

## RUSSIA'S FOREIGN TRADE IN JANUARY 2014

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*The key factor influencing the dynamics of foreign trade indicators in early 2014 was continuing ruble depreciation which had begun last year, resulting in an increase in exports with a simultaneous decrease in imports. The 'Trade and Investment Barriers Report, 2013', published by the European Commission, states that the Russian Federation has adopted a series of measures which are not in compliance with Russia's WTO commitments.*

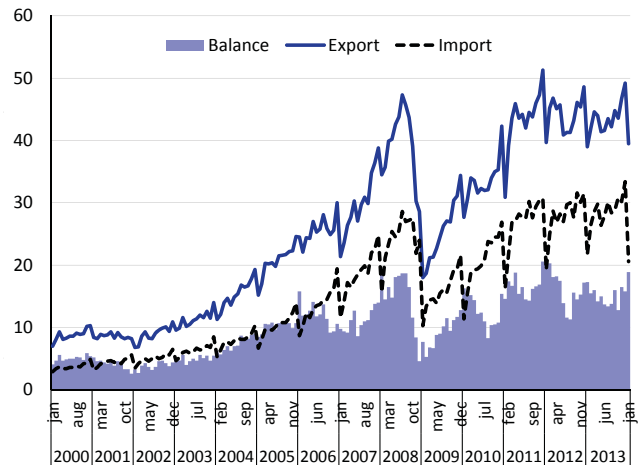
Compared with January 2013, Russia's foreign trade turnover, calculated on the basis of its balance of payments, decreased by 0.7% to \$60.1bn in January 2014. This decrease was due to a reduction in imports by 4.8% (to \$20.6bn) with a growth in export shipments by 1.5% (to \$39.5bn). Because of the oppositely directed dynamics of exports and imports the trade balance grew by 9.6% (\$18.9bn) in January 2014 compared with January 2013.

The increase in the value of Russian export was mainly due to an increase in the physical volumes of shipments abroad, which offset the decline in contract prices for many goods. The reduced value of Russian imports in January 2014 was principally the result of a decrease in the physical volume of imported goods.

In early 2013 oil market participants were seriously concerned by the trends in emerging markets, which were under pressure as the programme of repurchase of assets in the U.S. began to be cut back, and with the news from China of a slowdown in manufacturing growth in January to its lowest level in the last six months, due to a weakening of both external and internal demand. Prices were supported by the forecast of a sharp decline in distillate reserves in the US due to the cold weather, plus strikes and protests at oil fields and ports in Libya. In January 2014 the price for Brent crude fluctuated within the range \$106.4 to \$109.7 per barrel and, in February, from \$106.6 to \$110.4 per barrel. The average price in January was \$108.2 per barrel whilst, in February, it was \$108.9 per barrel, which was, respectively, 4.2% and 6.2% lower than in the corresponding months of 2013.

The average price for Urals oil in January 2014 was \$106.4 per barrel, which was 4.8% lower than the corresponding figure for 2013. In February of the current year it was \$107.4 per barrel, against \$114.45 per barrel in February 2013.

By 3 March 2014, when the President of the Russian Federation obtained permission from Federation Council to use armed forces in Ukraine, the price for Brent crude price had risen to its maximum for the first quarter of 2014, to \$111.26 per barrel. However, as



Source: Central Bank of the Russian Federation.

Fig. 1. Main indicators of the Russia's foreign trade (\$ bn)

ton in the previous month. The export duty on petrol will increase to \$348.3 per ton in April 2014, up from \$345.9 in the previous month. The export duty on diesel fuel will be \$251.5 per ton as compared to \$249.8 per ton in March, while the export duty on oil products other than petrol and diesel will be \$255.4 per ton as compared to \$253.7 per ton.

The curtailing of quantitative easing measures by the U.S. Federal Reserve and the slowdown of the Chinese economy have had a negative impact on quotations for non-ferrous metals. Despite a slight growth in prices for copper and nickel in January compared with the previous month, the overall trend has not reversed. At the London Metal Exchange in January 2014 the price for copper increased by 1.1% compared with the previous month, for nickel, by 1.3%, while the price for aluminium decreased by 0.7%. Compared with January 2013, prices for aluminium have decreased by 15.2%, for copper, by 9.4% and for nickel, by 19.4%.

In January 2014 the average value of the FAO food price index was 203.4 points, which was 1.3% lower than the December value, and 2.5% lower than that of January 2013. With the exception of the prices for dairy products, which grew by 1.3% compared with

Table 2

## AVERAGE WORLD PRICES AS OF JANUARY OF THE RELEVANT YEAR

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Oil (Brent), USD/barrel	31.3	42.9	62.5	54.8	92.4	45.7	76.2	96.29	111.16	112.97	107.4
Natural gas, USD/1 million BTU	3.87	5.46	7.96	8.59	10.7	13.89	8.8	9.61	11.45	11.77	11.59
Copper, USD/ton	2,441.9	3,170	4,734	5,668.7	7,061.6	3,220.7	7,385	9,556	8,040.5	8,047.4	7,291.5
Aluminium, USD/ton	1,608.2	1,832	2,378	2,808.3	2,445.5	1,413.1	2,234.5	2,440	2,144.2	2,037.8	1,727.4
Nickel, USD/ton	14,855	14,505	14,555	36,795	27,689	11,307	18,430	25,646	19,855	17,473	14,101

Source: Calculations based on data from the London Metal Exchange, Intercontinental Exchange (London).

the previous month, prices for the other products on which the food price index is based, decreased in January. For example, sugar price decreased by 5.6%, and the price for vegetable oil, by 3.8% compared with the previous month. The record grain crop of 2013 resulted in the growth in stockpiles, which, together with large volumes of exports, contributed to a decrease in world prices for grain products by 1.6% compared to the December value, and by 23% compared to the corresponding figure for January 2013. Even meat prices, which had been growing over the previous few months, decreased slightly in January.

Compared with January 2013, in January 2014, growth in Russian exports could be observed for the following commodity groups:

- food products and agricultural raw materials which rose by 16.7%. This growth was due to a considerable increase in the volume of wheat exports (3.5 times higher than the figure for January 2013). As a result, even though export prices decreased by 19.4%, the monetary value of these exports was 2.8 times greater than the corresponding figure for the previous year;
- timber and pulp and paper products rose by 21.1%. In this commodity group growth in both export prices and physical volumes was observed;
- textiles, textile products and footwear increased by 26.8%. The monetary value of exported cotton fabric increased by 51.9% due to growth in the physical export volume by 84.9% while export prices decreased by 17.9%;
- metals and metal products were up by 6.2%. In this group the growth in monetary value occurred due to an increase in the physical volume of exports, with export prices decreasing for almost all items;
- machines, equipment and vehicles were up by 8.8%. For example, the export of trucks grew 2.5 times and of cars, by 8.6%;
- the export of fuel and energy products increased by 1.6%. The positive dynamics were

caused by a growth in the physical export volumes of oil products (by 12.3%) and natural gas (by 10.8%). At the same time, crude oil exports decreased by 3.2% in monetary terms due to a decrease in physical volume by 2.6%, while average contract prices decreased by 4.4%;

- the export of chemical industry products decreased by 16.5%; while leather, furs and products made from them fell by 5.2%.

According to estimates by the Russian Ministry of Economic Development, the weakening of the nominal effective ruble exchange rate in January was 1.2%, while the real effective rate fell by 1%. The reduction in industrial production, excluding seasonal and calendar effects, was 1.8%. Moreover, the real income of the population decreased. Therefore domestic purchasing power decreased, resulting in a reduction in the purchase of goods from abroad.

A decrease in imports was observed for many goods. For example, imports of chemical industry products decreased by 10.4%; wood and pulp and paper products, by 1.5%; textiles, textile products and footwear, by 5.7%; metals and metal products, by 16.5% and of machines, equipment and vehicles, by 4.6%. Positive dynamics were observed for the import of food and agricultural products, whose monetary volume exceeded the corresponding figure of last year by 4.1%; mineral products (growth by 15.1%) and precious stones, precious metals and products made from them (growth by 13.5%).

In Russian foreign trade turnover, the share of non-CIS countries continues to grow. This reached 86.5% in January 2014, compared with 84.8% in January 2013, with more than half of Russia's entire trade turnover being accounted for by European Union countries: 50.5% (49.8%).

In late February 2014 the European Union issued its third 'Trade and Investment Barriers Report, 2013'<sup>1</sup>, published by the European Commission annually since 2011.

<sup>1</sup> [http://trade.ec.europa.eu/doclib/docs/2013/march/trade\\_doc\\_150742.pdf](http://trade.ec.europa.eu/doclib/docs/2013/march/trade_doc_150742.pdf)

The focus of the Report is on barriers that arise in respect of European goods trying to enter the markets of China, India, Japan, Brazil, the U.S. and Russia, as these are the key directions for exported European goods (40.9%), services (40%) and direct foreign investment (41.1%).

The Russian Federation accounted for 7.3% of the export of European goods in 2012, being the fourth largest trade partner of the EU after the U.S. (17.3%), China (8.5%) and Switzerland (8.0%). The Report states that, after Russia's accession to the World Trade Organization (WTO) on 22 August 2012, Russia adopted a series of measures which are not in compliance with its WTO commitments. These measures include the introduction of a recycling fee for vehicles, and the application of import tariffs for the import of used cars, vehicle spare parts, paper and several other products, and that these rates are higher than the "bound" level, technical regulations of the Customs Union on alcoholic beverages, cars and textiles. The Report also highlights the non-compliance of certain sanitary and

phytosanitary measures with WTO standards. These, include the shipment of animals for slaughter. Furthermore, the EU claims that the Russian Federation is not complying with the terms and conditions of a bilateral agreement providing for the reduction of export duties for timber within the limits of tariff-rate quotas. The agreement sets forth that, within the limits of the quotas, spruce can be supplied to the EU using a 13% export duty while pine will be subject to 15%, with any supplies above the quotas being subject to 80% duty. Nevertheless, Russia has been delaying the issue of export licenses for timber under which any exports within the quota limits would be carried out.

As for the claim the EU has made against Russia with respect to the car recycling fee, the Europeans have still to appoint their experts for resolving this issue by means of an arbitration commission. Note that, from early 2014, the recycling fee has also applied to domestically produced cars, hence, the measure restricting international competition has effectively been eliminated. ●