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R95 **Russian Economy in 2011. Trends and Outlooks.**
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The review provides a detailed analysis of main trends in Russia's economy in 2011. 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 2011

Situation in the World Economy

The succession of events that occurred in 2011 created some real threats to the world economy's revival that had begun in 2010. The political instabilities in the Near East and North African countries, natural disasters in Australia and Japan made the world economy's exit from the crisis more difficult. In the spring of 2011, Europe was hit by yet another wave of sovereign debt crisis which mainly affected the peripheral eurozone countries – Greece, Ireland and Portugal. In early June, the US government debt situation took a turn for the worse. By the end of the year, economic conditions in Europe had continued to deteriorate.

The World Bank's report *Global Economic Prospects*, published on 18 January 2012¹, emphasizes that the world economy has entered a very difficult phase which is characterized by some considerable vulnerabilities and uncertainties. The present course of world events fully corresponds to one of the decelerating economic growth scenarios considered to be risky in the previous Report (June 2011). As a result, the World Bank has significantly downgraded its global economic growth forecast:

- the growth rate of the global economy will amount to 2.5% in 2012 and to 3.1% in 2013, vs. 3.6% for both these years as forecasted in the June 2011 Report;
- in 2012, high-income countries are expected to have a 1.4% economic growth (a 0.3% drop for the eurozone and a 2.1% growth for the other high-income countries); in 2013 – a 2% growth (vs. a 2.7% growth in 2011 and a 2.6% growth in 2013 predicted in the June 2011 Report);
- the growth forecast for developing countries is reduced, by comparison with the June 2011 Report, from 6.2% in 2012 and 6.3% in 2013 to 5.4% and 6% respectively;
- the 2012 growth forecast for the Russian Federation is cut from 4.1% to 3.5%.

According to the World Bank, the growth rate of world trade in 2011 amounted to 6.6% (vs. 12.4% in 2010). Bearing in mind the forecasted reduction in the growth rate of the global economy in 2012, the World Bank expects that the growth rate of world trade will drop to 4.7% in 2012, but then will rebound to 6.8% in 2013.

The IMF *World Economic Outlook (WEO) Update*² published on 24 January 2012 also registers a slowdown in the global economic recovery and an escalation in downside risks. According to the *Update*, in late 2011 the crisis in the Eurozone entered a 'dangerous new phase'; in 2012 the Eurozone economy is expected to go into a mild recession that will also affect other countries of the world, including the United States, emerging market countries and developing economies (*Table 48*).

¹http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1322593305595/8287139-1326374900917/GEP_January_2012a_FullReport_FINAL.pdf

² <http://www.imf.org/external/pubs/ft/weo/2012/update/01/pdf/0112.pdf>

Table 48

Changes in World Output and World Trade Volume

| 1 | Growth Rates as Percentage of Previous Year | | | | Difference between September 2011 WEO Projections and January 2012 WEO Projections | |
|--|---|------------|------------|------------|--|-------------|
| | 2 | | | | 3 | |
| | 2010 | 2011 | 2012 | 2013 | 2012 | 2013 |
| World Output | 5.2 | 3.8 | 3.3 | 3.9 | -0.7 | -0.6 |
| Advanced Economies | 3.2 | 1.6 | 1.2 | 1.9 | -0.7 | -0.5 |
| United States | 3.0 | 1.8 | 1.8 | 2.2 | 0.0 | -0.3 |
| Eurozone | 1.9 | 1.6 | -0.5 | 0.8 | -1.6 | -0.7 |
| Germany | 3.6 | 3.0 | 0.3 | 1.5 | -1.0 | 0.0 |
| France | 1.4 | 1.6 | 0.2 | 1.0 | -1.2 | -0.9 |
| Italy | 1.5 | 0.4 | -2.2 | -0.6 | -2.5 | -1.1 |
| Spain | -0.1 | 0.7 | -1.7 | -0.3 | -2.8 | -2.1 |
| Japan | 4.4 | -0.9 | 1.7 | 1.6 | -0.6 | -0.4 |
| United Kingdom | 2.1 | 0.9 | 0.6 | 2.0 | -1.0 | -0.4 |
| Canada | 3.2 | 2.3 | 1.7 | 2.0 | -0.2 | -0.5 |
| Other Advanced Economies | 5.8 | 3.3 | 2.6 | 3.4 | -1.1 | -0.3 |
| Newly Industrialized Asian Economies | 8.4 | 4.2 | 3.3 | 4.1 | -1.2 | -0.3 |
| Emerging and Developing Economies | 7.3 | 6.2 | 5.4 | 5.9 | -0.7 | -0.6 |
| Central and Eastern Europe | 4.5 | 5.1 | 1.1 | 2.4 | -1.6 | -1.1 |
| Commonwealth of Independent States | 4.6 | 4.5 | 3.7 | 3.8 | -0.7 | -0.6 |
| Russia | 4.0 | 4.1 | 3.3 | 3.5 | -0.8 | -0.5 |
| Excluding Russia | 6.0 | 5.5 | 4.4 | 4.7 | -0.7 | -0.4 |
| Developing Asia | 9.5 | 7.9 | 7.3 | 7.8 | -0.7 | -0.6 |
| China | 10.4 | 9.2 | 8.2 | 8.8 | -0.8 | -0.7 |
| India | 9.9 | 7.4 | 7.0 | 7.3 | -0.5 | -0.8 |
| Latin America and the Caribbean | 6.1 | 4.6 | 3.6 | 3.9 | -0.4 | -0.2 |
| Brazil | 7.5 | 2.9 | 3.0 | 4.0 | -0.6 | -0.2 |
| Mexico | 5.4 | 4.1 | 3.5 | 3.5 | -0.1 | -0.2 |
| World Trade Volume (Goods and Services) | 12.7 | 6.9 | 3.8 | 5.4 | -2.0 | -1.0 |
| Imports | | | | | | |
| Advanced Economies | 11.5 | 4.8 | 2.0 | 3.9 | -2.0 | -0.8 |
| Emerging and Developing Economies | 15.0 | 11.3 | 7.1 | 7.7 | -1.0 | -1.0 |
| Exports | | | | | | |
| Advanced Economies | 12.2 | 5.5 | 2.4 | 4.7 | -2.8 | -0.8 |
| Emerging and Developing Economies | 13.8 | 9.0 | 6.1 | 7.0 | -1.7 | -1.6 |

Source: The IMF World Economic Outlook (<http://www.imf.org/external/pubs/ft/weo/2012/update/01/index.htm#tbl1>).

On the whole, the IMF forecasts that, in 2012, activity in the advanced economies will expand by a meager 1.2 % on average (representing a 0.75 p.p. drop on the September 2011 *WEO*), while in 2013 it will increase by 1.9%. The current year's global economic growth is expected to hover around 3.3%.

Growth in emerging and developing economies is expected to weaken owing to the deterioration in the external environment and the slowdown in the domestic demand. The average economic growth rates in these countries are forecasted at around 5.4%, which represents a considerable drop on the growth rates registered in 2010-2011, and a 0.7 p.p. – decline by comparison with the September 2011 *WEO*.

The highest growth rates are still expected to be achieved by the developing countries of Asia. According to the IMF, their economies will grow at 7.3 to 7.8% on average. Despite a substantial downward revision of their growth rates, China and India remain the most dynamically developing economies of the world.

The Terms of Russia's Foreign Trade: Prices for Major Russian Exports and Imports

In 2011, the terms of Russia's foreign trade considerably improved by comparison with the previous year due to the prices of exports rising at a higher rate than the prices of imports: Russia's Terms of Trade Index amounted to 121.8. In 2010, this index was notably lower – 117.9 (*Fig. 68*).

In 2011, the price situation on the world markets of major Russian exports was notably favorable (*Table 49*). The prices of raw commodities peaked in Q1, but then experienced a decline owing to a contraction in demand. Over the course of the year, the prices of non-energy goods dwindled by 11%, which involved practically all goods of that category, except for fertilizers, timber and grain. The prices of energy goods rose by 14%¹.

In 2011, the behavior of oil prices was determined by the worsening political situation in the countries of North Africa and the Middle East and by the slowdown in global economic growth that had resulted from the public debt problems in the USA and the EU. On 7 February 2011, the price of Brent crude dropped to its 2011 low of \$ 99.23 per barrel, but then quickly recovered and never sank below \$ 100 per barrel over the remaining course of that year.

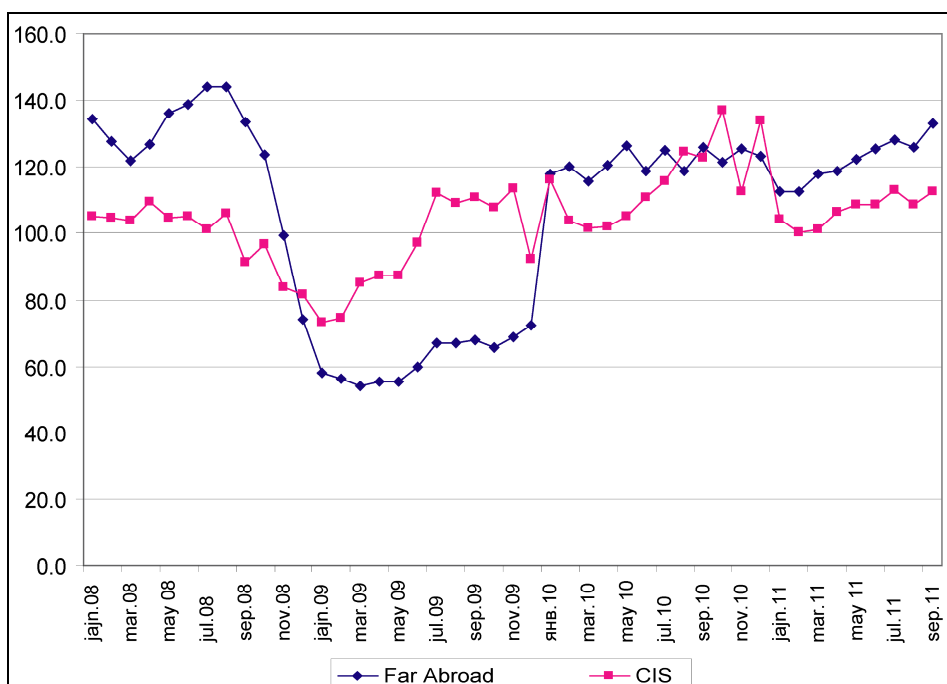


Fig. 68. The Terms of Trade Index

On 9 April 2011, the political developments in the Middle East and North Africa pushed up the price of Brent crude to its 2011 high of \$ 126.9 per barrel. On 5 May 2011, oil prices experienced a strong downward adjustment: the price of a barrel of Brent crude shed \$ 11.39 in one day (a 9% drop), thus returning to its March 2011 level. This adjustment was caused by fears

¹ http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1111002331357/829378-1326493099587/CommodityMarketsReview_January2012.pdf

that demand for oil would decline against the background of the latest (quite unimpressive) release of US macroeconomic statistics.

Over the course of 2011, the average price of Brent crude was \$ 110.94 per barrel, or by 39.3% more than in 2010¹.

The price of Urals crude hit its 2011 high on 28 April, when it climbed to \$ 123 per barrel (its historic high of \$ 139.8 per barrel was registered on 11 June 2008). In 2011, the average price of Urals crude was \$ 109.3 per barrel, which represented a 39.8% rise on 2010.

In 2011, natural gas prices in the European market rose by 26.5% on 2010².

The behavior of prices³ in the non-ferrous metals market went through a number of notable phase changes over the course of 2011. Over January-February 2011, prices were growing rapidly, spurred on by political developments in North Africa and Middle East. Thus, in February, the price of copper soared to its historic high of more than \$ 10,000 per ton. The behavior of the prices of aluminum, lead and zinc was more moderate. The prices of these metals were rising only in January, while in February they became stabilized.

Table 49

Average Per Annum World Prices

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Oil (Brent), \$/barrel | 24.84 | 25.02 | 28.83 | 37.4 | 54.38 | 65.15 | 72.32 | 97.64 | 61.86 | 79.64 | 110.94 |
| Natural gas, European market, \$/m BTU | 4.06 | 3.05 | 3.91 | 4.28 | 6.33 | 8.47 | 8.56 | 13.41 | 8.71 | 8.29 | 10.52 |
| Gasoline, \$/gallon | 0.792 | 0.755 | 0.891 | 1.197 | 1.508 | 1.81 | 2.06 | 2.703 | 1.68 | 2.13 | |
| Copper, \$/ton | 1,578 | 1,559 | 1,779 | 2,866 | 3,679 | 6,722 | 7,118 | 6,956 | 5,149 | 7,534 | 8,828 |
| Aluminum, \$/ton | 1,444 | 1,350 | 1,431 | 1,715 | 1,898 | 2,570 | 2,638 | 2,573 | 1,665 | 2,173 | 2,401 |
| Nickel, \$/ton | 5,945 | 6,772 | 9,629 | 13,823 | 14,744 | 24,254 | 37,230 | 21,111 | 14,655 | 21,809 | 22,910 |

Source: estimates are based on data published by the London Metal Exchange (London, UK) and the World Bank.

The earthquake in Japan caused a fall in metal prices. The biggest price-losers were pewter, nickel and copper. The prices of aluminum, lead and zinc were less affected by the disaster. And as early as late March the prices of all metals began to rise once again.

It should be noted that the non-ferrous metals market is heavily influenced by the situation in the foreign exchange market. From late March through early May 2011, the euro was strengthening against the US dollar, which became one of the crucial factors behind the rise in non-ferrous metals prices that was taking place during that period.

However, on having reached their peak values in April 2011, the prices of non-ferrous metals began to descend in May. Thus, in April, the price of nickel at the London Metal Exchange climbed to its post-crisis high of about \$ 28,000 per ton, and then started to decline. The main factor behind the downward trend in non-ferrous metals prices observed during that period was the contraction of demand for those metals on the part of their biggest consumers –

¹http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1111002388669/829392-1325803576657/Pnk_0112.pdf

² *Ibid.*

³ http://www.lme.com/dataprices_historical.asp

Europe, hard hit by its budgetary and debt problems, and China, whose GDP growth rate had significantly shrunk by then.

The downward trend in non-ferrous metals prices lasted until the end of 2011. As a result, in December 2011, the price of aluminum hit its lowest level since July 2010. The price of copper shrank by 20.8% since the beginning of 2011, while the price of nickel dwindled by 28.8%, to its lowest level since December 2009. However, in 2011 the prices of aluminum, copper and nickel were by 10.5%, 17.2% and 5.0% respectively higher than in 2010.

After having reached their record highs in February 2011, the prices of food commodities and agricultural raw materials in the world market persistently declined over the remaining course of that year. In February 2011, the FAO Food Price Index, which reflects the monthly change in international prices of the basket of food commodities, including cereals, vegetable oils, dairy products, meat and sugar, averaged 237.9¹ - its highest level since 1990 when the FAO first introduced its food price index.

The second half-year of 2011 saw a drop in food commodities prices. In December 2011, the FAO Food Price Index averaged 211 points, which represented a 27-point drop on its record-high value registered in February 2011. That drop was determined by the sharp reduction in world prices for cereals, sugar and oils resulting from the good harvests in 2011, by the dwindling demand for those products, and by the strengthening of the US dollar.

However, despite the afore-said drop in prices in the second half-year of 2011, the global FAO Food Price Index averaged 228 points in 2011, which represents its highest level since the beginning of price monitoring. The previous record high was achieved by the FAO Food Price Index in 2008, when it averaged 200 points (*Table 50*)

Table 50

Changes in the Average World Prices of Some Agricultural Goods

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|-------|-------|-------|-------|---------|---------|
| Wheat, USD / t | | | | | | |
| Canadian, CWRS | 216.8 | 300.4 | 454.6 | 300.5 | 312.4 | 439.64 |
| US, HRW | 192.0 | 255.2 | 326.0 | 224.1 | 223.6 | 316.26 |
| US, SRW | 159.0 | 238.6 | 271.5 | 186.0 | 229.7 | 285.9 |
| Corn, US, USD / t | 122.9 | 163.0 | 223.1 | 165.5 | 185.9 | 291.7 |
| Barley, USD / t | 117.0 | 172.0 | 200.5 | 128.3 | 158.4 | 207.2 |
| Soya beans, USD / kg | 268.4 | 384.0 | 523.0 | 437.0 | 450.0 | 540.9 |
| Soya oil, USD / t | 598.6 | 881.0 | 1,258 | 849.0 | 1,005.0 | 1,299.3 |
| Rice, Thailand, USD / t | 304.9 | 326.4 | 650.1 | 555.0 | 488.9 | 543.0 |
| Raw sugar in USA, import price, price c.i.f. New-York quotation, US cents / kg | 48.76 | 45.77 | 46.86 | 54.88 | 79.25 | 83.92 |

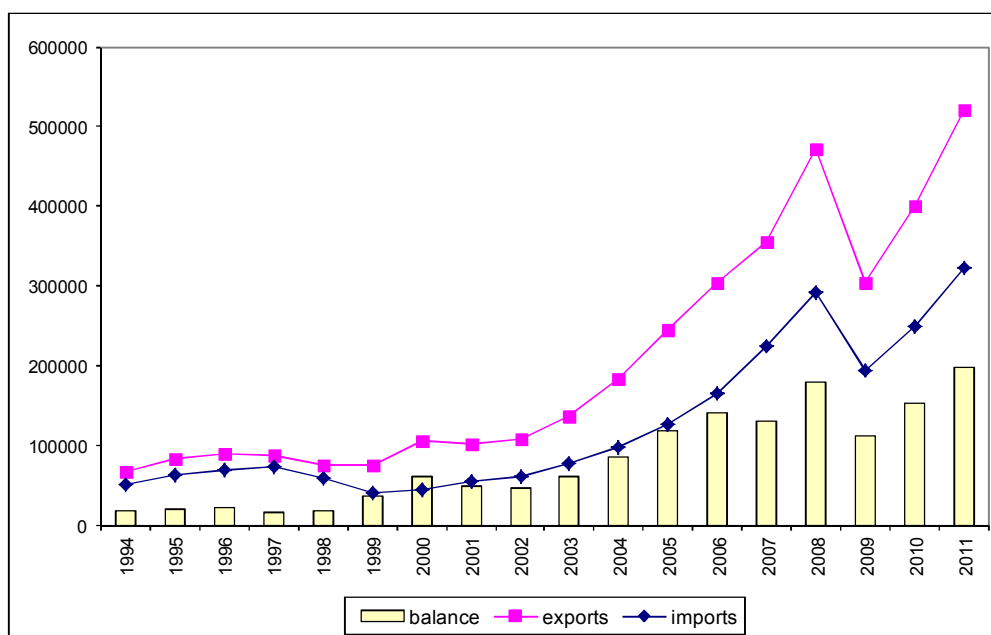
Source: World Bank.

Major Indicators of Russia's Foreign Trade

In 2011, Russia's foreign trade turnover, calculated in accordance with the balance of payments methodology, amounted to \$ 845.2bn, representing a 30.3% increase on 2010, and a 10.7% increase on 2008. Thus, Russia's foreign trade turnover hit its record high since the beginning of its monitoring.

The export quota (the ratio of the value of exports to that of GDP) amounted to 28%.

¹ <http://www.fao.org/news/story/ru/item/119849/icode/>



Source: RF Central Bank.

Fig. 69. Major Indicators of Russia's Foreign Trade (million US dollars)

Throughout 2011, Russian foreign trade volumes continued to recover to their pre-crisis highs registered in July 2008; the recovery process had, in fact, actually started in 2010 (Fig. 69). In the first half-year of 2011, the growth rate of imports considerably exceeded that of exports. In July 2011, as a result of the low base effect having worn out in the first half-year of 2010, the accelerated growth trend in imports finally came to an end. In January 2011, exports grew by 12.1% in annual terms, while imports rose by 43.4%. In June 2011, these indicators amounted to 38.6% and 40.1% respectively, in July – to 35.7% and 30.6% respectively, and in November – to 34.4% and 22.7% respectively.

In the main, the rise in the value of exports was taking place in response to the price situation in world markets remaining favorable for Russian exporters throughout 2011 against the background of a reduction in the physical volume of exports. The rise in imports was taking place in response to an increase in both the physical volume and the price of imports (Table 51).

Table 51

**Russia's Foreign Trade Indices
(As % of Same Periods of 2010)**

| | Q1 2011 | | 1 st half-year 2011 | | January-September 2011 | | 2011 | |
|---------|-----------------|----------------|--------------------------------|----------------|------------------------|----------------|-----------------|----------------|
| | physical volume | average prices | physical volume | average prices | physical volume | average prices | physical volume | average prices |
| Exports | 97.2 | 119.9 | 99.5 | 127.2 | 97.9 | 131 | 97.8 | 132.9 |
| Imports | 135.4 | 106.2 | 130 | 109.8 | 125.5 | 109.8 | 122.2 | 109.1 |

Source: RF Ministry of Economic Development.

Russia's balance of trade remained positive. Its surplus amounted to \$ 198.8bn, representing a 31.1% rise on 2010 and a 10.6% rise on 2008.

In 2011, the imbalance coefficient of foreign trade (the ratio of the trade balance to the trade turnover) amounted to 0.235, thus remaining practically at the same level as in 2010 (0.234).

The Structure and Dynamics of Exports

In 2011, Russian exports rose to \$ 521.97bn, which represented a 30.4% increase on 2010 and a 10.7% increase on 2008. In the main, that rise in exports was due to the ongoing increase in contract prices concurrent with a reduction in the physical volume of exports. The average export price index amounted to 132.9%, while its physical volume index – to 97.8% (Table 52).

Table 52

The Dynamics of Russian Exports

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| Exports, bn USD dollars | 105.0 | 101.9 | 107.2 | 135.4 | 183.2 | 245.3 | 303.9 | 355.2 | 471.6 | 303.4 | 400.0 | 521.97 |
| Including: | | | | | | | | | | | | |
| To far abroad | 90.8 | 86.6 | 91.0 | 113.9 | 152.9 | 211.6 | 260.6 | 301.5 | 400.5 | 255.3 | 337.7 | 438.3 |
| Growth rate as percentage of previous year | | | | | | | | | | | | |
| Physical volume index | 110.2 | 104.2 | 115.0 | 109.5 | 110.7 | 104.7 | 105.8 | 105.0 | 96.8 | 97.0 | 110.0 | 97.8 |
| Price index | 128.2 | 93.8 | 86.0 | 113.4 | 122.7 | 126.9 | 119.7 | 110.9 | 137.4 | 76.4 | 119.8 | 132.9 |

Source: RF Central Bank, RF Ministry of Economic Development.

Fuel and energy products remained the most important item in Russian exports. In 2011, their share increased to 71.2% vs. 69% in 2010. The value of exported fuel and energy products increased by 32.49% in response to the favorable foreign trade situation in the world energy resources market.

As before, the principal item of Russian exports was oil, whose share in the net volume of Russian exports in 2011 amounted to 34.9% (vs. 33.9% in 2010). According to the RF Federal Customs Service, in 2011 Russia exported 219.1m tons of crude oil worth \$ 171.7bn, which means that the physical volume of oil exports declined by 6.3% on 2010, while their value rose by 33.1%. The share of oil exports in the volume of oil extraction dropped to 47.7% in 2011 from 49.1% in 2010. Russia remained the world's biggest oil producer: in November 2011 it produced 9,867 thousand barrels per day, while the daily oil production of all OPEC members taken together amounted to 30,367 thousand barrels (including Iraq's 2,681 thousand barrels and Saudi Arabia's 9,597 thousand barrels).

Despite a considerable growth in the physical volume of petroleum product exports to CIS countries (by 83.8%), Russia's net volume of petroleum product exports dwindled by 4.9% due to a 5.2% drop in petroleum product exports to far abroad countries (which accounted for 96.1% of Russian petroleum product exports). Owing to the rise in contract prices, the value of petroleum product exports grew by 31.5%.

In 2011, as a result of the European Union's growing demand for Russian natural gas which was taking place against the background of a decline in the energy production of nuclear power plants, Russian natural gas exports increased by 5.9% on 2010, while their value shot up by 34.3%.

Metal and metal products remained the second most important item in Russian exports. In 2011, their share in the net value of exports amounted to 9.1%, which represented a 1.5 percentage-point drop on 2010. The value of metal and metal products exports rose by 9.9% on 2010, while their physical volume shrank by 9.7%.

The year 2011 saw a considerable reduction in Russia's participation in the international nickel and refined copper market, caused by a number of factors, including an increase in the stocks of these metals traded on stock exchanges, and a reduction in China's and Japan's demand for refined copper. To a certain extent, the drop in copper and nickel exports was caused by the re-introduction, from early 2011, of the 10-percent exports duty on these metals. The physical volume of copper exports declined by 60.1%, while that of nickel exports – by 18.7%. On the other hand, the physical volume of aluminum exports rose by 2.4%.

The year 2011 also witnessed a rise increase in the average contract prices for most types of exported chemical products. Thus, there were price increases for ammonia (by 45.3%), methanol (by 22%), mineral nitric fertilizers (by 28.4%), and synthetic rubber (by 33.6%). As a result, the rise in the value of exports belonging to this category of goods amounted to 27.6%. In 2011, the share of chemical product exports in Russia's total exports remained at its 2010 level of 6%.

The share of machinery and equipment exports dropped from 5.2% in 2010 to 4.4% in 2011. This exports category yielded \$ 21.1bn, which represented a 7.8% rise on 2010.

In 2011, the physical volume of passenger car exports rose by 49.2% on the previous year. This rise was accounted for solely by a 65.9% increase in the number of cars exported to CIS countries. Russia's passenger car exports to far-abroad countries fell by 19%.

A considerable share in exports belonging to the *machinery and equipment* category of goods was accounted for by military-purpose products. According to OJSC *Rosoboronexport*¹, in 2011 Russia's military-purpose exports amounted to over \$ 10.7bn (vs. \$ 8.7bn in 2010). *Rosoboronexport's* leading export item was Air Force arms and equipment (51%), followed by Ground Forces arms and equipment (21%), Navy arms and equipment (11%), Air-Defense arms and equipment (11%), and arms and equipment designated for other categories of armed forces (4%). In 2011, OJSC *Rosoboronexport* maintained its military-technical cooperation with 57 countries. During that period, the main importers of Russian arms and military equipment were India and Venezuela.

The rise in the average contract prices for most products belonging to the *timber, wood-pulp and paper products* category of goods caused a 12.6% increase in the value of those exports. Thus, the price of veneer rose by 25%, the price of newsprint – by 21.5% and that of wood pulp – by 8.8%. The share of exports belonging to that category of goods in Russia's total exports dropped from 2.5% in 2010 to 2.2% in 2011. The physical volumes of saw timber exports, pulp wood exports and veneer exports increased by 12.3%, 8.2% and 1.9% respectively, while the physical volume of newsprint exports dwindled by 6.1%, and that of unprocessed timber exports – by 1.5%.

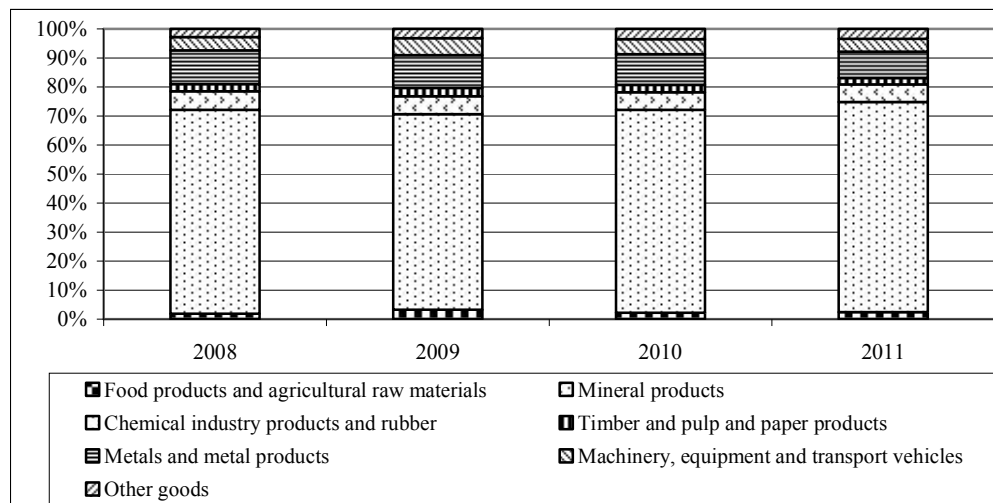
After having dropped by 10.2% in 2010 due to the introduction of a grain export embargo, Russia's export of food products and their raw materials began to gradually recover over the course of 2011. The embargo had been in effect from 15 August 2010 through 1 July 2011. On having lifted the embargo in July 2011, Russia managed to reclaim its position as one the world's biggest grain exporters. According to the Russian Federal Statistics Service (*Rosstat*), in 2011 Russia harvested 93.9 million tons of grain, which represented a 28.1% rise on the previous year.

¹ http://www.roe.ru/news/pr_rel/pr_rel_rus/pr_rus_12_02_03.html

Russia's 2011 sugar beet harvest was 2.1 times larger than that of 2010. As a result, her beet sugar output increased, over the course of 2011, to 4.7 million tons, which represented a 69.9% rise on 2010. The surge in beet sugar production and the resulting drop in domestic sugar prices made it possible for Russia to substantially increase the physical volume of sugar exports. According to the Russian Sugar Producers Association (*Soyuzrossakhar*), over the course of 2011, Russia exported more than 240,000 tons of sugar, which represented its all-time high. Traditionally, a large part of Russian sugar exports went to the CIS countries, primarily Kazakhstan. In 2011, the geographic spread of Russian sugar exports was extended to Syria, the United Kingdom and Montenegro. Small amounts of powdery sugar, pressed refined sugar and small-packaged sugar were exported to Belize, China, Norway, Japan, Mexico, Panama, the USA, and a number of other countries.

In 2011, Russia's export of food commodities and their raw materials surged by 40% on the previous year. The share of these exports in her total exports rose to 2.4% from 2.2% in 2010.

Thus, the year 2011 saw no changes in the commodity structure of Russian exports. The improvement of its quantitative indicators was almost exclusively brought about by the ongoing increase in the prices of raw materials, primarily oil – a clear indication that the Russian export commodity pattern remained heavily dependent on the situation in the world raw materials market (*Fig. 70*).



Source: RF Federal Customs Service.

Fig. 70. The Commodity Structure of Russian Exports (%)

Structure and Dynamics of Imports

In the first half-year of 2011, the value of Russia's imports rapidly grew in response to a notable rise in external demand caused by the intensified credit activity of the population and the strengthening of the ruble. In the second half of 2011, the rate of import value growth reduced. Nevertheless, over the course of 2011 the value of imports rose by 10.7% from its pre-crisis level registered in 2008. As compared with 2010, the value of imports grew by 29.9% to \$ 323.2bn. The latter increase in imports value was caused both by the growth of their physical

volume, whose index shot up to 122.2%, and the import price index's rise to 109.1% (Table 53).

Table 53

Russia's Imports (billion US dollars)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|-------|-------|
| Imports, bn USD | 44.9 | 53.8 | 60.5 | 76.1 | 97.4 | 125.3 | 163.9 | 223.1 | 291.97 | 191.8 | 248.4 | 323.2 |
| Including: | | | | | | | | | | | | |
| From far-abroad countries | 31.4 | 40.3 | 48.2 | 60.1 | 76.4 | 103.5 | 138.6 | 191.2 | 253.1 | 167.7 | 213.3 | 275.5 |
| Growth rates, as percentage of previous year | | | | | | | | | | | | |
| Physical volume index | 129.2 | 129.1 | 117.6 | 119.2 | 124.2 | 122.4 | 130.1 | 127.1 | 113.5 | 63.3 | 135.4 | 122.2 |
| Price index | 86.7 | 94.3 | 93.4 | 98.7 | 106.1 | 106.5 | 105.5 | 107.6 | 117.8 | 99.1 | 101.6 | 109.1 |

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

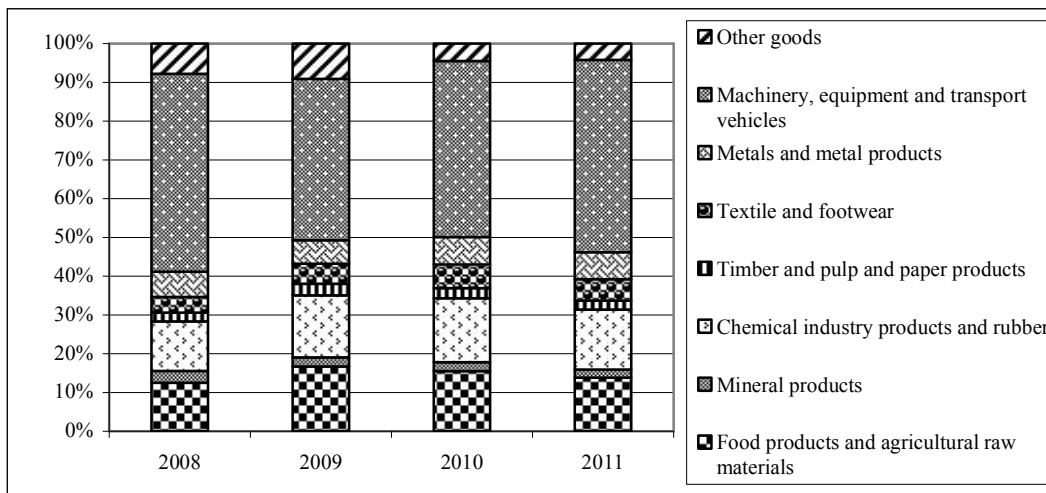
As before, the main commodity group imported by the Russian Federation was *machinery, equipment and transport vehicles*, whose share in Russia's total imports increased from 45.4% in 2010 to 49.6% in 2011 (Fig. 71). This commodity group was the biggest contributor to the rise in the value of Russian imports: in 2011, the value of machinery imports grew by 43% on 2010. The physical volume of passenger car imports surged by 43.3%, while that of trucks – by 85.7%.

The share of Russia's imports of food commodities and their raw materials in her total imports declined from 15.5% in 2010 to 13.8% in 2011. As compared with 2010, the value of food commodity imports grew by 16.3%. At the same time, it should be noted that the rise in their value was predominantly caused by the across-the-board price increase with regard to practically all food commodities. Thus, the price of meat rose by 11.1%, the price of poultry meat – by 6.5%, the price of butter – by 29.5%, the price of coffee – by 41.5%, the price of sunflower oil – by 29.2% and the price of white refined sugar – by 20.6%. The big harvests of wheat, sugar beet and sunflower made it possible for Russia to reduce sunflower oil imports and white refined sugar imports by 19.2% and 42.9% respectively, and to reduce her 2011 wheat imports almost to zero.

In 2011, the share of chemical products in Russia's total imports amounted to 15.5% (vs. 16.5% in 2010). As compared with 2010, the value of chemical product imports rose by 22.8%.

The share of textile articles and footwear in Russia's total imports amounted to 5.5% (vs. 6.1% in 2010). Clothes and footwear were predominantly imported from far-abroad countries, and only 6.2% of clothes imports and 1.2% of footwear imports came from CIS countries.

In 2011, the share of metals and metal articles in Russia's total imports amounted 7% (vs. 7.1% in 2010). The value of imports belonging to this commodity group rose by 28.4% on 2010 in response to a 23.1% increase in the value these imports. The physical volume of Russia's imports of ferrous metals and ferrous metal articles grew by 16.2%, including imports of rolled steel and ordinary carbon steel by 14.6%.



Source: RF Federal Customs Service.

Fig. 71. The Commodity Structure of Russian Imports (%)

The growth rates of major imports substantially exceed the growth rates of domestic output of the corresponding products, driving up their share in Russia's domestic market (Table 54). According to the Bank of Russia, in 2010 the share of imports in retail trade commodity resources rose on 2009 by 3.0 percentage points – to 44%. In the first half-year of 2011, their share dropped to 42%, while the share of non-food imports amounted to 50.5%, having remained at the same level as in the corresponding period of 2010. The share of food commodity imports decreased by 1 percentage point to 34%. At the same time, according to the Russian Federal Statistics Service (*Rosstat*), the share of meat and poultry imports in retail trade commodity resources rose from 29.7% in 2010 to 30.4% in 2011, the share of butter imports rose from 29.8% to 32.6%, and the share of vegetable oil increased from 20.7% to 26.2%.

Table 54

Changes in the Output of Some Russian Industries and the Behavior of the Corresponding Imports (as a Percentage of the Corresponding Period of the Previous Year)

| | 2010 | | | | | 2011 | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Q1 | Q2 | Q3 | Q4 | year | Q1 | Q2 | Q3 | Q4 | year |
| Output of food products, including beverages & tobacco | 103.8 | 106.4 | 105.4 | 105.9 | 105.4 | 101.7 | 100.5 | 99.3 | 102.5 | 101.0 |
| Imports of food commodities & agricultural raw materials (excluding textile ones) | 124.0 | 125.2 | 118.1 | 118.4 | 121.5 | 131.4 | 183.2 | 123.8 | 119.5 | 116.3 |
| T textile & apparel output | 110.2 | 115.6 | 111.4 | 111.3 | 112.1 | 107.7 | 102.8 | 103.1 | 97.1 | 102.6 |
| Leather, leather articles & footwear output | 126.3 | 120.0 | 111.4 | 118.4 | 118.7 | 112.8 | 107.8 | 109.3 | 104.0 | 108.6 |
| Imports of textile, textile articles & footwear | 114.7 | 138.1 | 151.3 | 150.3 | 149 | 141.4 | 215.7 | 119.9 | 117.4 | 117.2 |
| Timber processing & wood articles production | 111.1 | 112.6 | 111.4 | 110.5 | 111.4 | 106.9 | 106.2 | 103.8 | 99.0 | 104.0 |

| | | | | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Pulp & paper production; publishing & graphic arts activities | 106.7 | 111.7 | 106.7 | 97.8 | 105.9 | 99.5 | 100.5 | 100.4 | 107.0 | 101.8 |
| Imports of timber & pulp-and-paper articles | 119.0 | 120.8 | 115.6 | 114.8 | 115.6 | 128.0 | 199.2 | 122.8 | 115.1 | 113.8 |
| Chemical industry output | 123.8 | 115.7 | 112.5 | 108.1 | 114.6 | 108.0 | 105.8 | 105.9 | 101.0 | 105.2 |
| Imports of chemical products & rubber | 137.2 | 136.0 | 139.9 | 134.2 | 133.6 | 129.8 | 204.1 | 123.7 | 123.7 | 122.8 |
| Metallurgical and metal product output | 118.8 | 119.6 | 107.3 | 104.8 | 112.4 | 109.1 | 96.5 | 102.4 | 102.8 | 102.9 |
| Imports of metals & metal products | 138.4 | 152.6 | 157.1 | 153.4 | 155.1 | 143.8 | 222.4 | 133.9 | 130.5 | 128.4 |
| Machinery & equipment output | 109.1 | 130.5 | 101.4 | 110.5 | 112.2 | 111.6 | 113.2 | 112.5 | 103.8 | 109.5 |
| Imports of machinery, equipment & transport vehicles | 109.5 | 127.8 | 137.3 | 139.2 | 140.1 | 160.6 | 264.0 | 151.8 | 146.6 | 143.3 |

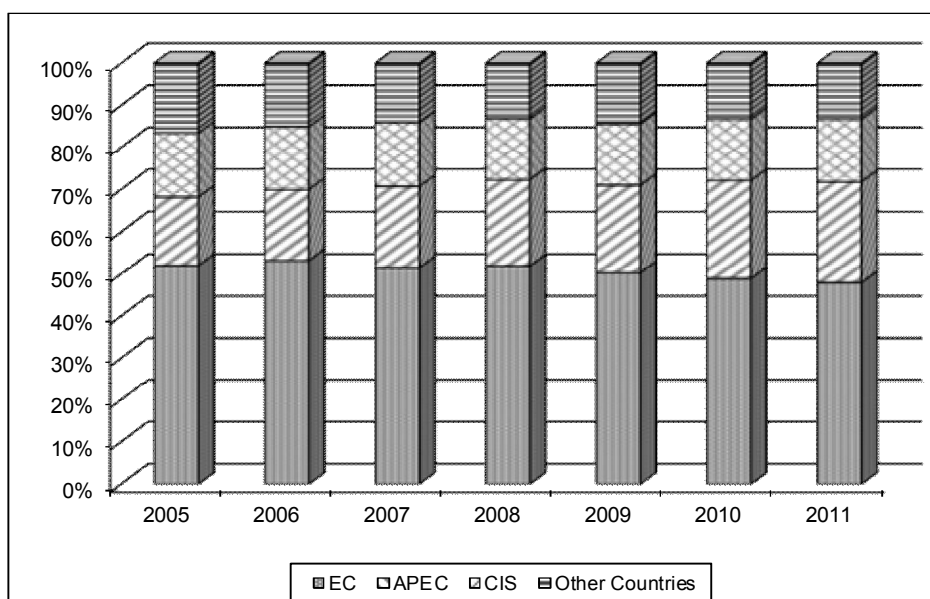
Source: RF Ministry of Economic Development, RF Federal Customs Service.

The Geographical Profile of Russia's Foreign Trade

In 2011, the European Union continued to be the main trading partner of the Russian Federation. Its share in Russia's foreign-trade turnover amounted to 48%, which represented a 1 p.p. drop on 2010 (*Fig. 72*). The leader in European trade with Russia was Germany, whose share in Russia's foreign trade turnover increased from 8.4% in 2010 to 8.7% in 2011. The Netherlands, whose share dropped by 1 p.p. to 8.3%, ranked second. By the volume of trade with Russia, Italy remained in third place, while her share in Russia's foreign-trade turnover increased to 5.6%, which represented a 0.4 p.p. rise on 2010. On the whole, over the course of 2011, the EU countries increased their volume of trade with Russia by 28.3% on 2010. Russia's exports to the EU rose by 26%, while her imports from the European Union grew by 33.5%.

The share of OPEC (the Asia-Pacific Economic Cooperation Forum) member countries in Russia's foreign trade turnover climbed from 23.2% to 23.9%. Over the course of 2011, Russian exports to OPEC countries surged by 38.3% on 2010, while Russia's imports from them jumped by 32.7%. Russia's biggest trading partner belonging to the APEC was China, whose share in Russian foreign trade turnover increased by 0.7 p.p. to 10.2%. As before, second place in this group of countries went to the USA, whose share in Russian aggregate foreign trade turnover rose from 3.7% in 2010 to 3.8% in 2011. Over the course of 2011, Japan's share declined by 0.1 p.p. to 3.6%.

The share of CIS countries in Russian foreign trade turnover climbed from 14.6% in 2010 to 14.9% in 2011. Russia's top trading partners in the CIS were Ukraine and Belarus, whose shares in Russian foreign trade turnover amounted, in 2011, to 6.2% and 4.7% respectively. On the whole, Russia's foreign trade turnover with the CIS rose by 34.2% on 2010, with imports having increased by 39%.6%, and exports – by 31.3%.



Source: RF Federal Customs Service.

Fig. 72. The Geographical Pattern of Russia's Foreign Trade Turnover

The balance of Russia's foreign trade with all groups of countries (excepting the APEC) was positive. In 2011, Russia registered a trade deficit with 24 countries, whose share in Russian aggregate trade turnover amounted to 51% (in 2010, Russia ran a trade deficit with 22 countries, whose share amounted to 45%). The biggest contributors to Russia's trade deficit were China (-\$ 13.0bn), Germany (-\$ 3.5bn), Brazil 9-2.3bn), Canada (-\$1.2bn) and Malaysia (-\$ 1.1bn).

Regulation of Russia's Foreign Trade

In 2011, the main legal documents regulating Russia's external economic activities were the RF Customs Code that came into force on 1 July 2010, and RF Federal Law of 27 November 2010, No. 311-FZ 'On Customs Regulation in the Russian Federation'.

The RF Customs Code envisages that:

- the period for customs clearance and the release of goods should be reduced from three days to one day;
- the number of required documents for export of non-primary goods should be reduced from 25 to 7;
- the amount of security payment should be reduced for a customs representative from Rb 50m to Rb 40m, or by 20%, and for a customs carrier – from Rb 20m to Rb 8m, or by 60%;
- the deadline for payment of customs duties should be extended from 15 days to 4 months.

The Federal Law 'On Customs Regulation in the Russian Federation' also contains a number of provisions simplifying the conduct of export-import transactions. Thus, the newly introduced Law:

-
- establishes the list of documents that external economic activity participants may be required to submit to customs authorities (previously such lists were to be established by departmental acts issued by the RF Federal Customs Service);
 - reduces the number of documents for the release of non-primary goods from 14 to 7, and reduces the deadline for the release of goods from 20 to 4 hours;
 - simplifies the procedure for importing and exporting scientific and commercial samples;
 - establishes special procedure simplifications for the authorized economic operator;
 - legislatively establishes the list of grounds for extending the deadline for the release of goods from 1 to 10 days.

The recent changes to Russian customs legislation feature prominently in *Doing Business 2012: Doing Business in a More Transparent World*¹, a joint report issued by the International Financial Corporation and the World Bank. The report assesses regulations that affect domestic firms in 183 economies, and ranks the economies in 10 areas of business regulation, including international trade.

The report notes that, over the past six years, 163 economies have made their regulatory environment more business-friendly. The Russian Federation is among the 30 economies that have improved the most over time.

In 2011, the Russian Federation improved its ranking in the *Trading Across Borders* indicator, coming in at 160th in 2011 (in 2010, Russia ranked 166th). This means that, although Russia's rating has slightly improved, Russian customs regulation continues to be unjustifiably restrictive both for exports and imports. Unfounded administrative pressure, non-transparent and cumbersome customs control, red tape and corruption are still making life difficult for external economic activity participants.

It takes at least 3 weeks for a cargo to be processed at the border in accordance with Russian legislative requirements (including the time spent whilst preparing all the necessary documents), while in the majority of countries this process takes three days at most. In Russia, the time frame for customs processing of cargo at a border crossing point is legislatively set at 2 days, while in many countries this procedure usually takes only a few hours or even minutes. Thus, Russia's current approach to customs process organization is clearly counterproductive to the aims of innovation-driven development.

Doing Business 2012 emphasizes that international trade facilitation is becoming an ever more important factor of business development. The rules prescribing the submission of an excessive number of documents, burdensome customs procedures and red tape inevitably result in some additional costs and delays for exporters and importers alike, to the ultimate detriment of an economy's trade potential.

In 2011, in accordance with Article 3 of the RF Law 'On the Customs Tariff', the RF Government adopted 12 decrees establishing the rates of export customs duties on oil and petroleum products. The export customs duty on crude oil and petroleum products obtained from bituminous minerals exported from the territory of the Russian Federation beyond the borders of the member states of the agreements on the Customs Union was changed monthly on the basis of price monitoring for Urals crude from the 15th day of one calendar month to the 14th of the next month.

¹<http://www.doingbusiness.org/~media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf>

In response to the serious fuel shortages having erupted in a number of Russia's regions, RF Government Decree of 28 April 2011, No. 238 'On the Introduction of Alterations to Decree of the Government of the Russian Federation of 27 December 2010 No. 1155' adjusted the procedure for calculating the rates of export customs duties on commercial petrol. Previously, they were determined on the basis of the rate of the export customs duty on crude oil and the coefficient 0.67. The Decree of 28 April 2011 put an end to this practice. From 1 May 2011, the rate of the export customs duty on commercial petrol was increased from \$ 283.9 per ton to \$ 408.3 per ton.

Between 1 February 2011 and 1 October 2011, the rates of export customs duties on dark and light petroleum products were calculated in compliance with the methodology approved by RF Government Decree of 27 December 2010, No. 1155. In accordance with that document, export customs duties on dark petroleum products and light petroleum products were to be set at 46.7% and 67% respectively of the export customs duty on crude oil.

From 1 October 2011, Russia introduced a new procedure for calculating the rates of export duties on oil and petroleum products (*Table 55*) – the so-called '60-66' oil regime. The new regime envisages that the rate of the export customs duty on crude oil should be set at 60% of the difference between the average crude oil price revealed by monitoring and a crude oil price of \$ 182.5 per ton, and not at 65%. At the same time, the rates of export customs duties on light and dark petroleum products should be equalized: in accordance with RF Government Decree of 27 December 2010, No. 1155 'On the Introduction of Alterations to Decree of the Government of the Russian Federation of 27 December 2010 No. 1155', during the period from 1 October through 31 December 2014, the rate of the export customs duty on any petroleum product except petrols should amount to 66% of the rate of export customs duty on crude oil. The new regime has introduced a prohibitive export duty on petrol in the amount of 90% of the export duty on crude oil. Thus, petrol exports become unprofitable, while fuel oil exports – less profitable. It is planned that, from 1 January onwards, the coefficient for dark petroleum products will be increased to 1.

RF Government Decree No. 840, of 17 October 2011, has introduced a new procedure for calculating the rate of the export customs duty on refined copper: the flat 10% export duty rate has been replaced by a progressive one. In accordance with the Decree, the rate of the export customs duty on refined copper should be determined on the basis of the average price of copper registered at the London Metal Exchange (LME) over a monitoring period. It should be calculated by different formulae depending on the average price. When the average price for a ton of copper is below \$ 6,000, the rate should be zero. When the average price is \$ 6,000 to 8,000, the rate should be calculated as follows: \$ 800 + 30% of the difference between the current price and \$ 8000.

Table 55

**The Rates of Export Customs Duties on Crude Oil
and Petroleum Products in 2011 (USD/ton)**

| | Crude Oil | Petroleum Products | |
|------------|-----------|--------------------|-------|
| | | light | dark |
| 1 January | 317.5 | 226.2 | 121.9 |
| 1 February | 346.6 | 232.2 | 161.8 |
| 1 March | 365.0 | 244.6 | 170.4 |
| 1 April | 423.7 | 283.9 | 197.9 |
| 1 May | 453.7 | 304.0 | 211.8 |
| 1 June | 462.1 | 309.0 | 215.8 |

| | | | |
|-------------|-------|-------|-------|
| 1 July | 445.1 | 298.2 | 207.8 |
| 1 August | 438.2 | 293.6 | 204.6 |
| 1 September | 444.1 | 297.5 | 192.0 |
| 1 October | 411.4 | | 271.5 |
| 1 November | 393.0 | | 259.3 |
| 1 December | 406.6 | | 268.3 |

Source: RF Government's decrees.

The monitoring of prices should be carried out by the RF Ministry of Economic Development. The length of the period of monitoring is equal to 1 quarter (3 months). No later than on the 20th day of the calendar month following the end of each period of monitoring, the RF Ministry of Economic Development should submit its proposals concerning the rate to the RF Government. The rate of the export customs duty on copper should come into effect from the fifth day of the third calendar month following the end of a monitoring period.

The progressive export customs rate on nickel set at \$ 2,178 per ton has come into effect from 5 December 2011. The relevant decree of the RF Government (Decree No. 875) was signed on 1 November 2011. The previous export customs duty rate for nickel was set at 10% of the declared customs value.

The new method for calculating the export customs rate on nickel based on the quarterly monitoring of nickel prices on the London Metal Exchange (LME) came into effect on 28 May 2011. The cut-off price for determining the rate of export duty on nickel is \$ 12,000 per ton. When this price is exceeded, calculation should be based on special formulae with coefficients ranging from 0.05 to 0.3. The length of the period of monitoring is equal to one calendar quarter (3 months).

The new export customs duties were to be introduced in mid-November of last year, but then their introduction was postponed until the fifth day of the third calendar month following the end of the accounting period.

Over the course of 2011, the Customs Union Commission adopted 25 decisions on the adjustment of import customs duties. Thus, the Commission reduced the rates of import duties on coking coal, heparin and its salts, some types of paper and cardboard, high resolution digital cinema projector systems, and ski-track-laying caterpillar tractors. Zero rates were temporarily introduced for import duties on some types of milled cereal products, some types of cereals (wheat and meslin, rye, barley, seed corn and oats), some types of vegetables (carrots, beets, onion), soy shrot, milled phosphates, some types of juice and mash concentrates for juice manufacturing, some kinds of apple puree, including compotes, and some kinds of concentrated apple juice.

There was an increase in the rates of Customs Union import duties on continuous-action elevators and conveyors, molded fabrics, drill machines for coal or rock mining to the depths of not less than 200 meters, and some types of agricultural machinery.

On having acceded to the World Trade Organization, the Russian Federation will not be able to efficiently protect its domestic market by merely increasing the rates of import duties, because Russia's import tariff is pegged to the level fixed in the process of the accession negotiations. The only efficient instrument for protecting the domestic market of a country acceded to the WTO is the special protective, anti-dumping and compensatory measures permitted thereby.

The list of the special protective and anti-dumping measures introduced in the customs territory of the Customs Union is posted on the official web site of the Customs Union Commission¹.

By the Commission's decisions, the following anti-dumping duties are established:

- until 13 May 2012 – in the amount of 21.8% of the customs value of Ukraine-made machine-building fasteners imported into the CU countries. These include bolts and nuts manufactured by the methods listed in the Commission's decision, with specified thread diameters;
- until 20 January 2013 – in the amount of 31.3% and 41.5% of the customs value of goods (specified depending on their manufacturers) on China-made ball bearings imported into the CU countries;
- until 16 June 2013 – in the amount of 19.4% of the customs value of China-made bearing tubes imported into the CU;
- until 24 September 2013 – in the amount of 11.6% of the customs value of Ukraine-made synthetic nylon threads with linear density of 29 to 250 tex imported into the CU;
- until 25 December 2013 on nickel-containing corrosion-resistant rolled steel (in sheets and coils) made in Brazil, China, Korea, and South Africa. The size of duty depends on a product's country of origin and may amount to 4.8–62.8% of its customs value;
- until 26 June 2014 – in the amount of 26% of the customs value of Ukraine-made forged steel rolls for rolling mills, imported into CU territory;
- until 18 November 2015 – on some types of Ukraine-made steel pipes imported into the CU. The size of duty depends on the pipe type and its manufacturer, and may amount to 18.9 – 37.8% of its customs value;

By the Commission's decisions, the following special duties are established:

- until 1 November 2012 – in the amount of 9.9% of the customs value (but no less than \$ 1500 per ton) on corrosion-resistant steel pipes with outer diameter of up to 426 mm imported into the CU. That duty is not to be levied on corrosion-resistant steel pipes originating from developing countries, except Brazil and China;
- until 26 December 2012 – in the amounts of \$ 1.4 per kg on corrosion-resistant steel cutlery imported into the CU, which are to be coded in accordance with the Commission's decision;
- until 17 March 2014 – in the amounts of \$ 282.4 per ton on some types of fasteners imported into the CU. This special duty is not to be levied on imported fasteners made in the developing countries applying the CU's Common System of Tariff Preferences. China is an exception;
- until 7 July 2014 – in the amounts of \$ 294.1 per ton on caramel imported into the CU.

The Russian Federation's accession to the World Trade Organization

On 16 December 2011, the Ministerial Conference held by the World Trade Organization (WTO) in Geneva approved the package of documents concerning the accession of the Russian Federation. The Russian Federation will be obliged to ratify that package within the period prior to 15 June 2012. Thirty days after the WTO being notified of its ratification, the Russian Federation will become its fully-fledged member. As follows from the information posted to the WTO's official website², Russia has agreed to ensure a free trade regime and speed up its

¹ http://www.tsouz.ru/db/spec_measures/Pages/Меры,действующиенаТТТС.aspx

² http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm

integration in the world economy, as well as to create transparent and predictable conditions for trade and foreign investments. The Russian Federation has undertaken the following commitments.

Access to Commodity Markets. Access Commitments Relating to Tariffs and Quotas

The ultimate legislatively consolidated rate of bound tariffs on all types of products will amount to 7.8% against the average weighted rate of 10% applied in 2011.

The average bound tariff rates on agricultural commodities will be set at 10.8% against the current average weighted tariff rate of 13.2%.

The average bound tariff on industrial commodities will be set at 7.3% against the current average weighted tariff of 9.5%.

Russia has agreed to lower her tariffs on a broad range of products. After this commitment is fully implemented, the tariff rates will be as follows:

- on dairy products – 14.9% (against the current tariff rate of 19.8%);
- on grain products – 10.0% (against the current tariff rate of 15.1%);
- on vegetable oils, fats and butter – 7.1% (against the current tariff rate of 9.0%);
- on chemical products – 5.2% (against the current tariff rate of 6.5%);
- on automobiles – 12.0% (against the current tariff rate of 15.5%);
- on electric equipment – 6.2% (against the current tariff rate of 8.4%);
- on timber and pulp-and-paper products – 8.0% (against the current tariff rate of 13.4%);
- on sugar – \$ 223 per ton (against the current tariff rate of \$ 243 per ton).

The bound tariff rates on cotton and information & communications products will be reduced to zero (the current tariff rate on information & communications products is 5.4%).

The finally established bound rates of customs tariffs will be applied, from the date of Russia's accession to the WTO, to more than one-third of the existing tariff items; the tariffs on another one-quarter of items will be reduced three years after the accession. The longest transition period (with maintaining the current tariff rates) is established for poultry and game meats – 8 years, followed by 7-year period for motor cars, helicopters and civil aircraft.

Tariff quotas will be applied to beef, pork, poultry and game meats, and some whey milk products. Import duties on products within the limits of these quotas will be levied at lower rates than those levied on other imported goods.

The rates within the quotas are as follows (the corresponding rates outside the quotas are shown in brackets):

- beef – 15% (55%);
- pork – zero (65%). The tariff quotas on pork from 1 January 2020 will be replaced by a flat rate of 25%;
- on some poultry products – 25% (80%);
- on some whey milk products – 10% (15%).

Some of the aforesaid quotas are also subject to the norms established for certain members of the WTO.

Access to Services Markets

The Russian Federation assumed certain responsibilities with regard to 11 sectors and 116 subsectors in the services sphere.

Four years after Russia's accession to the WTO, the restriction on the participation of foreign capital in the sphere of telecommunications will be lifted (at present it is set at 49%). Besides, the Russian Federation agrees to implementing the terms and conditions stipulated in the WTO Basic Telecommunications Agreement. Nine years after the accession, foreign insurance companies will be allowed to establish their affiliations in this country.

Foreign banks will be allowed to open their affiliated structures. The restriction on foreign capital's participation in each individual banking entity will be lifted, but on the whole the share of foreign capital in the Russian Federation's banking system will be limited to 50%. (excluding foreign capital invested in potentially privatized banks).

In the sphere of transport services, the Russian Federation made certain commitments in regard of sea and road transport, including passenger and cargo carriage services.

In the distribution services sphere Russia, after her accession to the WTO, will allow companies with 100% foreign participation to operate in the wholesale, retail and franchising sectors.

Export duties

Export duties will be bound with regard to more than 700 tariff items, including some specific types of products in certain sectors, in particular fish and seafood products, fuel and lubricants, leather raw materials, timber and pulp-and-paper products, and base metals.

General Commitments Ensuring Access to Markets

Those quantitative restrictions with regard to commodity imports that cannot be justified under the existing WTO provisions, such as quotas, bans, import permissions, requirements that relevant permissions should be obtained prior to the start of supply, licensing requirements and/or other requirements or constraints imposed on commodity imports, are not to be renewed or are to be altogether abolished.

The fees for transit cargo shipments via railway transport from July 2013 onwards will be regulated by the WTO provisions. The Russian Federation will apply to product imports the same railway transport fees as those that are established with regard to domestic shipment of the same types of products. The regulated railway shipment tariffs are to be published prior to their actual introduction.

From the date of Russia's accession to the WTO, the importers of alcohol, pharmaceuticals and products manufactured with the use of cipher technologies will no longer be required to obtain import licenses with regard to these commodities.

After the accession to the WTO, the Russian Federation will apply the *Generalized System of Preferences* for the customs union of developing and underdeveloped countries which is currently applied by 152 states.

Within that system's framework, the import duties applied to those goods originating from developing countries that are subject to tariff preferences were at the level of 75% of the customs duties established for most favored nations, and 0% of the customs duties established for least developed countries.

In 2012, the Russian Federation will reform her national tariff regime for sugar imports, with its subsequent further liberalization.

By the date of Russia's accession to the WTO, any exemptions from the tariffs established for space products will be granted on the basis of most favored nation treatment.

No import licensing will be required for more than ten types of products based on cipher technologies (this list includes devices for developing electronic digital signatures, smart cards and wireless equipment). With regard to these types of products, all the currently existing restrictions on imports will be lifted, and no new constraints will be introduced, including expert's estimations, permissions and licenses. For those cipher-technology-based products that may be imported only on the basis of mandatory licenses, expert's estimations or permissions, these procedures will be applied on a one-time basis only.

Some products, including alcohol, timber products and meats, will become subject to measures that require customs declarations and/or entry through specially designated customs control points. As of the date of Russia's accession to the WTO, any measures that are contrary to the WTO Accession Agreement will have to be abolished. The Russian Federation will no longer apply the national customs procedures.

The Russian Federation is to apply all the relevant legislative, regulatory and other measures pertaining to the transit of commodities (including energy products) in accordance with GATT and WTO provisions. From the moment of her accession to the WTO, all the laws and regulatory norms applied to customs duties and other fees levied on transit of goods will have to be published.

The Russian Federation will revise the requirements in regard to access to markets that are applied to the affiliations of foreign banks and companies engaged in operations with securities, so as to make them acceptable in the context of the future negotiations on the Russian Federation's accession to the OECD or the next round of the WTO's multilateral trade negotiations.

When participating in preferential trade agreements, Russia will comply with the provisions stipulated in the WTO's Agreements, without making any distinctions between those agreements that will come into force after her accession to the WTO and those that will be adopted in the future.

Agreement on Government Procurement

The Russian Federation intends to join the WTO Agreement on Government Procurement, and so during her accession to the WTO will accordingly notify of that intention the WTO Committee on Government Procurement. After the signing of that Agreement, Russia will acquire the status of observer, and within four years from the moment of accession to the WTO she will start negotiations concerning her joining that Agreement. After the accession to the WTO, the Russian government bodies will determine the winners in government procurement tenders in a transparent procedure.

Subsidies to Industrial and Agricultural Producers

Subsidizing of industrial producers

The Russian Federation will discontinue all the programs for subsidizing industrial producers or will modify those programs so as no subsidies be granted to exported goods or with the purpose of improving the competitive capacity of Russia-made goods as compared to imported goods. The Russian Federation will notify the WTO concerning the current subsidies and will not demand that any of the provisions stipulated in Articles 27 and 28 of the WTO Agreement on Subsidies and Countervailing Measures be applied in this connection.

Subsidizing of agricultural producers

The overall distorting effect on trade of the support granted to agricultural producers must not exceed \$ 9bn in 2012; by 2018, its amount will have to be gradually reduced to the level of \$ 4.4bn.

In order to avoid any excessive focusing of support on certain types of products, from the moment of this country's accession to the WTO and until 31 December 2017 the per annum volume of support provided to the producers of certain types of agricultural goods must not exceed 30% of the amount of support granted to other types of products.

All the export-related subsidies granted to agricultural producers will be bound at a zero level. After Russia's accession to the WTO, the exemption from VAT currently granted to some types of agricultural products will be abolished.

Pricing with Regard to Energy Carriers

The producers and distributors of natural gas in the Russian Federation will operate on the basis of normal commercial prices and the principles of payback and profitability. The Russian Federation will continue her practice of regulating the prices of energy carriers established for the population and non-profit consumers.

Sanitary and Phytosanitary Measures (SPM) and Technical Barriers to Trade (TBT)

All SPM and TBT in the Russian Federation and the Customs Union member states will be elaborated and implemented in accordance with the relevant WTO Agreements.

The Russian Federation will develop and implement international SPM standards in the framework of her membership in *Codex Alimentarius* (the internationally recognized guidelines relating to food safety), the World Organization for Animal Health and the International Plant Protection Convention.

The reasons for suspension, recall or refusal of permission for importing products will be made compatible with the international standards and recommendations, as well as with the provisions stipulated in the WTO's SPM Agreement.

The Russian Federation will stage negotiations on veterinary export certificates that contain requirements which are different from the requirements established by the Customs Union in those cases when the relevant exporter country has submitted a substantiated request that such negotiations are to be conducted in the period until 1 January 2013.

The RF Federal Agency for Veterinary and Phytosanitary Supervision (*Rosselkhoznadzor*) will no longer suspend the supply of imported products by organizations on the basis of their on-site checks before providing the relevant exporter country with opportunities for suggesting adequate measures for correcting the situation, with the exception of cases fraught with some serious risks to human or animal health. *Rosselkhoznadzor* is to send a preliminary report to the exporter country's competent agencies in order to obtain the necessary explanations.

The Russian Federation will apply international standards to the development of technical regulation measures, provided that such measures do not turn out to be an inefficient or inadequate instrument for achieving the established goals.

Towards the end of the year 2015, the mandatory requirements to the telecommunication equipment applied in public telecommunication networks will be limited to the requirements stipulated in the technical regulation rules adopted under the agreements concluded by the Eurasian Economic Community and the Customs Union.

In accordance with the WTO's TBT Agreement, the Russian Federation will, on a continual basis, revise the lists of products to be subject to mandatory certification or declaration of conformity, as well as all the technical regulation measures applied in her territory (including the measures envisaged in the framework of the Customs Union and the Eurasian Economic Community, so as to confirm their necessity for achieving the Russian Federation's goals.

Within the period no later than 30 June 2012, the certified accreditation bodies will be replaced by a single national body in charge of all accreditation issues. The body's name and other relevant information will be published on the websites of the RF Federal Agency for Technical Regulation and Metrology (*Rosstandart*) and the Customs Union's Commission.

Trade-Related Investment Measures

The Russian Federation will ensure compatibility of all the laws, regulatory norms and other relevant measures to be implemented under the WTO Trade-Related Investment Measures Agreement with the corresponding WTO provisions.

All the measures that are incompatible with WTO provisions, including preferential tariffs or exemptions from tariffs which are applied to investment programs (including investment programs implemented in the automobile industry) and any agreements concluded in their framework, must be abolished prior to 1 July 2018.

Trade-Related Aspects of Intellectual Property Rights Protection

The Russian Federation will implement in full the provisions stipulated in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights, including the relevant law enforcement provisions, without any transition period.

The Russian government will continue to implement measures designed to prevent the functioning of those websites (whose servers are situated in the Russian Federation's territory) that unlawfully distribute content protected by authorship rights or intermediate rights.

The Russian Federation will initiate investigation and criminal proceedings against those companies that unlawfully distribute via the Internet objects protected by authorship rights or intermediate rights.

By the moment of her accession to the WTO, the Russian Federation will have been applying all the provisions established by the Berne Convention for the Protection of Literary and Artistic Work http://www.multitrans.ru/c/m.exe?t=4330237_2_1.

Transparency

The provisions stipulated in the WTO Agreement will be applied uniformly across the entire territory of the Russian Federation, including the regions engaged in frontier trade, special economic zones and other territories where special regimes may be established with regard to tariffs, taxes and regulatory measures.

In accordance with the WTO's requirements, all legislation that can influence trade in commodities, services and intellectual property rights should be subject to immediate publication. The Russian Federation will be renewing, on a regular basis, the relevant official publications, including those posted to websites, and ensure access to these publications for WTO members, individuals and companies.

In order to improve the procedure of access to official publications, the Russian Federation will create an information service whose duty it will be to assist WTO members and all other related parties in gaining such access.

Thus, in particular, the Russian Federation will publish, prior to their enactment, the texts of all the legislative acts that can influence trade in commodities, services and intellectual property rights, and ensure that a reasonably lengthy period of time (no less than 30 days) be established for the WTO members to present their comments, excepting those acts that regulate issues pertaining to emergency situation, national security, monetary policy and other measures, the publication of which will encumber law enforcement procedures, be contrary to public interests or detrimental to the commercial interests of countries or private entrepreneurs. No legislative act that can influence trade in commodities, services and intellectual property rights may come into force prior to its publication.

The Russian Federation will send to WTO members her annual reports on the implementation of the current privatization program over the entire period of its implementation.

From the date of Russia's accession to the WTO, the lists of goods and services whose prices are subject to government control will be published in *Rossiiskaia gazeta* [The Russian Newspaper]. Russia will apply government control measures to pricing with regard of certain types of goods and services, including natural gas, rough diamonds, vodka, water supply services, natural gas transportation services, baby foods, medical products, public transport services and railway freight and passenger services. Price control measures are not to be applied in order to protect Russia-made products or services.

The Functioning of the Customs Union betweeny Russia, Kazakhstan and Belarus

The Customs Union between Belarus, Kazakhstan, and Russia came into existence as of January 1, 2010. From 1 July 2011, all customs borders between these three countries have been removed.

From 1 January 2012, the three states are to create a single economic space. The Russian Federation will publish all the legislative acts concerning the Customs Union prior to their adoption and ensure that a reasonably lengthy period of time be established for the WTO members and all the key related parties to prepare their comments and submit them to the Customs Union's empowered body.