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The review provides a detailed analysis of main trends in Russia's economy in 2013. 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.

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Russia’s Foreign Trade in 2013

The state of the global economy

In spite of the fact that in 2013 countries were able significantly to reduce two of the most serious risks for economic growth in the short term – the threat of the collapse of the Eurozone and the threat of drastic budget cuts in the US, the world economy is still in a state of uncertainty. The rate of growth of the global economy remains low: in the first part of 2013 it was only 2.5% compared with the first part of 2012. On the whole, according to IMF data, the growth rate in2013 was 3.0%. Correspondingly, the growth rates of both those countries with developed economies and countries with developing economies have slowed. (*Table 41*).

It is expected that the incentives for economic growth will come, first of all, from the USA. The U.S. GDP in the first quarter of 2013 grew by 1.1% and in the second quarter, by 2.5%. The second evaluation of U.S. GDP growth in the third quarter[1] was rather surprising: the annual growth rate was 3.6% in comparison with the preliminary evaluation of 2.8% and to the predicted figure of 3.1%. The third evaluation of GDP growth turned out to be even higher and was 4.1%[2], which was the highest growth since 2011. The major factor for such upward adjustment turned out to be the revaluation of growth in private consumption from 1.4% to 2% in annual terms. During conversions the second rate played the major role in the increased investments in stocks.

According to preliminary estimates, in the fourth quarter of 2013 the average annual growth in U.S. GDP was 3.2%[3]. During 2013 the U.S. GDP rose by 1.9% (in 2012 it rose 2.8%). The major contribution to GDP growth was made by the growth in private consumption, net exports and investment into housing infrastructure which offset the negative impact of the continuing decline in government spending.

In connection with improvements in dynamics of the U.S labour market as well as the medium term prospects from the meeting of the Federal Open Market Committee that took place on the 17and 18 December 2013, a decision was made to reduce the quantitative easing QE programme. It was decided to reduce the volume of monthly purchases by the U.S of Treasury from $45bn to $40bn while the volume of purchased securities backed by mortgage bonds was reduced from $40bn to 35$bn per month.

On 29 January 2014 the US Federal Reserve reduced its purchase of assets by an additional $10bn to $65bn per month and has kept the key interest rate of federal funding in the range of 0.00–0.25% per annum.

Hopes for economic recovery within the countries of the Eurozone in 2013 do not seem to have been realised. In the second quarter of 2013, in comparison to the previous quarter, the GDP growth rates were 0.3% in the Eurozone and 0.4% in the other countries of the EU. The long-lasting recession in Italy (over nine quarters) and a reduction in the GDP of France caused some decline in growth in the region. According to a preliminary evaluation by Eurostat[4], the GDP of the Eurozone in the third quarter rose by only 0.1%; and the GPD of the 28 countries

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[1] http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm
[2] http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm
[3] http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm
[4] http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-04122013-BP/EN/2-04122013-BP-EN.PDF

of the European Union (EU-28) increased by 0.2%. In comparison to the same quarter of the previous year, in the third quarter of 2013 the GDP in the Eurozone fell by 0.4%, whilst that of the EU-28 increased by 0.1%.

The year-end GDP of the integrated group had essentially not risen while a decline was witnessed in the Eurozone, although less than was seen in 2012. According to Eurostat data, in 2013 the Eurozone GDP was reduced by 0.4% while in other EU countries it had increased by 0.1%.

The main contribution was made by Great Britain, which is the largest non-Eurozone country of the European Union. According to Eurostat, the economy of Great Britain increased in 2013 by 0.7% in comparison to the previous quarter, and in comparison to the same period of the previous year, by 2.8%.

In October 2013 the World Trade Organisation (WTO) published the digest ‘International Trade Statistics, 2013’ which provided the major indicators characterising current trends in the development of international trade in goods and services[1]. In 2012 world merchandise exports rose by 2.5% as did global GDP.

The leaders in world trade are still the United States of America, where foreign trade turnover in 2012 was $3881.2bn. At the same time a significant deficit in trade balance still remains: in 2012 it had increased by 0.5% in comparison to 2011 and was $789.8bn (4.9% of the GDP). In 2008 the U.S. balance of trade deficit was $882bn.

The U.S. is followed by China, which, with an annual foreign trade turnover of $3867.1bn; it remains the largest exporter of goods. The trade surplus of the People`s Republic of China has been positive since 1994, and in 2012 it reached $230bn (2.8% of GDP), having increased during the year by 48.7%.

Table 41

Dynamics of global GDP and world trade
(Growth rates, as % of the previous year)

	2010	2011	2012	2013	Prognosis		Difference between the prognosis and the data for October 2013 and January 2014	
					2014	2015	2014	2015
Global GDP	**5.1**	**3.9**	**3.1**	**3.0**	**3.7**	**3.9**	**0.1**	**0.0**
Countries with developed economies	**3.0**	**1.7**	**1.4**	**1.3**	**2.2**	**2.3**	**0.2**	**– 0.2**
USA	2.4	1.8	2.8	1.9	2.8	3.02.6	0.2	–0.4
The Eurozone	2.0	1,5	–0.7	–0.4	1.0	1.4	0.1	0.1
Germany	4.0	3.4	0.9	0.5	1.6	1.4	0.2	0.1
France	1.7	2.0	0,0	0.2	0.9	1.5	0.0	0.0
Italy	1.8	0.4	–2.5	– 1.8	0.6	1.1	–0.1	0.1
Spain	–0.3	0.1	–1.6	–1.2	0.6	0.8	0.4	0.3
Japan	4.5	–0.6	1.4	1.7	1.7	1.0	0.4	–0.2
UK	1.8	1.1	0.3	1.7	2.4	2.2	0.6	0.2
Canada	3.2	2.5	1.7	1.7	2.2	2.4	0.1	–0.1
Other countries with developed economies	5.9	3.2	1.9	2.2	3.0	3.2	–0.1	–0.1
Countries with emerging markets and countries with developing economies	**7.4**	**6.2**	**4.9**	**4.7**	**5.1**	**5.4**	**0.0**	**0.1**
Central and Eastern Europe	4.6	5.4	1.4	2.5	2.8	3.1	0.1	–0.2
Commonwealth of Independent States	4.8	4.8	3.4	2.1	2.6	3.1	–0.8	–0.7
Russia	4.3	4.3	3.4	1.5	2.0	2.5	–1.0	–1.0
Without Russia	6.0	6.1	3.3	3.5	4.0	4.3	–0.1	–0.1

[1] http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf

Developing Asian countries	9.5	7.8	6.4	6.5	6.7	6.8	0.2	0.2
China	10.4	9.3	7.7	7.7	7.5	7.3	0.3	0.2
India	10.1	6.3	3.2	4.4	5.4	6.4	0.2	0.1
Latin America and Caribbean countries	6.2	4.6	3.0	2.6	3.0	3.3	–0.1	–0.2
Brazil	7.5	2.7	1.0	2.3	2.3	2.8	–0.2	–0.4
Mexico	5.6	4.0	3.7	1.2	3.0	3.5	0.0	0.0
World trade of goods and services	**12.6**	**6.1**	**2.7**	**2.7**	**4.5**	5.2	**–0.5**	**–0.3**
Imports								
Countries with developed economies	11.4	4.7	1.0	1.4	3.4	4.1	–0.7	–0.5
Countries with emerging markets and developing countries	14.9	8.8	5.7	5.3	5.9	6.5	0.0	–0.2
Expors								
Countries with developed economies	12.0	5.7	2.0		2.7	4.7	0.3	0.0
Countries with emerging markets and developing countries	13.7	6.8	4.2		3.5	5.8	–0.7	–0.5

Source: http://www.imf.org/external/russian/pubs/ft/weo/2014/update/01/pdf/0114r.pdf

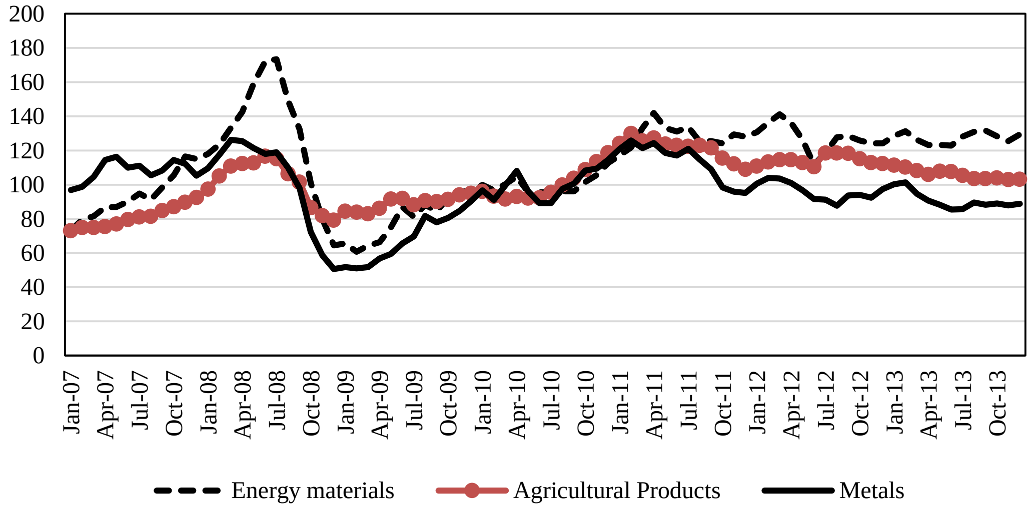
Germany has retained third place in spite of a reduction in foreign trade turnover from \$2728.9bn in 2011 to \$2574.3bn in 2012 (by 5.7%). The trade surplus was \$240bn (7.0% of GDP).

Because of structural problems in the Eurozone, foreign trade turnover of the majority of EU countries diminished in 2012.

In 2012 an export volume of \$529.1bn for the Russian Federation lifted it to eighth place from its previous ninth position where it had been since 2011. Russia's share of global goods export was 2.9%. Russian imports had placed it 17th in 2011 but lifted it to 16th place through its purchase of products totalling \$335.8bn. Russian imports reached 1.8% of the global import volume. Over the last 20 years there has been a trade surplus in Russia. In 2012 it was \$193.3bn.

Conditions of Russian foreign trade: the situation for prices of import and export of basic goods

After significant growth in the middle of 2008 and a sharp decline at the beginning of 2009, the range fluctuations in global commodity prices remained moderate. In 2013 there also were no significant changes in the raw materials market (*Fig. 53*).



Source: http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0

Fig. 53 Commodity price index of the World Bank (in 2010=100)

The price dynamics for commodities on the global market in 2013 (*Table 42*) were influenced by geopolitical tensions in the oil-producing and adjacent regions of the world. So, in the first quarter the increase in prices for raw materials was explained by the escalation of the Syrian conflict and in the third quarter by aggravation of the situation in Egypt. The soft monetary policies of many countries played a very significant role in supporting global raw material prices on the world market (the policy is implemented in many countries: the USA, the European Union, China, Japan). Weak global economic growth had a negative influence on the dynamics of commodity prices.

The global oil price situation in 2013 remained quite calm, there were no sudden ups or downs: for most of the year prices for 'Brent crude' were higher than $100 per barrel, but did not rise above $120 per barrel. On 9 February the price reached its annual maximum of $118.92 per barrel; but on 17 April the price for 'Brent crude' had reached its lowest level of $97.67 per barrel. However it did not remain below $100 for long and by 22 April 'Brent crude' rose to reach $100.51 per barrel; during the second quarter of 2013 prices remained fairly stable and varied in the range between $100.15 and $106.02 per barrel. In the third quarter there was a rise in prices, but by the end of the quarter there had been another decline in prices: in the fourth quarter the price dynamics were better regulated: Brent oil prices fluctuated around a value of $108.5 per barrel.

During 2013 the price for North American WTI oil remained lower than prices for Brent, although in the third quarter the gap between them narrowed. Whereas during the first quarter one barrel of Brent oil cost $18.59 more than one barrel of WTI oil, then during the third quarter the difference was only $4.27.

In 2013 the average price for Brent crude was $108.7 per barrel, which was 3.1% lower than in 2012. The price for WTI North-American oil during the year rose 3.2% to reach $98 per barrel.

The price of Urals oil obeyed the dynamics of the world market and at the beginning of 2013 began to grow, reaching its maximum monthly average for the year at a value of $114.45 per barrel. But during the second quarter those indicators began to fall. In April Urals oil achieved $101.1 per barrel which was its minimum average monthly rate for 2013. In the third and in the fourth quarters of the year the dynamics improved. But, on the whole, the average price for Urals oil was 2.8% lower than the previous year at only $107.9 per barrel.

The world natural gas market, in 2013, remained rather heterogeneous – the price dynamics in different countries developing in different directions.

Gas production rates in the U.S. were still growing. According to the US Energy Information Administration, in 2013 the gas production rate in the country had increased in comparison to the previous year by 1% to 690.8 billion cubic metres (bcm)[1]. So, taking into consideration that in Russia, during that period, about 652.6bcm of gas were produced[2], we can conclude that the U.S. still retains the lead in this field.

The United States is reducing its dependence on imported gas. For January-November 2012 in the supply of natural gas to the U.S. had diminished by 9% compared with the corresponding period of 2011, and reached 81.7bcm; then, in January-November, 2013 compared with the similar period of 2012 it diminished by a further 9.9% to only 73.6bcm.

Gas prices in the U,S. still remain the lowest in the world, although in 2013 there was a very marked increase; according to the IMF, in 2013, the spot price for gas at the Henry Hub terminal

[1] http://www.eia.gov/naturalgas/monthly/pdf/ngm_all.pdf
[2] http://minenergo.gov.ru/activity/gas/

averaged \$3.73 per one million British thermal units (BTU) which was 35.4% higher than in 2012.

The highest gas price still persist in Southeast Asia despite diminishing by 4.4% in 2013 compared with the figures for2012. According to the IMF, in 2013, the average price for liquefied natural gas imported by Japan and Indonesia was, on average, \$17.3 per 1m BTU.

In 2013, Russian gas prices at the border with Germany were lower than the year before, which could be explained not only by the oil price dynamics but also by the fact that Gazprom provided the majority of its clients with discounts. According to the IMF, Russian gas prices in Europe in 2013 were \$11.2 per 1m BTU which was 6.7% less than in 2012.

The world market for non-ferrous metals began to worsen in 2011 and in 2013 retained its negative character for Russian exporters. There remained excessive reserves of nonferrous metals which even grew on the London Metal Exchange. The only exception was lead, its stockpiles were reduced by more than ¼ during the year. At the same time copper reserves practically doubled while those of zinc and nickel were also significantly increased. Simultaneously, the growth in metal production in China remained, and, according to Chinese data, the total volume of 10 types of non-ferrous metals produced in the country increased by 10.5% in January-November 2013 compared with the corresponding period of 2012, and reached 36.9m tons[1]. All these factors contributed to the start of a further decrease in world prices for nonferrous metals. According to the London Metal Exchange, prices for aluminum were 8.7% lower than in 2012, while those for copper were 7.9% and for nickel 14.3% lower.

Table 42

Average annual world prices

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2013/ 2012 (%)
Oil (Brent), USD/barrel	37.4	54.38	65.15	72.32	97.64	61.86	79.64	110.9	111.97	108.86	97.2
Natural gas (U.S.) USD/1m BTU	5.89	8.92	6.72	6.98	8.86	3.95	4.39	4.00	2.75	3.73	135.4
Natural gas, European market, USD/1m BTU	4.28	6.33	8.47	8.56	13.41	8.71	8.29	10.52	11.47	11.79	102.7
Natural gas (Japan), USD/1m BTU	5.13	5.99	7.08	7.68	12.55	8.94	10.85	14.66	16.55	16.02	96.8
Copper, USD/t	2866	3679	6722	7118	6956	5149	7534	8828	7962	7332	92.1
Aluminum, USD/t	1715	1898	2570	2638	2573	1665	2173	2401	2023	1847	91.3
Nickel, USD/t	13823	14744	24254	37230	21111	14655	21809	22910	17557	15032	85,7

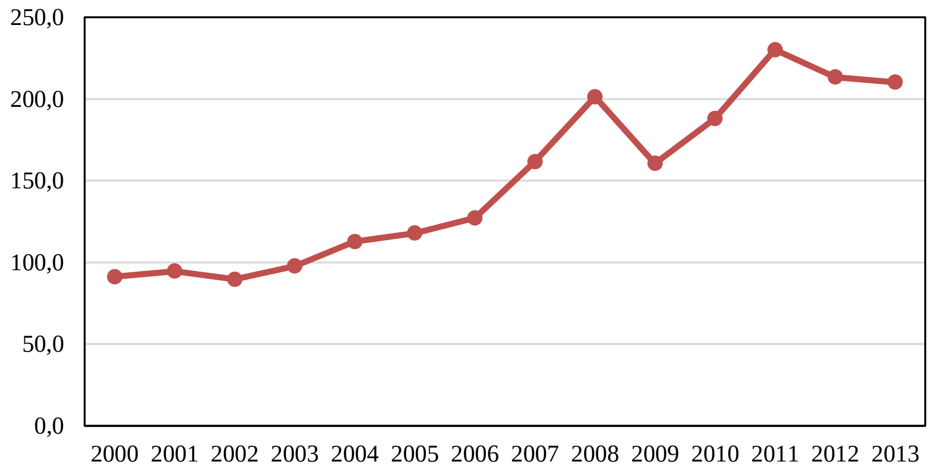
Source: calculations are based on World Bank data, IMF

Fig. 54 shows the change in prices of basic agricultural commodities on the world market according to the UN Food and Agricultural Organisation (FAO) food price index, the main indicator of changes in international prices for a basket of food commodities per month). The index is calculated on the basis of the average values of price indexes for 5 major product groups (meat, dairy products, cereals, vegetable oils and sugar) weighted with the average share of each group in world exports during the period of 2002-2004.

[1] http://www.stats.gov.cn/english/PressRelease/201312/t20131211_478510.html

In 2011 the FAO consumer prices index reached its record high of 230.1 points, and although it decreased in 2012 to 213.4 points this was still very high. In spite of some decrease in the prices for food products in 2013 the FAO CPI retained a rather high position (210.2 points). This was possibly because of a significant growth in the price index for dairy products which amounted to 242.7 points, a record maximum for the whole survey period. Prices for meat reached their maximum value at 184.2 points, explained by the growth in demand in China and Japan. The price index for cereals decreased and fell from 236.1 points in 2012 to 219.2 points in 2013. The price index for vegetable oils also turned out to be lower than before: 193 points in 2013 against 223.9 points in 2012. Prices for sugar had fallen in 2013 in comparison to those in 2012, by 18%, which could be explained by an increased rate of supply. The harvest in the country which is the largest producer and exporter – Brazil – turned out to be higher than had been predicted. Record production volumes were also achieved in the second largest exporter of sugar - Thailand.

An upward price trend in the dairy market was caused by a decrease in milk production. Whereas, in 2012 the world milk production rate was increased by 2.32%, then the same indicator in 2013 was only 0.85% or 465.893m tons[1]. In the first term of 2013, because of a drought in the southern hemisphere, milk production in New Zealand, Australia and Argentina was diminished. The beginning of a new season in Europe was delayed because of a late spring, and this led to a reduction in milk production. In spite of a gradual increase in the supply of dairy products in Europe and the U.S., the growth in prices remained during the second term of 2013. This tendency remained due to growth of demand in the largest world importer and consumer of milk powder – China.

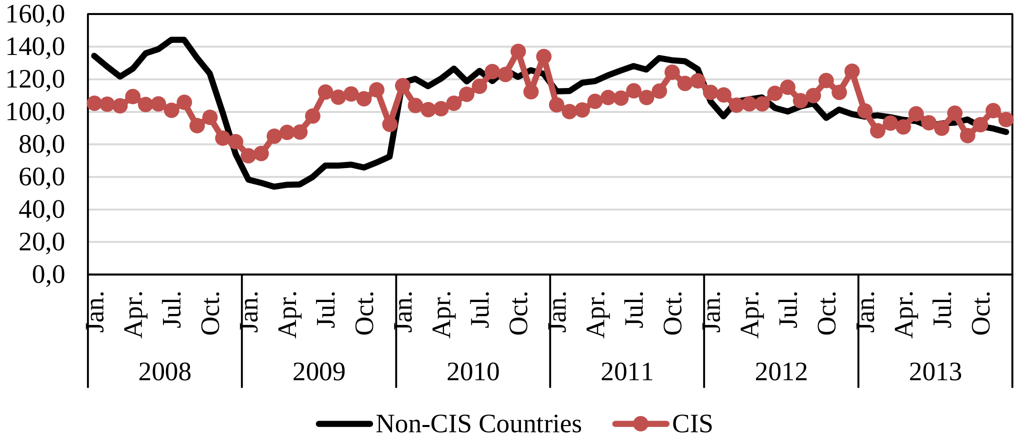


Source: http://www.fao.org/worldfoodsituation/wfs-home/ru/

Fig. 54. The FAO food price index

Under current trends in the world market in 2013 Russian trade worsened significantly. In January – September the trade conditions index (*Fig. 55*) was 94.5 points. At the same time trade conditions with non-CIS countries (where the trade conditions index was 94.6 points) and CIS countries (index – 94.2 points) worsened. But trade conditions in 2013 became significantly better than they had been in the crisis period of 2008–2009.

[1] http://www.eurasiancommission.org/ru/act/trade/catr/monitoring/



Source: The Ministry of Economic Development

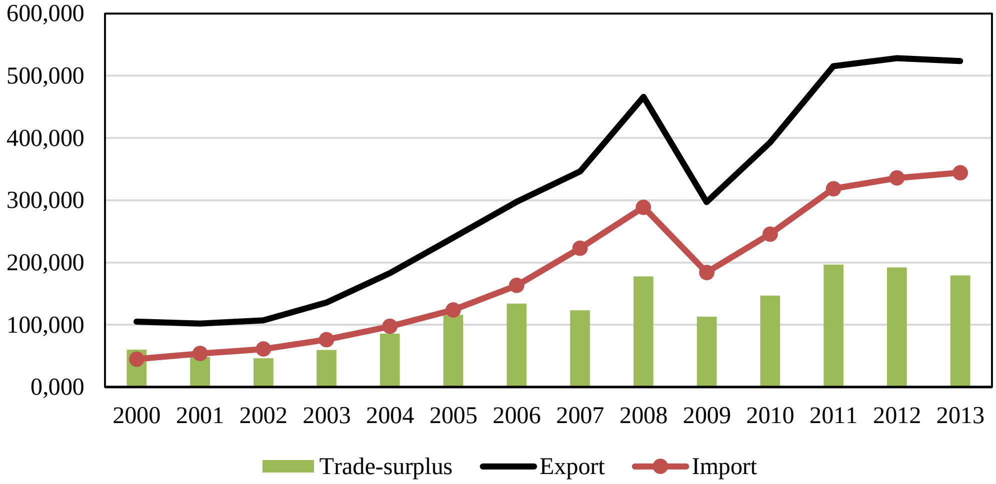
Fig. 55. Index of foreign trade conditions in the Russian Federation

Major indicators of Russian foreign trade

The 2013 Russian foreign trade turnover, calculated on the basis of balance of payments was $867.6bn, which was 0.5% more than in 2012. At the same time Russian foreign trade turnover with non-CIS countries increased by 0.9% and reached $739.6bn, while the turnover rate with CIS countries decreased by 2.2% dropping to $128.0bn.

In 2013 the Russian trend, typical of 2012, of slowing growth in foreign trade indicators remained (*Fig 56*). Import dynamics still remained positive, but export dynamics became negative and, as a result, the trade-surplus was significantly reduced.

Russian exports in 2013 were $523.3bn, which was 0.9% less than the same indicator for 2012. Russian imports increased by 2.6% and reached $344.3bn which is the highest value of the whole survey period.



Source: the Central Bank of the Russian Federation

Fig. 56. Major indicators of Russian foreign trade, 2000–2013, billion of dollars.

The negative dynamics in Russian export rates were caused by the price factor in the growth in volume of exported goods. The overall increase in value of imports was caused by an increase in average import prices even though there was a decrease in the physical volume of Russian imports (*Table 43*).

Table 43

Indices of Russian foreign trade, as % of the previous year

	2010		2011		2012		2013	
	Trade volume	**Average prices**	**Trade volume**	**Average prices**	**Trade volume**	**Average prices**	**Trade volume**	**Average prices**
Export	110	119.8	97.8	132.9	99.9	101.6	104.9	95.7
Import	135.4	101.6	122.2	109.1	105.1	97.3	97.8	102.5

Source: the Ministry of Economic Development

The trade-surplus in 2013 was positive and reached $179bn (8.5% of GDP) which was 6.9% less than in 2012. The crucial factor in reducing the trade surplus was a deterioration of the terms of trade. The import-export coverage ratio decreased from 157.3% in 2012 to 152% in 2013.

The coefficient of foreign trade imbalance (ratio of positive trade balance to trade turnover) decreased from 22.3% in 2012 to 20.6% in 2013.

Structure and dynamics of exports

In 2013 the Russian export of goods was reduced to $523.3bn which was 0.9% less than the corresponding figure for 2012. The value of exports to non-CIS countries increased and the total price of exported goods to those was $444.9bn which was 0.1% more than the level of the previous year (*Table 44*). Meanwhile, the total value of goods sold to CIS countries was $78.4bn which was 6.3% less than in 2012. The export share of the non-CIS countries increased from 84.2% to 85%.

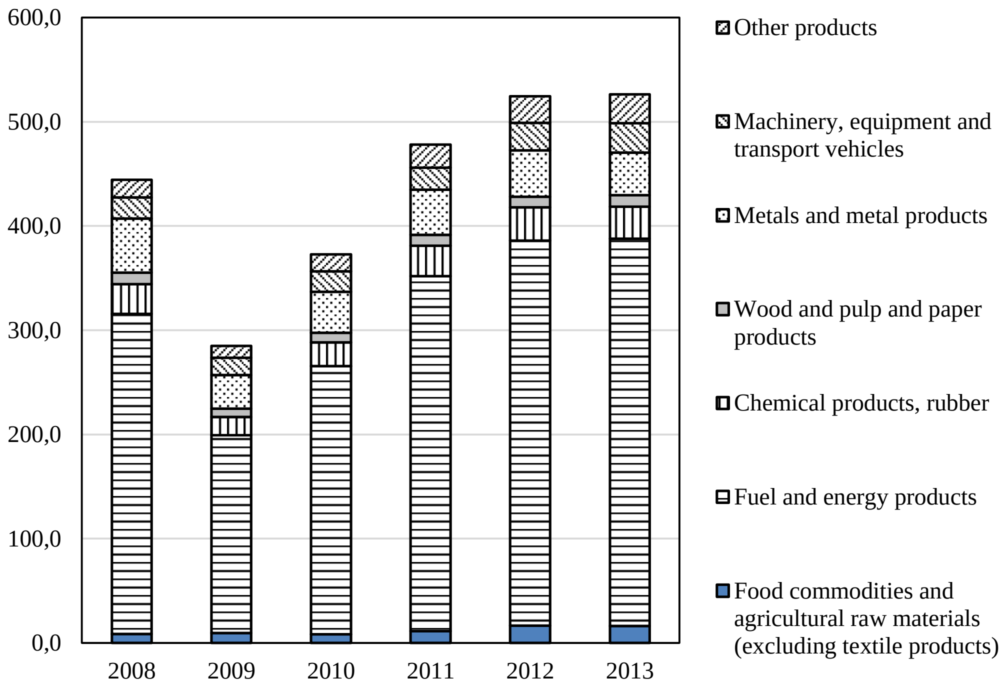
Table 44

Dynamics of Russian export

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Export, billion. dollars	107.3	135,9	183.2	243.8	303.6	354.4	471.6	303.4	400.6	515.4	529.1	523.3
Including:												
Non-CIS countries	90.9	114.6	153.0	210.2	260.2	300.6	400.5	255.3	338.0	436.7	445.2	444.9
Growth Rates, as % of the Previous Year												
Volume Index	115.0	109.5	110.7	104.7	105.8	105.0	96.8	97.0	110.0	97.8	99.9	104.9
Price Index	86.0	113.4	122.7	126.9	119.7	110.9	137.4	76.4	119.8	132.9	101.6	95.7

Source: the Bank of Russia; the Ministry of Economic Development

There is still a very high share of fuel and energy products in the structure of Russian exports (*Fig. 57*) while the proportion of machinery, equipment and transport vehicles is still rather low. At the end of 2013 the value of mineral products in the export structure was 71.6% (including fuel and energy products: 70.6%), in 2012 it was a little lower at 71.4%. In the total volume of Russian exports the share of metals and metal products is continuing to shrink: in 2013 in was just 7.8% in comparison to 2012 when it was 8.5% (in 2011: 9.1%). The proportion of machinery, equipment and transport vehicles in the structure of exports rose to 5.4% in comparison to 5.0% in 2012 (in 201: 4.4%).



Source: FCS.

Fig. 57. Trade dynamics of Russian exports, billion dollars

A decline in the value of exports in 2013 in comparison to 2012 could be witnessed in three product groups.

The export abroad of foodstuffs and agricultural raw products diminished by 2.4% while the share of this group of products within the total export volume decreased from 3.2% to 3.1%. The decrease in value for this group was caused by a 13.9% reduction in the volumes of wheat and mixtures of cereal grains exported and also by a 10.5% reduction in contract prices. The volume reduction can be explained both by decreasing purchase by Egypt, which, until recently had been the largest buyer of Russian grain and also by increased competition from Ukraine and Kazakhstan, caused by good harvests. Contract prices declined in line with trends in the world market.

In 2013, for the first time since 2009, a reduction in exports of chemical products could be seen. According to the FCS, exports of Russian chemical products in 2013 decreased 3.9% in comparison to 2012to $30.7bn. The situation happened because of a plunge in export prices for fertiliser and synthetic rubber. So, prices for nitrogen fertiliser fell by 10.3% during the year, potash fertilisers by 14.7% while synthetic rubber fell by 18.1%.

The most significant reduction in the value of exports in 2013 was observed within the product group: 'metals and metal products'. Exports of these products were down 8.1% compared with 2012. This happened due to a decrease in contract prices for the whole range of goods within this group and a reduction in the physical volume involved. The reason for this reduction was an overproduction of steel in the world, increased competition and the fall in external demand .

The volume of exports of mineral products increased by 0.6% in 2013 in comparison to 2012. This happened despite a decline in the export price of oil by 4% because of both a reduction in physical volume by 1.4% and because the products were sold at a price which was 2.7% lower than in 2012.

Nevertheless, the reduction in price of the exported oil was compensated by the growth in volumes of exported petroleum products (up by 9.7%) and of natural gas (up by 22.9%). The contract prices for these products actually decreased: for petrol, by 4.6%, for fuel oil not containing biodiesel, by by 7.9% and for natural gas, by 2.9%. In spite of this, in 2013, exports of oil products reached 151.4m tons thanks to exports to non-CIS countries (which increased by 16.5%). Exports of petroleum products to the CIS countries diminished by 39.3%.

Natural gas exports in 2013 amounted to 196.4bcm which was a record level for the whole observation period (*Table 45*).

'Gazprom' in its report for the fourth quarter of 2013 provided information on the growth of gas sales abroad. Compared with 2012, sales rose from 7.1% to 217.59bcm in 2013. At the same time, exports to non-CIS countries grew by 16.3% and reached 161.49bcm while exports to the CIS and to the Baltic States fell by 12.9% to 56.1bcm. The volume of gas exported to non-CIS countries reached its highest level compared with recent years. The major growth was divided between three countries: Italy increased its purchase of Russian gas in 2013 by 67.9% compared with 2012, the UK, by 54.5% and Germany, by 21.1%. This can be explained by a series of factors. At the beginning of 2013 the demand for gas in Europe was increased because of extremely cold temperatures; at the beginning of March, as supplies from Libya began to be interrupted because of clashes between Libyan militants in the north-western part of the country, in the region where the Mellitah gas distribution system is located. A decrease in exports of liquefied natural gas (LNG) from Qatar to Europe became a significant factor and was connected with the beginning of long-term agreements on gas deliveries to Asia and South America.

Natural gas exports to the CIS and the Baltic States were at their lowest level for several years as a result of decreased demand from such countries as Ukraine, Moldova, Lithuania and Latvia.

Table 45

Natural gas for exports by OAO «Gazprom», billion cubic meters

State	2012	2013	2013 as % of 2012
Germany	33.16	40.15	121.1
Italy	15.08	25.32	167.9
Turkey	27.02	26.69	98.8
France	8.04	8.17	101.6
Finland	3.75	3.54	94.4
Austria	5.22	5.23	100.2
Greece	2.5	2.62	104.8
Netherlands	2.31	2.13	92.2
Switzerland	0.3	0.37	123.3
Denmark	0.33	0.34	103.0
Great Britain	8.11	12.53	154.5
Hungary	5.29	5.97	112.9
Poland	9.94	9.79	98.5
Slovakia	4.19	5.42	129.4
Czech Republic	7.28	7.32	100.5
Romania	2.17	1.19	54.8
Bulgaria	2.53	2.8	110.7
Serbia and Montenegro (Yugoslavia)	0.74	1.14	154.1
Slovenia	0.5	0.53	106.0
Bosnia and Herzegovina	0.26	0.19	73.1
Macedonia	0.08	0.05	62.5
The Ukraine	32.87	25.84	78.6
Belorussia	20.26	20.26	100.0
Moldova	3.08	2.39	77.6
Lithuania	3.32	2.7	81.3

State	2012	2013	2013 as % of 2012
Latvia	1.12	1.13	100.9
Estonia	0.62	0.73	117.7
Kazakhstan	0.93	0.88	94.6
South Ossetia	0.03	0.03	100.0
Armenia	1.94	1.96	101.0
Georgia	0.25	0.18	72.0
In Total	203.22	217.59	107.1

Source: http://www.gazprom.ru/f/posts/21/499896/qr0312.pdf, http://www.gazprom.ru/f/posts/52/479048/gazprom- emitent-report-4q-2013.pdf

An increase in exports can be observed for product groups with small specific weights. So, although leather, furs and products based on these comprised only 0.1% of total Russian export values in 2013 this was an increase of 21.6%. The export of textile, textile products and footwear (at 0.2%) had also risen in 2013 compared with 2012 (by 22.6%) while exports of precious stones, precious metals and products based on them (at 2.7%) had risen by 4%.

There was a 7% increase in the value of machinery, equipment and transport vehicles exported with an extra 0.8% of this product group going to non-CIS countries while exports to the CIS increased by 16.7%. Sales of Russian cars to the CIS increased by 50.9%.

The structure and dynamics of imports

The slowing of import growth which began in 2012 intensified in 2013. As a result, Russian imports in 2013 increased by only 2.6%, reaching $344.3bn (*Table 46*). This growth in imports was helped by an increase in deliveries from non-CIS countries, the value of goods transferred from these reaching $294.7bn, which was 2.1% higher than the corresponding rate for 2012. The value of goods imported from the CIS into Russia reached $49.6bn, which was 5% more than in 2012. In total, the import share from non-CIS countries diminished from 85.9% to 85.6%. Import growth could be seen in almost all commodity groups except for mineral products, machinery, equipment and transport vehicles (*Fig. 58*).

The imports of precious stones, metals and products based on these materials increased especially significantly, with the increase being estimated at 20.1%; imports of wood, pulp and paper products increased by 9.2% while imports of textiles, textile products and footwear increased by 7.5%.

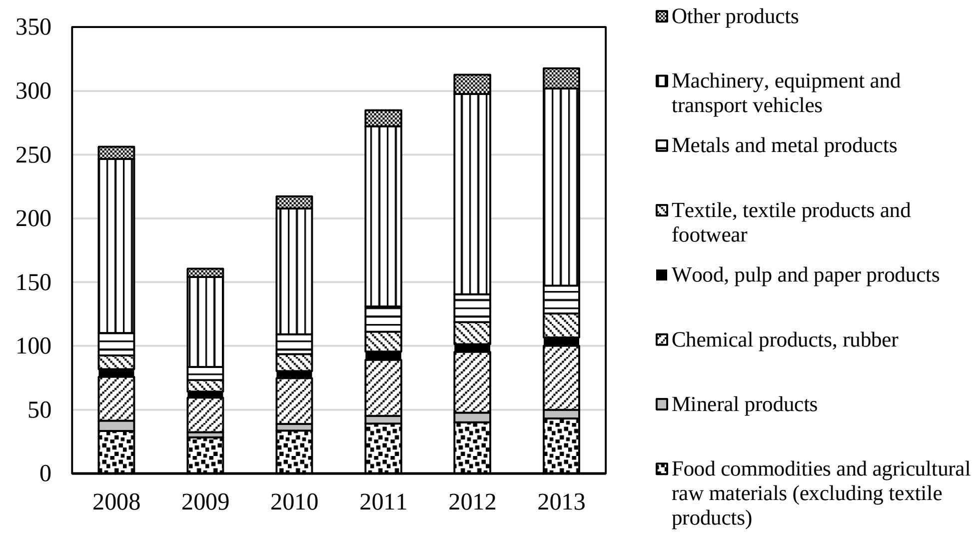
Table 46

Russian Imports, billions of dollars.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Imports, billion of dollars	60.9	76.1	97.4	125.4	164.3	223.5	291.9	191.8	248.6	318.6	335.8	344.3
Including:												
Non-CIS Countries	48.2	60.1	76.4	103.5	138.6	191.2	253.1	167.7	213.3	275.5	288.5	294.7
Growth Rates, as % of the Previous Year												
Volume Index	117.6	119.2	124.2	122.4	130.1	127.1	113.5	63.3	135.4	122.2	105.1	97.8
Prices Index	93.4	98.7	106.1	106.5	105.5	107.6	117.8	99.1	101.6	109.1	97.3	102.5

Source: the Bank of Russia; the Ministry of Economic Development

In 2013, according to the FCS, the Russian Federation imported foodstuffs and agricultural raw materials valued at $43.1bn, an increase of 7.1% on 2012, the total volume of Russian imports for this product group having increased by 0.7 percentage points compared with 2012, reaching 13.6% of total imports.



Source: FCS.

Fig. 58. Trade dynamics of Russian imports in billions of dollars

In comparison with 2012 the volumes of import purchases of wheat and meslin rose by more than 4 times, the import of milk and concentrated cream rose by 46.9%, of butter, by 23.7% and of sugar, by 29.2%. For the same product positions a growth in average contract prices can be noticed. So, the prices for wheat and mixtures of cereal grains increased by 7%, for milk and concentrated cream, by 36.9% and of butter, by 22.9%.

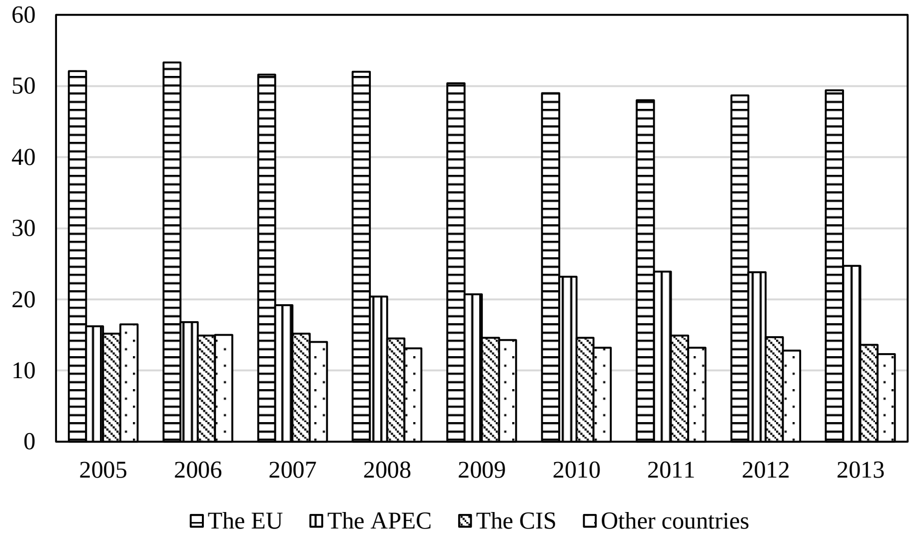
The value of imports of metals and metal products grew by 0.9% and reached $18.6bn mainly attributable to an increase in the amount of imported steel pipes (by 4.9%) and ferrous metals (by 1.8%). The share of imported metals and metal product volumes had decreased until it reached 6.9% in 2013, compared with 7% in 2012.

Imports of chemical products in 2013 were estimated at $50.1bn and had increased by 5.1% while their share within total Russian imports had increased from 15.3% in 2012 to 15.8%.

The main Russian import items are still machinery, equipment and transport vehicles. Imports of this category of products diminished by 1.8% in comparison to 2012, falling to $154.3bn while their share within total Russian imports decreased from 50.3% in the previous year to 48.6%. According to the FCS, imports of cars into Russia in 2013 had diminished by 16.9% in comparison to 2012 with the number of cars estimated at 894.100 pieces; and with the number of HGVs decreasing by 26% and estimated at 88000 pieces.

Geographical structure of Russian foreign trade

The European Union still remains the main foreign trade partner of the Russian Federation. In 2013 the share of the EU in the geographical structure of Russian foreign trade turnover (*Fig. 59*) had increased since 2012 by 0.7 percentage points and was estimated at 49.4%. The Netherlands still remained the major trade partner of Russia within this group, although their share had diminished by 0.8 percent points and was estimated at 9%. Second place was occupied by Germany, and its share in Russian foreign trade turnover had increased from 8.7% in 2012 to 8.9% in 2013. Italy was the third largest partner of Russia within the European Union in foreign trade volume, with its share at 6.4%, having risen by 1 percentage point. On the whole, in 2013, the EU countries had increased their volume of foreign trade with Russia by 1.9% in comparison to 2012 - the volume of Russian exports had increased by 2.2% while the volume of Russian imports had increased by 1.3%.



Source: FCS RF.

Fig. 59. Geographical structure of Russian foreign trade (%), 2009–2013

The share of the Asia-Pacific Economic Cooperation (APEC) in Russian foreign trade turnover increased from 23.8% in 2012 to 24.7% in 2013. The total volume of Russian trade with APEC countries in 2013 increased by 4.2%. At the same time Russian exports to those countries rose by 8.9% and Russian imports, by 0.2%.

The main foreign trade partner of Russia under this group is China, its share in foreign trade turnover remained at the same level as it had been in 2012: 10.5%. Second place belongs to Japan, the share of which increased from 3.7 to 3.9%. The share of trade with the U.S. remained at the same level as it had been in 2012: 3.3%.

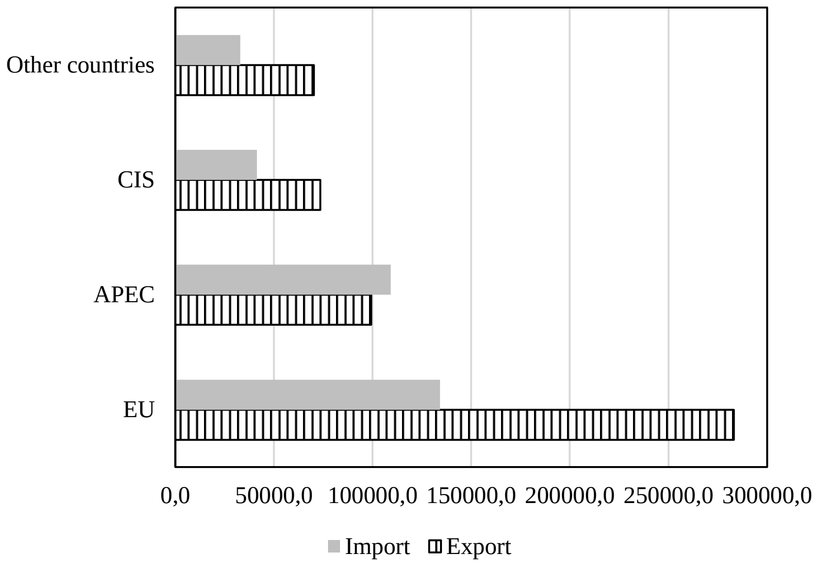
The share of the CIS within the foreign trade turnover of Russia in 2013 was reduced in comparison to 2012, from 14.7% to 13.6%.The major trade partner within this group is Ukraine but it achieved a share of only 4.7% in 2013 in comparison to 5.4% in 2012.

On the whole, in 2013, the trade turnover of Russia with these states diminished relative to 2012 by 2.2%.

Russia's trade balance in 2013 (*Fig. 60*) turned out to be positive for all groups of countries, excluding the member-countries of APEC (- $9.9bn). The negative balance of Russian trade was formed with 23 countries, with their share in the total trade turnover of the Russian Federation estimated at 30.3%.

The largest deficit in trade of Russia was formed with China (- $17.6bn), the USA (- $5.3bn), France (- $3.8bn) and Austria (- $2.6bn).

The largest recorded trade surplus of the Russian Federation was with the Netherlands (at $64.3bn), followed by Italy ($24,8bn) and Turkey ($18.2bn).



Source: FCS RF.

Fig. 60. Major indicators of Russian foreign trade by regions in 2013 in billions of dollars

Regulation of Russia's foreign trade

Tariff regulation

Export duties

In the first quarter of 2013 the Government of the Russian Federation adopted three resolutions to correct the rates of export customs duties for oil and oil products.

According to the Resolution of the Government of the Russian Federation № 276 of 29 March 2013: on 1 April 2013 a new procedure for the determination of the rates of customs duty came into force. According to the procedure, the Ministry of Economic Development in Russia monitors the prices of oil and oil products on the world markets and from these determines the export customs duties in respect of those products in accordance with methodology approved by the Government. On a monthly basis, throughout the period from April until December 2013 the Russian Ministry of Economic Development implemented adjustments to the export customs duties on crude oil and for certain categories of goods produced from oil.

Table 47

Export duty rates for oil and oil products in 2012–2013 dollar/tons

	Oil	Oil Products
	2012	
January 1st	397.5	262.3
February 1st	393.7	259.8
March 1st	411.2	271.4
April 1st	460.7	304.0
May 1st	448.6	296.0
June 1st	419.8	277.0
July 1st	369.3	243.7
August 1st	336.6	222.1
September 1st	393.8	259.9
October 1st	418.9	276.4
November 1st	404.5	267.0
December 1st	396.5	261.7

	Oil	Oil Products
2013		
January 1st	395.6	261.1
February 1st	403.3	266.2
March 1st	420.6	277.6
April 1st	401.5	265.0
May 1st	378.4	249.7
June 1st	359.3	237.1
July 1st	369.2	243.6
August 1st	379.8	250.6
September 1st	400.7	264.4
October 1st	416.4	274.8
November 1st	395.9	261.2
December 1st	385.7	254.5

Source: Government resolutions of the Russian Federation, data from the Ministry of Economic Development

In order to bring the customs duties in line with the international obligations of the Russian Federation under the WTO the following Resolution of the Government of the Russian Federation №754 was passed: 'On approving customs export duties for goods exported from the territory of the Russian Federation beyond the borders of the Customs Union-signatories and the repeal of certain legal acts of the Russian Federation' of 31 August 2013. The resolution implies a partial decrease in customs duties (generally by 1.25 - 2.5 percentage points) for many products which are subject to export duties: in particular, fish (salmon, flatfish, walleye pollock, herring, poutassou), crabs and shrimps, together with magnesium and tungsten ores and concentrates, bituminous mixtures, hides and skins, silver-plated and gold-plated metals etc.

Import duties

During 2013 it was decided to reset the rates of import duties (for some types of forge-stamping hydraulic presses and hydraulic radial-forging machines, some types of self- and non-self-propelled railway wagons, certain types organic chemicals, terephthalic acid and its salts, some types of artificial viscose fibres, some fruit products and silicon).

From 1 April to 30 June 2013 the customs import duties were raised for quark, butter, dairy spreads and some types of cheese in order to protect dairy product producers within the countries of the Customs Union (CU). Thus, the duty for natural butter was raised to 18.3%, but not less than €0.29 per kilo (previously, 15%, with the same lower limit). The same duties were put in place for recombined oils (whey butter and dairy spreads). Dairy spreads with more than 80% fat are taxed at 18.3%, but not less than €0.16 per kilo (previously, 15%, with the same lower limit).The custom duties for quark that has less than 40% fat were raised to 18.3%, but not less than €0.5 per kilo (previously, 15%, with the same lower limit). The situation is the same for dairy cheese with less than 40% fat. The duties for quark and cottage cheese with more than 40% fat were raised to 18.3%, but not less than €0.4 per kilo (previously, 15%, but not less than €0.3 per kilo).

According to decision №42 of the Council of the Eurasian Economic Commission (EEC) of 2 July 2013 the effect of the premium import customs rates for butter, dairy spreads, other fats and milk butter, cottage cheese and quark was extended up to, and including 31 August 2013.

To stimulate an increase in the production of televisions sets within the Customs Union, according to the decision of the EEC №20 of 14 March 2013, the import duties on LCD and plasma-screen televisions and for TV sets with screens produced using LCD technology was increased to 16%. Previously the rates had been 10% and 15%, respectively.

On 13 September 2013 the Russian Federation joined the WTO multilateral Agreement on information technology directed at the liberalisation of trade in this sector of the world economy. Russia became the 78th party to this Agreement. Upon its accession Russia took a commitment to decrease customs duties for IT products from 5.4% to 0% by 2016.

In total the proportion of participants in the WTO Agreement on information technology accounts for 97% of world exports of information technology. Russia is a net importer of information technology: in 2012 the value of IT exports from the Russian Federation was $0.99bn, and the value of imports was $20.21bn.

In order to fulfil its tariff commitments to the WTO on 1 September 2013 new import customs duties came into force in the Russian Federation, those duties being adopted under the Decision of the Eurasian Economic Commission Council №45 of 2 July 2013 (*Table 48*). The decrease in duties concerns about 5100 product lines accounting for almost half of the Common Customs Tariff of the CU. The duties have been slightly decreased for individual items: in the range of 1–3 percentage points. For a small proportion of the product lines the import customs duties have been increased.

On the whole, the decrease in customs duties concerns commodity products including fish, exotic fruits, confectionary products, and raw materials for juice production. However customs duties have also been reduced on some types of equipment (from washing machines to tractors), and also for tropical oils, and certain clothes and fabrics.

So, import customs duties have been diminished from 10% to between 8 and 9% for some product types: 0302, 0303 (fresh fish/chilled and frozen), 0304 (fish fillet). Rates have been reduced from 20–25% to 18.3–22.5% for product type 0402 (milk and cream with added sweeteners), from 15% to 13.3% – for products of type 0407 (birds' eggs). At the same time the customs rates for fats and oils produced from milk and milk spreads (0405) and a range cheeses and quark (0406) have been increased from 15.0%, but not less than €0.5 per kilo to 22.5 %, but not less than 0.45 per kilo, which means that, the ad valorem rate reached its maximum level under the commitment noted above, as, prior to 1 September 2013 the level had been lower.

For a number of product classifications the combined rate has been replaced by the ad valorem rate. For example, knitted garments and other items of clothing previously came under a combined rate of 10.0%, but not less than €3.0 per kilo. Since 1 September 2013 the import duty on these products has been subject to an ad valorem rate of 18.3%.

Table 48

Comparison of the different Unified Customs Tariffs in %

	The UCT of the CU	
	Decision of the EEC Council of 16 July 2012 №54	Decision of the EEC Council of 2 July 2013 №45
The lowest ad valorem rate, other than zero	2	2
The highest ad valorem rate	65	65
Average ad valorem rate for the most protected groups:		
Meat and meat offal	37	37
Carpets and floor coverings	20	16
Arms and ammunition	20	19
Alcoholic and non-alcoholic beverages	18.4	16
Finished textile products	18.4	16
Precious stones and metals	18	17
Arithmetic average rate	10	9.5

Source: http://www.eurasiancommission.org

A gradual decrease in customs duties will continue until 2018, provided for by transitional periods for different types of product.

So, according to the Decision of the Eurasian Economic Commission Council №58 of 9 October 2013, import customs duties have been reduced to 13% from the earlier rate of 13.7%

for mashed potatoes and plum paste produced from 'Prunus' plumbs, in primary packaging with net-weights of not more than 100 kg and intended for industrial processing.

The import duty for ethylene vinyl acetate has been reduced from 8.8% to 6.5%. Import duties for paving and tiles have been reduced from 13% to 12%. Additionally the import duties on turntable units (decks) and sound equipment without a recording function have been cut from 12.3% to 11%. The Decision came into force on 31 December 2013.

Non-tariff regulation

Bans and restrictions

According to the Decision of the Eurasian Economic Commission Council №33 of 5 March 2013 'On amendments to section 1.5 of the unified register of goods within the framework of the AurAsEC, where the import or export of which are banned or restricted for the member states of the Customs Union in trade with undeveloped countries' the register of banned–for-export wood products, regenerated paper, cardboard and wastepaper has been reduced. Wood products made of oak with a thickness greater than 6mm, coniferous species and other species with a thickness of not more than 6mm, timber, shuttering for concreting, carpentry constructions such as beams, roof timbers and roof spacers have been excluded from the register.

According to the Decision of the Eurasian Economic Commission Council №121 of 4 June 2013 'On amendments to section 2.12 of the unified register of goods within the framework of the AurAsEC, where the import or export of which are banned or restricted for the member states of the Customs Union in trade with third countries' the list of narcotic drugs and psychotropic substances which require licences for their import or export has been extended. The following products, in particular, have been added: AMT (*Alpha-Methyltryptamine*) and products based on it, modafinil, nalbuphine, dimethocaine, methoxetamine and its derivatives, methedrone and ethylphenidate. In all, 69 products were added to the register. Licences for the import of the above substances into Russia and export of those products from the territory of Russia under the terms of trade with undeveloped countries are granted by the Ministry of Industry and Trade of Russia. If a substance is included into the appropriate Russian registers (registers I-IV), then instead of a licence the permission of the Federal Service of the Russian Federation for Control of Narcotics (Federal Narcotics Control Agency of Russia)(FNCA of Russia) is required, and in the case of medicines, a certificate from the Ministry of Healthcare and Social Development is also required for export/import.

Protective measures

Having become a full-fledged member of the WTO, the Russian Federation together with the members of the Customs Union are continuing to develop a range of trade policy instruments to protect their internal markets and in particular the introduction of antidumping duties.

Introduced at the initiative of Russian companies, the antidumping taxes were effective until April 2013 in protecting companies within the Customs Union 7. Major products, which then came under antidumping scrutiny by the Customs Union, included metals and metal products. However, only one antidumping measure was directed against Ukrainian exports of synthetic yarns. Countries that now come under the current active antidumping measures of the Customs Union are Ukraine and China. In April 2013 two new antidumping taxes directed against Chinese imported products were introduced.

According to the Decision of the Eurasian Economic Commission Council №64 of 9 April 2013 it was decided to introduce antidumping duties at the rate of 51.87% of the customs' value on enamelled pig-iron bathtubs, imported from China. The decision came into force on 26 May 2013 and is effective until 25 January 2018.

Preliminary antidumping duties had been introduced ahead of the completion of the antidumping investigation concerning the Chinese enamelled pig-iron bathtubs on 26 January, 2013. Following the preliminary investigation, the antidumping duties were introduced for a period of 5 years.

Within the period 2009-2011 imports of enamelled pig-iron bathtubs from China to Customs Union countries increased by 48.4%, while the proportion of these Chinese imports represented 82% of the total of this type of product.

Since the consumption of enamelled pig-iron bathtubs in 2011 remained at the 2009 level, the production volume in the Customs Union fell by 16.8% and the volume of their sales, by 26%, while product stockpiles increased by 1.5 times. The share of products produced by enterprises within the Customs Union fell by 15.2% on the domestic market as a result of the increase in imports from China under the dumping prices.

According to the Decision of the Eurasian Economic Commission Council №65 of 9 April 2013 it was decided to introduce antidumping duties of 19.5% for Cold-Deformed seamless stainless steel pipes produced in China and imported to the Customs Union. This antidumping measure was introduced for five years.

This antidumping investigation was started by the Ministry of Industry and Trade of the Russian Federation on 25 November 2011 according to an application filed by the OJSC 'Chelyabinsk Tube Rolling Plant', the OAO 'Pervouralsk New Pipe Works', OAO 'Synar tube plant' and the OOO 'TMK-INOKS'. In connection with the delegation of their authority to the Eurasian Economic Commission the Customs Union countries transferred supranational powers for implementing special protective antidumping measures and compensation investigations to the EEC.

The investigation showed that the share of imports from China in the total imports of seamless stainless steel pipes to the Customs Union between 2008 and 2010 increased steadily so that, by 2010 the share was already 78.8%. In the second half of 2010 the indicator grew further, reaching 81.3%, but during the first half of 2011 it fell back to 63.2%.

In 2010 the weighted average price for such tubes from China had diminished by 15.2% in comparison with 2008. The unified dumping margin for all exporters and/or producers of seamless stainless steel pipes from China was 19.15%.

Within the period between 2008 and 2010 despite the growth in consumption of stainless steel tubes within the Customs Union by 48.2% the production volume by Customs Union companies fell by 9.1%. The rapid increase in imports of the Chinese tubes was accompanied by a decrease in the share of the Customs Union of domestically-produced tubes by 12 percentage points while the share of Chinese imports increased by 31.6 percentage points.

In the face of intense price competition from the increased Chinese imports, the economic enterprise sector of the Customs Union reduced their prices which resulted in a decrease in sales profitability by 5.8 percentage points and in a reduction of 38.3% in profits, so it was decided to introduce antidumping taxes.

According to the Decision of the Eurasian Economic Commission Council № 133 of 14 May 2013 antidumping taxes on light commercial vehicles (LCV) from Germany, Turkey and Italy imported into the Customs Union were introduced for a term of 5 years. The Decision came into force 30 calendar days after it had been officially published on 16 June 2013.

The antidumping investigation was initiated by OOO 'Sollers-Elabuga". Analysis of the Russian market for LCVs during the period from 2008 until 2011 indicated that, while there was a reduction in the total volume of imported light commercial vehicles into the Customs Union by 29.1%, their imports from Germany, Italy and Turkey had increased by more than 23%. At the same time the proportion of dumped imports increased steadily. According to the Eurasian Economic Commission Council, the proportion of dumping was 95.4% of the total import volume, having increased by 40.5% compared with the figures from 2008. The weighted average price for the products from Germany, Italy and Turkey in 2011 had decreased by 9.5% in comparison to 2008.

The demand for LCVs within the member-states of the Customs Union in 2011 had increased by 3.7 times in comparison to 2009, but the share of vehicles produced by the Customs Union in the consumption volume had decreased during the period of 2009–2011 by 20.1 percentage points; the profits of the corresponding sectors of the Customs Union economy having decreased by 17% in 2010 compared with 2009; in 2011 the vehicle production sector of the economy suffered losses, with the profitability of production becoming negative. Thus, while production costs had increased by 42.7%, in an effort to remain competitive against the increased dumping imports the wholesale prices rose by only 6.4 %. To sum up, the investigation showed the existence of dumping imports from Germany, Italy and Turkey which had caused material damage to the economies of the members of the Customs Union.

The antidumping duty for all German manufacturers was set at 29.6% of the customs value; for the Italian Sevel S.P.A. factory (owned by PSA Peugeot Citroen) and others Italian manufacturers the duty was 23%, and for all the Turkish manufacturers, including Ford, Otosan Sanayi Anonim Sirketi the duty was 11.1%. The antidumping duty is in addition to a current duty of 10%.

According to the Association of European Businesses, in 2012 LCV sales in Russia had increased by 7% compared with 2011, reaching 188,095 units. At that time the market leader was the 'GAZ Group' – 90247 units. Among foreign brands the leading positions were taken by light commercial vehicles from Volkswagen (16161 units), Ford (12962 units) and Peugeot (9933 units).

The introduction of antidumping duties for the import of LCVs is likely to lead to a reduction in the volume of imports. To maintain leading positions in the Russian market, the foreign automotive concerns will have to localise their production of LCVs within the Russian Federation. So, Ford together with the 'Sollers-Elabuga' company has already started producing some LCV models in Tatarstan. Fiat, Peugeot-Citroen and Renault are looking at the possibility of starting production of LCVs in ZiL. Since 2013 Mercedes has been manufacturing its Sprinter LCV at the GAZ Group production line in Nizhny Novgorod.

It should be noted that German manufacturers do not approve of the introduction of antidumping duties for LCVs and they intend to appeal the decision in accordance with established procedures. The French producers are also studying the possibility of sending a request either to amend or to revoke the duties. The companies have the right to ask for arbitration by the WTO or to challenge the decision through the EurAsEC Court. They can send a request to the ECE after one year to ask for another investigation on the basis of which they can ask for the measures to be reviewed or cancelled. However, for that to occur the companies will have to demonstrate that the markets for that industry have improved.

In April 2013 the ECE completed its reinvestigation in connection with caramel imports from Ukraine, which was undertaken as a result of a request from the Ukrainian companies DO

‘Confectionary Corporation ROSHEN’, PJSC ‘Kharkov biscuit makers’ and PJSC Confectionary Plant ‘Kharkovchanka’.

A special protective measure in connection with caramel was introduced under the Resolution of the Government of the Russian Federation №445 of 3 June 2011, for a 3 year period and imposed a special duty of $294.1 per ton. This has been in place since 8 July 2011. According to the Agreement on the Application of Special Protective, Antidumping and Countervailing Measures, during the transitional period from 19 November 2010, this Russian measure was also extended into the territory of the Customs Union.

During the investigation it was found that, in the first half of 2012, compared with the first half of 2011, against a backdrop of a 4.1% fall in caramel consumption in the Customs Union, the production rate remained almost level, yet the sales volume increased. At the same time, a reduction in the volume of caramel imported, by 30.7%, made possible an increase of 5.1% in its share of goods in the Customs Union.

During the same period the sale weighted average selling price fell by 1.3% against a backdrop of a reduction in the cost of production by 11.4%. This provided companies with the opportunity to increase their levels of profitability to 4.4% while, during the first term of 2011, they had suffered losses. So, the effect of the special protective measure against caramel imports had a positive impact on that sector of the economy. As a result the College of the Eurasian Economic Commission made a decision to diminish the effective rate of the special duty for caramel. The reduction was implemented in two stages: from 15 June until it reached $283.8 per ton, and from 15 December, 2013 until it reached $273.5 per ton.

During the investigation it was found that the share of caramel imports from Brazil exceeded the 3% threshold for total caramel imports so it will now also be subject to the effect of special protective measures.

Under the Decision of the ECE №181 of 27 August 2013 a special protective duty was introduced for china dinnerware. The duty is effective from 28 September 2013 until 28 September 2016 (inclusive).

On 3 September 2012 an investigation was initiated in relation to an application by OOO DO ‘Promisly Verbilok’, OAO ‘Imperial Porcelain Plant’, ZAO «Dobrushsky Porcelain Plant» and the PK «Dulevsky Porcelain Plant» and this confirmed the presence of grounds for the use of special protective measures. Between 2009 and 2011 the volume of imports increased by more than 70% and during the first half of 2012 compared with the first half of 2011, by additional 15.9%. The porcelain dinnerware was being imported into the Customs Union and sold at prices which were well below those of the Customs Union members. This caused a reduction in the ratio of the production volume to the import volume of the china dinnerware by 1.7 times and led to a reduction in manufacture and sales, and a fall in the market share of the manufacturers within the Customs Union and to unprofitability of production.

From 29 September 2013 until 28 September 2014 (inclusive) the duty will amount to $1479 per ton. From then on, until 28 September 2015(inclusive) the special duty will be reduced to $1035.3 per ton. From 28 September 2016 the duty will be $591.6 per ton.

This measure is directed, initially, against manufacturers in Chins and Ukraine which are the major suppliers of this kind of dinnerware to the Customs Union. During the period under examination 83% of the total volume of imports was from China.

At the meeting of the College of the Eurasian Economic Commission which took place on 25 June 2013 it was decided to introduce a final special protective duty for combine-harvesters and their modules until 7 March 2016.

During the period of investigation by the College of the Eurasian Economic Commission a preliminary special protective duty was introduced on 25 December, 2012 to cover combine-harvesters and their modules, with its level set at 27.5% of the customs value. Based analysis of the results of the investigation, it was concluded that there was a basis for the use of a special protective measure.

So, during the period between 2009 and 2011 the volume of import of combine-harvesters to the Customs Union in absolute numbers increased by 19.9% and in the second half of 2012 by an additional 92.3%[1] compared with the first half of 2011. This led to a reduction in the production of combine-harvesters by 14.4%, to a fall in volume of their sales by 43.4% and to an increase in stockpile by 67.4%. As a result the share of national producers of combine harvesters on the Customs Union market was reduced by14.6 percentage points, and their profits by 3.6 times. In 2012 those trends intensified.

According to the conclusions of the investigation, the ECE decided to introduce duty at rate of 26.7% until March 2016 with a phased reduction to 25.7%. Nevertheless, Kazakhstan blocked the decision of the College of the Eurasian Economic Commission. After conducting several consultations with the Customs Union member-countries the ECE decided to introduce import quotas for combine-harvesters and their modules in place of the antidumping duties as a protective measure. The quota came into force on 1 January 2014 and lasts until 21 August 2016. The size of the quota in 2014 for Russia will be 424 units, in 2015 – 437 units, in 2016 – 288 units; for Kazakhstan – 300 units, 309 units and 204 units respectively; for Belarus – 50 units, 52 units and 34 units respectively. The import of combine-harvesters to the Customs Union member-states in excess of the quota during the effective period of the protective measure will be forbidden.

In total nowadays there are 14 effective measures for the protection of the domestic markets of the Customs Union (*Table 49*).

Table 49

Internal market protective measures within the Customs Union

Product	Product Position CN FEA CU	Exporting country	Type of Measure
China dinnerware	6911	Worldwide	Special protective
Light commercial vehicles	8704	Germany, Italy, Turkey	Anti-dumping
Enamelled pig-iron baths	7324	The PRC	Anti-dumping
Cold-deformed seamless stainless steel tubes	7304	The PRC	Anti-dumping
Graphite electrodes	8545	India	Anti-dumping
Activated charcoal	3802	Worldwide	Special protective
Stainless steel tubes	7304, 7306	Worldwide	Special protective
Polymer coated metals	7210, 7212, 7225	The PRC, Taiwan, Hong-Kong, Macau	Anti-dumping
Forged steel rolls for rolling mills	8455	Ukraine	Anti-dumping
Caramel	1704, 1806	Worldwide	Special protective
Roller-bearings	8482	The PRC	Anti-dumping
Some types of steel pipes	7304, 7305, 7306	Ukraine	Anti-dumping
Fasteners	7318	Worldwide	Special protective
Combine-harvesters and modules	8433	Worldwide	Import quota

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

Proceedings by the WTO

On 9 July 2013 the European Union lodged the first legal complaint against the Russian Federation with the Court of the WTO in connection with the implementation of scrappage

[1] http://www.eurasiancommission.org/ru/act/trade/podm/eec_investigations/Documents/report_final_harvesters.pdf

taxes on cars. In Europe it is believed that in spite of all imports from the EU being subject to the fees, while vehicles produced within Russia, Kazakhstan and Belarus are exempt from the tax. According to this the duty creates preferences for automotive manufacturers in the Customs Union, which is in contravention of the WTO agreements. I the EU it was hoped that the conflict over the scrappage taxes would have been settled by 1July, 2013, with the adoption of amendments to Federal Law №89-FZ of 24 July 1998 'On Production and Consumption of Wastes' which levelled the conditions levy on national and foreign producers, but the amendments had not been passed by this time, and the State Duma was dissolved for the summer holidays.

According to the Federal Treasury data on performance, from the day of introduction of the scrappage taxes in September 2012 until 1 December 2013 the federal budget a profit from them was RUR64.3bn.

According to the WTO rules, the parties to a dispute have 60 days for peaceful settlement of the conflict, meaning settlement of the problem through consultations. After the period of 60 days the claimant is entitled to require the formation of a dispute settlement panel.

The bilateral consultations which were held on 29 and 30 July 2013 did not lead to any bridging of differences. So in October 2013 the time frame of 60 days provided for reaching a peaceful agreement with the EU under the rules of the WTO ended. On 10 October 2013 the EU appealed to the WTO Dispute Settlement Committee with a proposal to form an arbitration panel to consider the question of the legality of the fee.

On 22 October 2013 a meeting of the WTO Dispute Settlement Committee was held and during that meeting the Russian representative challenged the request of the EU to the WTO on convening a panel of arbitrators to consider the existing mechanism of scrappage taxes in Russia on the basis that not all means of peaceful settlement had yet been undertaken.

In July 2013 the European Union authorities filed a complaint with the WTO which forced the Russian authorities reconsider their position. On 21 October 2013 the President of the Russian Federation, Vladimir Putin, signed the amendments to the Law 'On Production and Consumption Wastes' that levelled the conditions of the scrappage taxes on cars from both national and foreign producers. According to the new law, which came into force on 1 January 2014, utilisation fees will need to be paid not only for cars imported into the Customs Union, but also for cars produced within the Customs Union itself. Vehicles belonging to compatriots moving to Russia for permanent residence under special diplomatic programmes and consular missions are regarded as exempt. Additionally, rare vehicles manufactured a minimum of 30 years ago are also exempt from the fee.

On 25 November, 2013 a meeting of the WTO Dispute Settlement Committee took place and, during that meeting, at the renewed request of the European Union an arbitration panel was formed for the settlement of the dispute on the regime of utilisation fees for automotive vehicles levied in the Russian Federation. According to the principles of the organisation, a renewed request cannot be denied. Thus the first panel proceedings against the Russian Federation have begun since Russia entered the WTO in 2012.

The WTO should send the Russian party a list of arbitrators, and, within two weeks of receipt of the list, Russia, together with the EU must agree on the list. If, within this period, they are not able to come to an agreement, the case will be handed to the Director-General of the WTO in order that he can designate the arbitrators himself.

The panel must then decide within six months which party to the conflict is right. At this stage it is very important that the governments of the countries which are parties to the conflict are provided with the support of qualified advisers and from the authorities of other countries whose interests could be affected by the results of the dispute resolution.

According to statistics, 60% of decisions of the panel are appealed to the Appeal Board however changes to, or cancellations of, the decisions of the panel are very uncommon. It should be noted that decisions made by the Appeal Board are not subject to further appeal and become the basis of the case law of the WTO.

China, India, Japan, Korea, Norway, Turkey, Ukraine and the USA expressed their willingness to take part in the investigation as third parties.

On 23 December 2013 Russia lodged the first legal complaint in the whole existence of the World Trade Organisation against the EU on the issue of so-called ‘energy corrections’ in conducting antidumping investigations.

Prior to 2002 the EU, regarded the Russian Federation as a state with a non-market economy, defining its assessment of dumping, on the basis of comparing Russian export prices with the selling prices within the domestic markets of undeveloped countries. In 2002 the European Union acknowledged the Russian Federation’s status as a country with a market economy. But for the determination of dumping, in relation to Russian exporters, so-called ‘energy corrections’ were still used. In the calculation of the value of a product the prices at which Russian exporters purchased gas or electricity were not taken into account. Instead, the EU used the higher prices for energy in other countries that do not have access to their own resources; this fact automatically transferred Russian enterprises into the category of infringers of trade regulations. This policy is still being implemented.

From 1995 until 2012 the European Union introduced 17 antidumping measures against Russian exporters, the majority of those measures were adopted in breach of international rules and caused significant losses to the Russian producers of fertilisers, ferroalloys, tubes and other steel products and of aluminum foil.

On 1 February 2014 five EU antidumping measures directed against Russian products were effective[1]:

- *Ammonium nitrate* - from 12.07.2008 to 12.07.2013 a unified specific duty at the rate of €41.42 – 47.07 per ton, depending on the type of a product, was effective. With respect to the company OAO «Eurohim» individual duties are effective – €28.88 – 32.82 per ton. The measure was first introduced on 23 August 1995. On 12 July 2013 a five-year review of antidumping measures was initiated.
- *Seamless tubes* - from 5.07.2012 until 4.07.2017 a duty at the following rate is effective: OAO ‘Chelyabinsk metallurgical Plant’ and OAO ‘Pervouralsk New Pipe Works’ – 24.1%, from 28.12.2012 enterprises of the Pipe Metallurgical Company (PMC) – 28.7%, for other Russian companies– 35.8%.
- *Ferrosilicon*– from 01.03.2008 till 28.02.2013 a duty at the following rate was effective: Bratsky Ferroalloy Smelting Plant – 17.8%, for other Russian companies – 22.7%. On 28 February 2013 a five-year review of antidumping measures was initiated.
- *Welded unalloyed pipes* – from 19.12.2008 till 20.12.2013 a duty at the following rate was effective: enterprises of the group the United Metallurgical Company (UMC) – 10.1%, enterprises of the group PMC – 16.8%, for other Russian companies – 20.5%. On 19 December 2013 a five-year review of antidumping measures was initiated.
- *Pipe fittings* – from 17 January 2013 a duty at the rate of 23.8% for import of pig-iron and steel fittings is effective for all Russian companies.

[1] http://www.ved.gov.ru/mdb/information/database/

The unfair antidumping policy of the EU has been discussed during many expert consultations, but it has not led to any changes in the position of Russian major trading partner. Under conditions where all other forms of conflict management have been exhausted, the resort to the WTO procedures is an inevitable, but at the same time important, measure for restoring normal trade terms with the EU.

In accordance with the rules of the WTO, consultations were held within 60 days from the date of the request, i.e. until 22 February 2014. During this period the parties did not manage to find a solution to the problem. In one month Russia therefore has the right to initiate the formation of an arbitration panel (arbitration court of the WTO) in the course of its action against the ‘energy corrections’ implemented by the European Union.