

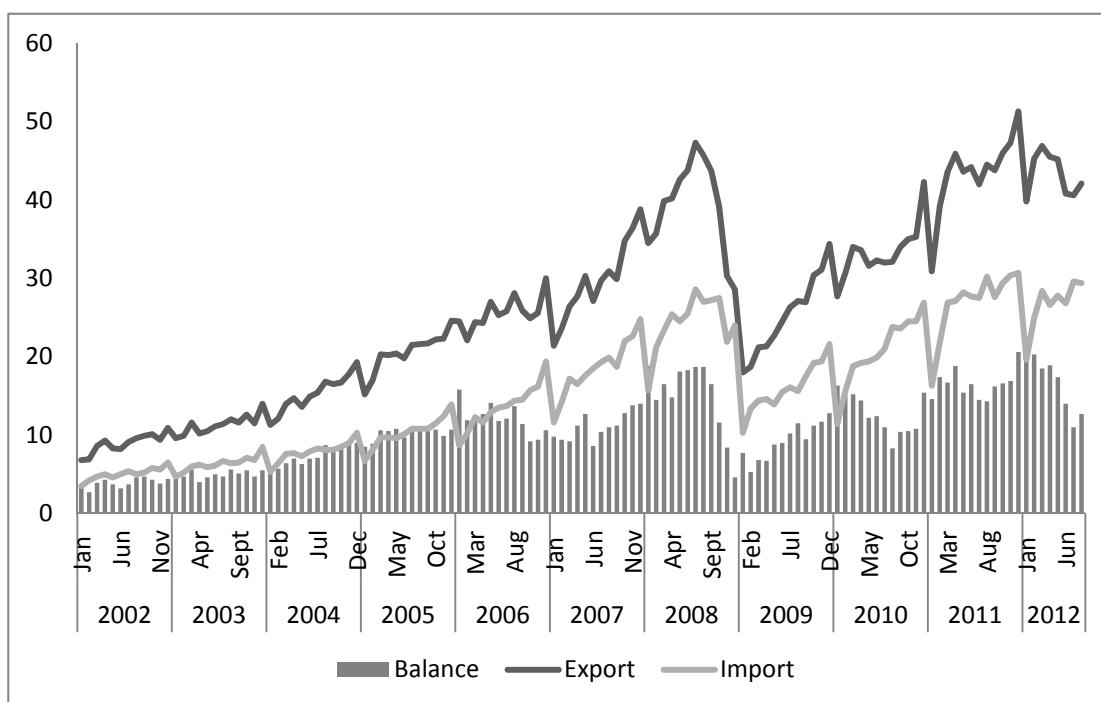
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## Foreign trade

The rate of growth in both, exports and imports in recent months are ranging around zero. In October, Russia for the first time took part in the General Council of the World Trade Organization (WTO) as a full member.

Russian foreign trade turnover calculated under the balance of payments method, in August 2012 amounted to \$70.2 bn. As compared to July 2012, it rose by 3.5%, and against August 2011 it decreased by 6%.

Exports in August 2011 amounted to \$42.1bn, which is by 5.6% lower than in the last year. Imports also declined: in August of this year, imported goods amounted to \$29.4bn, which is by 2.5% less than in August last year. Due to the decline in exports the trade surplus has reduced. In August it was \$12.6bn, which is by 12% lower than in August 2011 and by 14.4% more than in July 2012.



Source: RF Central Bank.

**Fig. 1. Key Indicators of the Russian Foreign Trade (\$bn)**

The decrease of the value of Russian exports in August 2011 compared to August 2011 was due to a decrease in volume by 6.9%, as well as to the decline in average prices of exports by 1.5%. Reduction of imports was provoked by lower import prices by 5.5% at the background of the volume extension by 2.6%.

Though the terms of trade in August 2012 remained favorable ("terms of trade" index between Russia and other countries in August 2012 totaled to 104.2 points), but significantly deteriorated as compared to August 2011, when the index value was 123.5 points.

The global oil market is still influenced by two major factors: sustained concern about the growth of the world economy (European debt problems and slowing economic growth in China), and geopolitical risks (instability in the Middle East). In August 2012 the price of Brent crude oil ranged from \$105.7/Bbl (on August 1) to \$116.2/Bbl (on August 15).

The average price for Urals in August 2012 amounted to \$113.1/Bbl, which is by 10.3% higher than in July 2012; as compared to August last year, the price rose by 3.3%. In January-August 2012 the price of Urals made \$111.0/Bbl; as compared with the corresponding period of the previous year, it increased by 1.6%.

According to the monitoring of the Russian Ministry of Finance, from September 15 to October 14, 2012 the average price of Urals oil was \$110.7/Bbl. According to the Government Decree of October 24, 2012 No. 1090, the export duty on crude oil from November 1, 2012 will be decreased by 3.4% - to \$404.5/t from \$418.9/t in October 2012. The unified export duty on light and dark oil products, except gasoline, from November 1, 2012 will be \$267/t vs. \$276.4/t in October. Herewith, the duty on petrol, sustained at 90% of the oil duty, in November will be reduced to \$364.1/t (vs. \$377/t in October 2012).

The global market situation in non-ferrous metals continues to deteriorate. As compared with August 2011, aluminum prices have fallen by 22.4%, reaching the lowest level since September 2009. For the majority of global aluminum producers the price level is now below the point of profitability. Nickel prices have dropped down against August of the last year by 28% and also reached the lowest level since September 2009. Copper market key indicators deteriorated since the beginning of the year under the pressure of declined demand in the manufacturing sector in Europe, and more significant than expected slowdown in economic growth in China. As a result, copper price has fallen down by 16.5% over the year.

Table 1

**Average monthly prices in August of relevant year**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Oil (Brent), \$/bbl	25.7	27.2	29.9	42.8	61.9	71.7	72.1	118.3	73.06	77.18	109.9	113.3
Natural gas*, \$/1m BTU	3.79	3.01	3.98	4.34	6.56	8.71	8.34	14.64	6.92	8.45	10.81	11.18
Gasoline, \$/gallon	0.776	0.834	0.935	1.152	1.811	2.073	1.968	2.93	1.971	1.94	2.77	2.829
Copper, \$/t	1499.4	1480.0	1731.0	2835.8	3800.0	7689	7510.5	7645.6	6165.3	7284	9001.0	7515.5
Aluminum, \$/t	1374.9	1292.0	1457.0	1694.3	1868.0	2460	2515.2	2780	1933.8	2118.4	2379.0	1845.4
Nickel, \$/t	5554	6720.0	9365.0	13723	14894	30872	27600	18581	19642	21413	21845	15735

\* European market average contract price, franco border.

Source: estimated according to the London Metal Exchange, Intercontinental Exchange Petroleum (London).

The FAO of Food Price Index average value in August totaled to 213 points in 2012, i.e., remained close to the level of the previous month, but decreased by 17.8 points as compared to the same indicator of August 2011.

During January-August 2012 the foreign trade turnover of the Russian Federation amounted to \$559.8bn, which exceeds the relevant indicator of 2011 by 3.8%. Herewith, the exports of Russia increased by 3.9%, amounting to \$346.4bn; imports increased by 3.7% to

\$213.5bn. The surplus of the Russian trade balance in January-August 2012 amounted to \$132.9bn, having increased by 4% against January-August 2011.

Fuel and power component in the structure of exports has decreased. The share of fuel and energy products in January-August 2012 accounted for 70.8% (vs. 71.5% in January-August 2011). The share of exports of food and agricultural raw materials rose to 3% as compared with 1.7% in January-August 2011. The remaining shares of consolidated positions remained the same as in the last year.

The share of machinery, equipment and vehicles in the structure of imports continued to increase. In January-August 2012 it rose to 50.4% from 48.4% over the same period in 2011. The share of imports of food and agricultural raw materials fell down to 12.5% from 14.3% a year earlier.

Immediately after Russia became a full member of the World Trade Organization, there occurred a conflict situation. In accordance with the ratified by the Russian Federation Protocol of Accession to the WTO, import duties on coated paper and paperboard since joining the organization were set at 5%. However, the decision of the Council of the Eurasian Economic Commission No.54 of July 16, 2012 "On approval of the single commodity nomenclature of foreign economic activity of the Customs Union and the Common Customs Tariff of the Customs Union," a single customs tariff of import customs duty at the rate of 15% was set for 16 items of FEACN codes for this commodity group.

New unified customs tariff published at the web-site of the Eurasian Economic Commission have formally entered into force on August 23, 2012. Thus, from that date, the import duty at the rate of 15% came into effect, rather than the expected 5%.

Initially, Russian publishers have suggested that it is a technical error, and on July 30 officially reported the problem to the Ministry of Economy and the government. However, there was no feedback to these and follow-up letters.

Coated paper consumption by 100%, and coated board by 90% is provided by imports. The volume of imports of coated paper and paperboard in 2011 amounted to 623.7 thousand tons in the amount of over \$685m, and it is expected that in 2012 it will be 830 thousand tons.

Import duties on coated paper in the amount of 15% of the value were introduced in 1995 to encourage the production of Russian domestic equivalent products. However, the production of coated paper in the country has not been established. In 2010, to support publishers and simultaneously promote the transfer print media production to Russia, the government has temporarily reduced the import duties on paper to 5%. Reduction of duties was practically the only direct and effective anti-crisis measure of support to the industry, because, along with the reduction of production costs, it provided a direct impact on cost reduction. According to the Inter-Regional Association of Printers, over the period when the reduced rates were in effect, the size of print run in Russia grew by 17%. The workload of domestic printing facilities increased to 75-80%, whereas previously it was only at the level of 40-50%.

In June 2011, within the framework of the investment project "Big Korjzhma", Ilim Group JSC signed a contract to upgrade and supply of key components for paper coating production facility. The main supplier of the equipment is the company Metso Paper OY

(Finland). Since 2013, the plant will produce 70 thousand tons of coated paper for the Russian market, the volume of which is estimated at 200-250 thousand tons annually. The Project for coated paper production at Koryazhma is aimed at import substitution with domestic products. Apparently, Russia could commit an infraction of agreements with the WTO to support the Project.

However, the planned release of 70 thousand tons of coated paper in Russia will cover the domestic demand only for 30%, whereas the increase of import duties will trigger a massive outflow of printing orders abroad.

In early October, Russia for the first time took part in the General Council of the World Trade Organization as a full member. First discussions of the problems that have arisen over the month of Russia's membership in WTO were held. The organization members, in particular, are dissatisfied with the introduction and implementation of utilization fees on imported cars, with increased import duties on coated paper, as well as measures prohibiting import of live animals for phytosanitary reasons.

The Russian side, in turn, has brought up the problems faced by Russian companies in foreign markets. For example, the barriers in the delivery of Russian poultry into foreign markets, requirements for packaging of goods supplied from Russia to some countries, issues related to access to the market of Russian carriers to the market of automobile transport services.

According to the Russian Ministry of Economic Development, as of October 1, 2012, eighteen countries use protective measures against Russian goods. The maximum number of restrictive measures is in effect in the EU, Ukraine, USA and Belarus. More than half of all existing anti-dumping measures are imposed on imports of Russian ferrous metals and their products. Mineral fertilizers are in the second place.

The main reasons for the restriction in the Russian goods import are dumping and non-tariff regulation in trade. Ministry of Economic Development of Russia has split all problems in the field of foreign Russian trade into four groups: the restrictions that will be removed immediately after joining WTO, restrictions, most of which will require consultation; limitations, the removal of which may have to be resolved through the WTO dispute settlement mechanism, and limitations that are generally unlikely to be removed.

In the WTO, there is a fairly complicated, but effective procedure for dispute resolution. The basic method of this procedure is negotiation through diplomatic channels. If the parties fail to reach an agreement that satisfies both of them in the course of negotiations, complaining party may request involvement of an arbitration commission. After the proceedings, the Arbitration Board issues initially an interim and then a final report to the parties, which is communicated to all WTO members. Review of the report is included in the agenda for the next meeting of the WTO Council.

In its report, the Commission presents recommendations to the party against which the complaint is brought, on the measures to be taken to comply with the Agreement. Recommendations of the Commission as they are have no legal force. The Party against which the complaint is brought is liable to execute them only after approval by the Authority resolving disputes. The total timeframe of the procedure, which is calculated from the date of the

Arbitration Committee establishment till the date of the Commission report is issued, shall not exceed 9 months.

On October 26, 2012 the European Parliament has adopted a resolution on Russia's membership in WTO, which is marked with "warning signs" of insufficient compliance of the Russian Federation with WTO requirements. Among other things, the issues of a ban on livestock imports from the EU, imposed in Russia on March 20, 2012, as well as preferential treatment for domestic producers in government procurement, the scheme disposal of vehicles and seasonal import duties on certain types of sugar are considered. The European Parliament members also note the need for discontinuation of counterfeit production and sale in Russia.

The Russian side recognizes that a number of issues require further discussion, including the use of Russian sanitary and phytosanitary measures and utilization fee. However, a number of issues cannot be included in the agenda of Russian commitments as a WTO member, such as public procurement, because Russia did not undertake that liability so far.