees will drop from 10 to 8.6%, in some cases up to 3-5%.

According to the agreement with the WTO, a gradual reduction of duties on most of the textile products, including clothing is foreseen.

According to the commitments of the Russian party, since the date of accession to the WTO duties on household and electronic appliances are sustained, but in future for some items will gradually decline, starting from 2013.

By 2014-2015, some reduction of duties on pharmaceutical products is foreseen on some items from August 23, 2012. For several years, duty on perfumes, cosmetics and hygiene products will be gradually reduced.

Customs duties on new imported cars are decreased from 30 to 25%, and then within seven years they will be reduced to 15%. The rate of customs duty on second-hand cars up to 7 years is reduced from 35 to 25%, and by 2018 it will make 20% of the cost. The rules for import of cars and SUVs over seven years, regardless of their type remained the same - from Euro 2.3 to 2.8 per 1 cm^3 of engine.

To compensate for the loss of this position since September 1, 2012 a salvage fee is introduced in Russia. According to the RF government Regulation "On the salvage fee", individuals importing cars for personal use, shall pay the salvage fee in the amount of 0.1% of the base rate, which makes Rb 20,000 for new cars and 0.15% for the cars older 3 years.

Costs of legal entities are higher: thus, for the full weight trucks over 3.5 tons, which are designed for off-road driving, salvage fee make 37-fold new basic rate in the amount of Rb 150,000 for the new cars and 40-fold basic rate for the old ones. For the vehicles up to 2.5 tons legal entities must pay 0.5-times rate of Rb 150,000for the new vehicles and of 0.8 of the rate for those over 3 years.

Export duty rates are brought in line with the obligations of the RF Government Decree No. 756 of 21.07.2012. Export duties remain largely at the same level. In particular, in the case of most types of frozen fish the rate is kept at 5% of the customs value, for crabs – at

10%, natural gas – at 30%, unrefined copper – at 10%, raw hides – at Euro 500 per 1 ton. The minimum fee for wet tanned cattle skin is reduced from Euro 250 to Euro 90 per 1 ton.

Duty rates are revised on certain timber materials. Thus, the combined rate of export duty is established on raw timber from oak to 20%, but not less than Euro 30 per 1 m^3 (previously - Euro 100 per 1 m^3). A prohibitive duty is foreseen on raw timber from European pine in the amount of 80%, but not less than Euro 55.2 per 1 m^3. For these timber materials exported within tariff quotas, the rate is 13-15%.

Export duty is increased on soybeans from 5% (but not less than Euro 8.5 per 1 ton) to 20% (but not less than Euro 35 per 1 ton).

Ad valorem rates are set for refined copper (10%) and non-alloy nickel (5%).

Export duty is reduced on the second-hand axes and wheels of railway locomotives or trams rolling stock (5% instead of 15%, but not less than Euro 15 per 1 ton).

In the framework of the Russian Federation accession to the WTO, the most important element of regulation of foreign trade of the Customs Union became the use of measures of protection the domestic market from the negative impact of foreign competition, such as special protective, antidumping and compensating measures. In the international trade practice these tools are used for effective protection of the industry against dumping, subsidized or increased imports from foreign countries.

Since May 2012 the authority for the protection of antidumping and special safety investigations by national authorities of the countries of the Customs Union is transferred to the Department of the domestic market protection of the Eurasian Economic Commission. Earlier this function was in the authority of the Russian Ministry of Industry and Trade.

On May 24, 2012 the Eurasian Economic Commission Board took the decision to impose since July 1, 2012 an antidumping fee for a period of 5 years on the flat cold-rolled steel of a thickness exceeding 0.2 mm but not exceeding 2 mm, coated, originating from China Republic[1]. The Commission's decision was made based on the results of antidumping investigation conducted by the Ministry of Industry and Trade of Russia. This is the first such investigation conducted in accordance with the legislation of the Customs Union.

The investigation was started on February 11, 2011 at the request of Russian producers of coated rolled products OAO "Severstal", OAO "Novolipetsk Steel Works" (hereinafter - OAO "NLMK") and OAO "Magnitogorsk Steel Works " (hereinafter - OAO "MMK"). The investigation established the fact of the dumped imports of polymer-coated rolled metal products from the PRC, which cause significant damage to economic sectors of the CU, that under WTO rules is the basis for the imposition of antidumping measures.

Within 2008-2010 import volumes of polymer-coated rolled metal products from the PRC to the CU countries have increased significantly - to 257,700 tons, or nearly twice. The highest growth in imports of those products from China was in H1 2010: as compared with the H1 2009, the volume of imports from China increased by 9.7 times. Within 2008-2010 the share of polymer-coated rolled metal products from China in total imports of goods into the customs territory of the Customs Union has increased from 52.6% in 2008 to 74.7% in 2010. The amount of antidumping fee is 22.6% of the customs value of goods. Herewith, for the three companies - manufacturers of polymer-coated rolled metal products special duties are established, namely for Angang Steel Co., Ltd – 12.9%, for Dalian POSCO Co., Ltd. - 11.4%, for Shandong Guanzhou Co., Ltd. - 8.1%.

[1] http://www.tsouz.ru/db/spec_measures/Pages/def_measures.aspx

According to Eurasian Economic Commission forecasts[1], after administration duties and within 1.5 years import polymer-coated rolled metal products from China can be decreased by 200.000-250.000 tons per year[2], while the resulting demand almost fully will be satisfied by steel producers of the Customs Union.

According to the Ministry of Economic Development of Russia, 18 countries[3] impose protective measures in regard to the Russian goods as of January 1, 2013.

71 measures are in effect in regard to the Russian goods, including 39 measures of anti-dumping duty, 2 measures of special safeguard duty, 15 measures of non-tariff, 5 measures of technical barriers, 3 measure of quota restrictions, 2 measure of additional tax, 3 measures of the excise tax on a discriminatory basis, one on restriction on the approved list and one the ban on imports.

At the same time, five investigations are conducted, including 3 antidumping and 2 investigations on of special safeguard measures, and seven revisions of antidumping measures and one revision of a safeguard measure.

In 2012 fifteen measures that impede access of Russian goods to foreign markets came out of effect. According to the tentative expert estimates, the amount of avoided damage made approximately $ 70m.

---

[1] http://www.tsouz.ru/db/spec_measures/Pages/def_measures.aspx

[2] http://www.tsouz.ru/db/spec_measures/Pages/def_measures.aspx

[3] Those countries are Australia, Azerbaijan, Armenia, Belarus, Brazil, India, Indonesia, China, South Korea, Mexico, Moldova, the United States, Thailand, Turkey, Turkmenistan, Uzbekistan, Ukraine, and the EU as a single customs territory.