

RUSSIA'S FOREIGN TRADE IN AUGUST 2015

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Prevailing Russia's export commodity pattern failed to take advantage of the ruble depreciation and increase commodities export. Export dynamic as before is determined by the impact of the reduction of global prices on main Russian export commodities. Russia's import is affected by the negative impact of domestic investment and consumer demand contraction as well as by countersanctions introduced by the Russian Federation regarding import of certain commodity heading.

Late September 2015, the World Economic Forum released the Global Competitiveness Index 2015–2016 with corresponding rating of 140 economies competitiveness. The first place in the global competitiveness rating for seven year in a row has been taken by Switzerland, Singapore retained the second place and the third place went to the USA. Germany went one step up from the fifth to the fourth place and Holland from the eighth to the fifth. Japan remained on the sixth place, Hong Kong – on the seventh. Finland dropped from the fourth position to the eighth which is the worst result for the whole GCI history. Sweden and great Britain close the top 10.

China retained the twenty-eighth position, Brazil dropped from the fifty seventh to the seventy fifth, and India, on the contrary went up from the seventy first to the fifty fifth place.

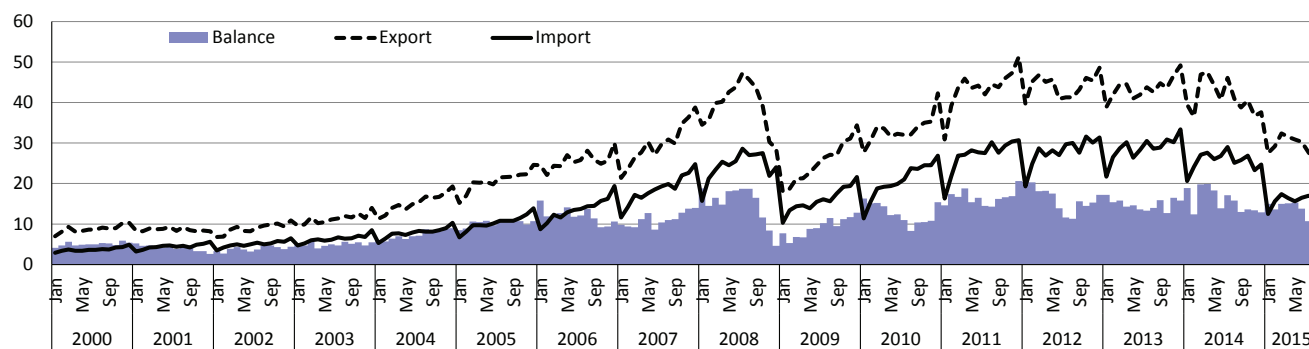
The Russian Federation took the forty-fifth place with the value 4.44. In comparison with the last year, Russia has improved its result by nine positions. In 2014, Russia improved by eleven positions going up from the sixty-fourth to the fifty-third place.

Despite the fact that the Russian economy is in recession, its main macroeconomic indicators so far compare favorably with indices of a number of other economies: regarding macroeconomic environment Russia has taken the fortieth place. Among strong sides of the Russian economy the authors of the

Report filed Market size (6th place), widely of higher education (thirty-eighth place), infrastructure development (thirty-fifth place), business sophistication and domestic competition. However, such pillars as efficiency of the state institutions (hundredth place), insufficient innovation potential (sixty-eighth place), underdevelopment of the financial market (ninth-fifth place), and low goods market efficiency (ninety-second place) prevent Russia to raise in the rating. This year the above mentioned negative factors were joined by weak domestic demand, economic sanctions introduced by the western countries, as well as uncertainty regarding global prices on hydrocarbons. As in the recent years, main challenges for the economic development of Russia representatives of the Russian business community name corruption, inefficiency of the state apparatus, and high tax rates. All these factors hamper competitiveness growth.

Russia's foreign trade turnover calculated on the balance of payments methodology in August 2015 came to \$41.9bn down 34.5% of the same indicator last year. In August 2015, export contracted to the lowest level since June 2009 and constituted \$25.3bn down 39% compared to August last year. Its dynamic was still determined by the impact of the global prices fall of the main Russian commodities export.

Reduction of physical volume of purchased commodities abroad amid the fall of domestic investment



Source: CB RF.

Fig. 1. Russia's key foreign trade indicators (USD billions)

Table 1

MONTHLY AVERAGE GLOBAL PRICES IN AUGUST THEN-YEAR

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Brent, USD/bbl.	42.8	61.9	71.7	72.1	118.3	73.06	77.18	109.9	113.3	110.96	101.92	46.99
Natural gas*, USD/1 million BTU	4.34	6.56	8.71	8.34	14.64	6.92	8.45	10.81	11.18	11.64	9.14	6.95
Copper, USD/t	2835.8	3800.0	7689	7510.5	7645.6	6165.3	7284	9001.0	7515.5	7192.9	7001.8	5127.3
Aluminum, USD/t	1694.3	1868.0	2460	2515.2	2780	1933.8	2118.4	2379.0	1845.4	1817.6	2030.5	1548.1
Nickel, USD/t	13723	14894	30872	27600	18581	19642	21413	21845	15735	14315	18600	10386

* European market, average contract price, franco-border.

Sources: calculated on data of London Metal Exchange (Great Britain, London), Intercontinental petroleum exchange (London).

and consumer demand was the main factor of the Russian import contraction. Countersanctions introduced by the Russian government regarding import of certain categories of goods produced a negative impact. As a result, in August 2015 in comparison with August 2014, import contracted by 34.3% to \$16.6bn.

Reduction of the positive trade balance to \$8.7bn (\$16.2bn in August 2014) was due to a more substantial reduction of export compared to import.

In July 2015, Bloomberg Commodity Index (BCOM) reached its 13-year bottom low crossing benchmark of 100 standard units and in August dropped to its minimum level since 1999: on 26 August BCOM fell to 85.1383. Main culprit for the reduction of the indexes of commodity markets were crude oil quotations. From the turn of the year Brent and WTI down 30% amid excessive supply. From 2013, global oil demand up 2% while supply up 6%. Meanwhile, both Saudi Arabia and other members of OPEC continue increasing production oil volumes.

In August 2015, the price of Urals fell compared to July 2015 by 17.8% and constituted \$45.6 per barrel and in comparison with August 2014 the price declined by 54.9%. In January–August 2015, the price of Urals averaged \$55.4 per barrel. Year before, it was \$106.28 per barrel.

According to monitoring from 15 September to 14 October 2015, the price of Urals averaged \$47.18 per barrel or \$344.4 per ton. As a result, export duty on crude oil from 1 November 2015 will come to \$97.1 per ton against \$91.5 per ton in October. Export duty on very heavy crude oil from 1 November will increase to \$12.1 per ton from \$11.1 per ton in October. Export duty on straight-run gasoline (naphtha) will increase from \$77.7 per ton to \$82.5 per ton, on motor (commercial) gasoline – from \$71.3 per ton to \$75.7 per ton. Export duty on other light petroleum products as well as lubricants will go up from \$43.9 per ton to \$46.6 per ton, on dark petroleum products excluding lubricants and petroleum coke will increase from \$69.5 per ton to \$73.7 per ton, export duty on petroleum coke will grow from \$5.9 per ton to \$6.3 per ton.

Non-ferrous metal market outlook in August 2015 was characterized by a downward trend. According to the London Metal Exchange, in August 2015 compared to July 2015, price on nickel, copper and aluminum fell by 9.2, 6.7 and 6.0%, respectively. Compared to August 2014, price on nickel shrank by 44.3%, on copper – by 27.3% and on aluminum – by 24.2%. For January–August 2015 against the same period last year, copper dropped 17.0%, nickel lost 24.2% and aluminum fell 4.2%. As a result, prices on nonferrous metals reached bottom low since 2009.

According to the Food and Agriculture Organization (FAO), in August 2015, global food prices continued falling. Large stocks, price decline on energy and fears about economic slump in China contributed to the most drastic reduction of the Food Price Index for seven years. In August 2015, the Index down 5.2% compared to July and averaged 155.7 points. Practically all agricultural products posted price reduction.

In January–August 2015, Russia's foreign trade turnover constituted \$360.6bn which is below the same indicator of 2014 by 34.5%. At the same time, Russia's exports shrank by 31.9% amounting to \$233.6bn and import down 38.7% to \$127bn. Russia's trade balance in January–August 2015 came to \$106.6bn down 21.6% compared to January–August 2014.

Russia's merchandise export contracted across all types of extended classification of goods. Most noticeably contracted export of mineral commodities: over eight months of 2015 export value of which fell by 37.9% compared to eight months of 2014 (in value terms). Meanwhile, according to FCS, crude oil export over January–August 2015 is estimated at 160 million tons up 7.2% against the same period 2014. Growth of crude oil export is due to the reduction of the primary crude refining at Russian refineries and the attraction of crude exports resulting from the adoption of "tax maneuver". Export volume of petroleum products up 6.5%.

Substantially contracted export of precious stones, precious metals and jewelry (by 31.7%, rawhide, furs and their products (by 25.5%), agricultural products (by 19.6%) and metals and metal products (by 15.4%).

Table 2

IMPORT OF AGRICULTURAL PRODUCTS TO RF FROM FAR ABROAD IN JANUARY-FEBRUARY THEN-YEAR

	2014		2015		2015 in % to 2014.	
	Thousand tons	USD mn	Thousand tons	USD mn	Total volume	Total value
Foodstuffs and raw materials for their production		22,885.8		14,230.6		62.2
Of which:						
Fresh and frozen meat	555.3	2,285.2	272.9	956.5	49.1	41.9
Fresh and frozen poultry	226.7	328.7	60.2	82.8	26.6	25.2
Fresh and frozen fish	428.8	1,245.2	214.5	543.2	50.0	43.6
Milk and concentrated cream	15.4	65.9	3.0	10.0	19.5	15.2
Butter	66.6	333.0	9.5	37.8	14.3	11.4
Meat products and tinned meats	13.0	66.5	4.5	20.3	34.6	30.5

Source: RF Federal customs service.

Merchandise purchases from abroad have also contracted across all extended classification of goods. Most drastic reduction was observed regarding import of machines, equipment and means of transport (by 43.8%) as well as regarding agricultural products (firstly, under the sanctions).

During the Supreme economic council meeting which took place on 16 October 2015, leaders of the Eurasian Economic Union (EAEU) member-states signed a number of documents which regulate the cooperation procedure between EAEU and EEC with third countries for 2015–2016 and Approaches to the development of commercial and economic cooperation with major EAEU partners for the medium-term. Based on the report drafted by the joint research group, a decision was taken to launch negotiations on creation of a free trade zone with Israel.

From the full resumption of relations between the two countries in 1991 trade and economic ties received a noticeable impetus for development. If in 1991 mutual trade turnover did not exceed \$12 mn then in 2014 it exceeded \$3.4 bn. In the meantime, the share of mutual trade in the foreign trade turnover of both countries remains insignificant. In H1 2015,

the share of Israel in Russia's foreign trade turnover amounted to 0.5%; the share of Russia in trade turnover of Israel came to 1.9%.

Main goods exported by the Russian Federation to Israel are: mineral commodities (48.6% of the overall Russian export to Israel in 2014), rough diamonds (34.5%), cereals (7.3%), timber and wood products (1.1%) and salt; sulfur, soils and stones; plastering materials, lime and cement (0.8%). Russian export to Israel is under diversified: ten major merchandise groups came 95% of the total Russian export to Israel.

Israel export to the Russian Federation mainly comprise vegetables, edible roots and tuber crops (24.3% of Israeli export to Russia in 2014), pharmaceuticals (16.8%, instruments and optics, cameras, cinema cameras, laboratory and measurement instruments, medical and surgeon instruments, their parts and components (7.3%), fruit and nuts (7.3%), electrical machines and equipment (6.5%), nuclear reactors, boilers, equipment and mechanical devices and their components (5.9%).

At the current stage, countries pass from export-import model to the implementation of joint projects and mutual investment.