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Foreign Trade

In November 2012, the negative dynamics of Russia's main foreign trade indices was observed, which situation reflects a drop both in domestic and external demand. Having become a full member of the World Trade Organization, Russia has started to utilize instruments developed by the WTO for protection of domestic producers.

According to the World Bank's Report on Global Economic Prospects¹ published in January 2013, the world economy is still unstable four years after the beginning of the global financial crisis. Economic growth in high-income countries remains insignificant. The main drivers of global growth are developing countries, but their growth rates are slowing down: the lowest economic growth rates in the past decade were registered virtually in all the developing countries last year. However, it is stated in the Report that despite the fact that the risks still prevail the possibility that they will materialize has decreased together with their potential negative effect, while the prospect of recovery of high-income economies faster than it was earlier expected has increased.

According to the estimates of the World Bank, in 2012 growth in global GDP amounted to 2.3%, though in June 2012 it was expected to amount to 2.5%. It is expected that in 2013 the growth rates will remain virtually unchanged and amount to 2.4%, while later they gradually increase to 3.1% and 3.3% in 2014 and 2015, respectively. In 2012, the developing countries' GDP rose by 5.1%. According to the forecast of the World Bank, in 2013 and 2014 it will increase by 5.5% and 5.7%, respectively, while in 2015, by 5.8%. Growth evaluations in countries with a high level of income were revised downward as compared to the earlier forecasts and amount to 1.3% both in 2012 and 2013 with subsequent growth to 2.0% and 2.3% in 2014 and 2015, respectively. In 2013, in countries of the euro area GDP is expected to decrease by 0.1%. Return of growth to positive values is expected only in 2014 when growth of 0.9% is forecasted. In 2015, growth of 1.4% is expected to take place.

The authors of the Report left the previous forecast of GDP of the Russian Federation in 2013 unchanged at the level of 3.6%, having admitted that in 2014 that index may rise to 3.9%, while in 2015 it falls again to 3.8%. On the basis of the 2012 results, growth in the Russian GDP amounted to 3.5%.

In 2012, the volume of the global trade increased by the mere 3.5%. According to the forecast of the World Bank, in 2013 the growth rates of the global trade in goods and services are to amount to 6.0%, while in 2014 and 2015, to 6.7% and 7.0%, respectively.

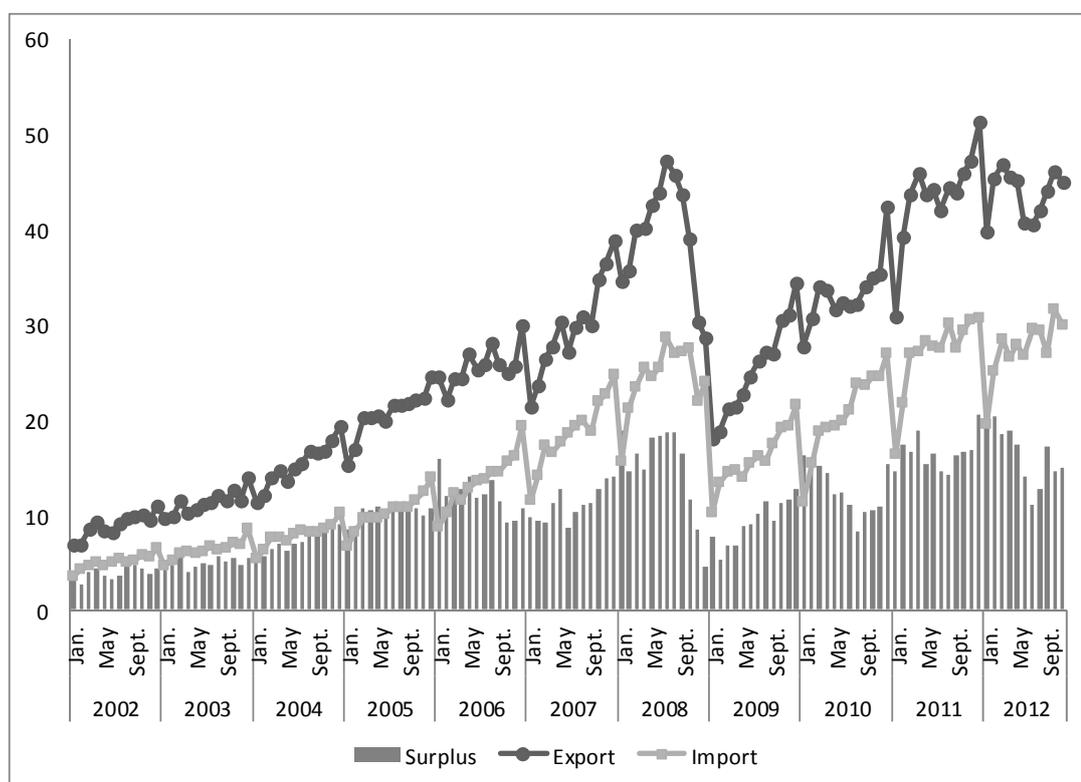
Slowdown of growth rates of the world economy has resulted in a situation where the global market's demand in the main fuel and energy commodities supplied by Russia decreased. As a result, early in 2012 growth rates of Russian export slowed down to be followed by a drop in Russian export in absolute terms. Due to slowdown of Russian economic growth rates, solvent demand on the domestic market went down and, as a result, import deliveries decreased.

¹ http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1322593305595/8287139-1358278153255/GEP13AFinalFullReport_.pdf

In November 2012, Russia's foreign trade turnover calculated on the basis of the methods of the balance of payment amounted to \$75.5bn which is 2.8% lower than the 2011 index. It is to be noted that a drop both in import and export was registered. In November 2012, the volume of Russian export was estimated at \$45.4bn which is 4% and 1.3% lower than the November 2011 index and the previous month index, respectively. In November 2012, import fell by 1% and 4.6% as compared to November 2011 and October 2012, respectively, and amounted to \$30.1bn.

In November 2012, as compared to November 2011 the surplus of the foreign trade balance of the Russian Federation decreased by 9.2% from \$16.9bn to \$15.4bn.

According to the evaluation by the Bank of Russia of the 2012 balance of payment, in December 2012 export decreased by 2.6% to \$50.0bn as compared to December 2011, while import grew by 2.3% to \$31.4bn. The trade balance surplus fell by 9.8% to \$18.6bn.



Source: The Central Bank of the Russian Federation

Fig. 1. The main indices of the Russian foreign trade (billion \$)

As a result of development of shale gas and oil production technologies in the United States, the global energy resources market has split into the following two independent parts: the Eurasian market with high prices on oil and gas and the US market where a decrease in prices on those commodities is observed. The US market depends completely on the state of the US economy and the continued tensions in the Middle East do not affect prices on energy resources in the US, unlike Europe and Asia. In January 2013, Iran suspended sale of oil and gas to all the 27 states of the European Union. Last year, Teheran suspended export of energy resources to Britain and France, while at present that decision is applied to all the countries of the European Union.

In November 2012, the European Brent oil cost \$23 more than the US WTI oil, while before the mid-2009 the price on the US WTI oil used to be \$2 to \$3 higher than that on Brent oil.

In November 2012, the average Brent oil price was formed at the level of \$109.71 a barrel which is 0.7% lower than the level of November 2011. The maximum price within the month was registered on November 19 (\$111.9 a barrel), while the minimum one, on November 3 (\$105.5 a barrel). In November 2012, the average price on Urals oil amounted to \$108.3 a barrel which is 2.1% lower than that in November 2011 (\$110.65 a barrel).

During eleven months of 2012, the average price on Urals oil was registered at the level of \$110.6 a barrel; in January-November 2010 it cost \$109.5 a barrel.

According to the data of the Ministry of Finance of the Russian Federation, in the period from December 15, 2012 till January 14, 2013 the average oil price under the oil price monitoring amounted to \$110.4 a barrel. So, in accordance with Resolution No. 27 of January 23, 2013 from February 1, 2013 the export duty on Russian oil will amount to \$403.3 per ton. From February 1, 2013, the single rate of export duty on light and dark oil products, except for petroleum, calculated on the basis of the "60/66/90" method will amount \$266.2 per ton against \$261.1 per ton in January. It is to be noted that the duty on petroleum -- preserved at the level of 90% of the duty on oil -- will grow in February to \$363 per ton from \$356 per ton in January.

On the global market of non-ferrous metals, the situation is still unfavorable for producers of non-ferrous metals. In 2012, the worst pricing situation emerged on the nickel market where in the period of eleven months nickel prices depreciated by 32.5% as compared to the same period of 2011. In the same period, tin depreciated by 28.7%, lead -23.9%, aluminum -25.2%, zinc -14.8% and copper -19.1%. The above situation can be explained by a drop in demand on the part of large consumers, that is, Europe which is experiencing debt problems and China where GDP growth rates have slowed down.

Table 1

Monthly average global prices in November of the respective year

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Oil (Brent), USD/a barrel	24.18	28.77	43.05	55.54	58.48	92.53	53.24	77.42	85.67	110.50	109.71
WTI oil, USD/a barrel	26.28	31.09	48.45	58.28	59.13	94.76	57.29	78.0	84.24	97.12	86.68
Natural gas*, USD/1m BTU	3.34	3.90	4.96	7.46	8.99	9.47	15.81	7.81	8.59	11.32	11.83
Petroleum, USD/a gallon	0.801	0.841	1.43	2,056	1,484	2.13	4,195	2.01	2.16	2.58	2.66
Copper, USD/per ton	1519.0	1916.4	3012.0	4060	7500	8008	4925.7	6675.6	8756.8	7551.8	7711.2
Aluminum, USD/per ton	1313.2	1474.8	1822.8	1929	2659	2442	2121.4	1949.3	2596.3	2073.6	1948.8
Nickel, USD/per ton	6840.9	11030	14483	12403	32348	30999	12140	16991	22600	17882	16335

* Market of Europe, average contract price, Franco-border.

Source: calculated on the basis of the data of the London Metal Exchange and the Inter-Continental Oil Exchange (London).

In November 2012, the FAO food price index amounted to 210.9 points which is 3.2 points lower than in October 2012. A slump took place mainly due to a drop in international prices on meat, grain and vegetable and animal fats. Sugar prices depreciated a great deal.

In January-November 2012, according to the data of the Central Bank of the Russian Federation Russia's foreign trade turnover amounted to \$784.7bn which is 2.7% higher than the last year index. The export grew to \$480.7bn (growth of 2.1%), while import, to \$304.0bn (a 3.7% growth). Though the trade balance was positive and amounted to \$176.7bn, it decreased by 0.5% as compared to January-November 2011.

Growth in export supplies was observed only in respect of the following three commodity groups: food products and agricultural primary products, machines, equipment and means of transportation and fuel and energy commodities. Export of food products and agricultural primary products was growing at a higher rate (growth of 31.1% to \$15.4bn). The main factors behind that growth were a 17.9% increase in the export of grain and meslin in physical terms with growth of 15.9% in export prices.

In January-November 2012, the export of machines and equipment increased by 6.5% as compared to the same period of 2011. The volume of export of cars in value terms rose a great deal by 55.3%. 103,700 cars were sold abroad which figure is 39% higher than during 11 months of 2011. It is to be noted that export prices were 11.7% higher. Almost all the cars (96%) were sold to CIS states.

Growth in export of fuel and energy commodities in value terms took place due to an increase in export prices on oil, gas and oil products, by 1.7%, 3.8% and 3.4%, respectively. It is to be noted that the physical volumes of oil and gas exported from Russia decreased by 1.4% and 5.7%, respectively. The export of oil products in physical terms rose by 4.1% mainly due to growth of 14.8% in export diesel fuel supplies.

Despite growth in physical volumes of export of non-ferrous metals, the volume of export of the *metals and products made of metals* commodity group in value terms decreased by 4% as a result of a drop in export prices. In January-November 2012, the export of aluminum rose by 2.8% to 3.2m ton, nickel – by 30.9% to 201,600 tons, copper – by 63.5% to 230,700 tons as compared to the same period of 2011. Over 11 months of 2012, the export of aluminum and nickel in value terms fell by 8.2% to \$6.1bn and 7.9% to \$3.4bn, respectively, while that of copper rose by 33.6% to \$1.74bn.

Growth in import supplies was observed in respect of the following three commodity groups: chemical industry produce (growth of 4.2%), textile, textile products and footwear (growth of 5%) and machines, equipment and means of transportation (growth of 6.7%). As regards other commodity groups, import decreased.

Having become a full member of the World Trade Organization, Russia has started to utilize WTO instruments of protection of domestic producers. By decision of the Eurasian Economic Commission, a preliminary special protective duty of 27.5% on import of combine harvesters to the Customs Union (CU) was introduced. The above duty will be in effect till July 5, 2013, included until the current investigation has been completed and a decision on imposition of the final protection measure taken.

After Russia's accession to the WTO, export duties on combine harvesters were reduced from 15% to 5%.

A protective investigation into the effect of imported combine harvesters on production of harvesters in the territory of the Customs Union was started as early as in July 2012. It was initiated by Rostov-based Rostselmash plant and Krasnoyarsk-based harvester-manufacturing plant. Their initiative was supported by Belorussian Gomselmash and Lidagroprommash plants. The above plants account for 95.9% of combine harvesters manufactured in the Customs Union.

To introduce special protective measures in accordance with the WTO rules, the Eurasian Economic Commission had not only to establish the fact of growth in import, but also justify that that growth was a sharp and sudden one and changed unexpectedly the situation on the market. In the course of investigation, the Commission succeeded in identifying such facts, that is, soaring growth in import and the damage caused by it to that industry of the Customs Union.

In the 2009–2011 period, the import of combine harvesters to countries of the Customs Union rose by 19.9%, while in the first six months of 2012, by 92.3% (on the same period of 2011). As a result, the domestic production and sales fell by 14.4% and 43.4%, respectively, while inventory stocks rose by 67.4%. The share of manufacturers on the CU market decreased by 14.6 p.p., while their profit, by 72.2%. The main suppliers of agricultural equipment to the Russian Federation are the US and the EU.

Manufacturers of agricultural equipment expect other measures of state support, as well, for instance, subsidizing of interest rates on investment loans, reduction of borrowing costs and support of the export.

In accordance with the decision of the Board of the Eurasian Economic Commission, from January 26, 2013 customs duties on import of personal computers which cost is below \$3,000 were raised from 0% to 10% of the customs value of the customs duty on import of personal computers which cost is below \$3000. The proposal to raise the import duty to that level was made in mid-summer 2012 by *K-Systems*, a Russian-based PC assembling company which is the owner of the IRBIS brand.

Within the frameworks of obligations assumed by Russia when it joined the WTO, the rate will gradually go down: a 10% duty will be in effect till August 2013 and then it will be replaced by a 6% duty until August 2014, while a zero rate is returned from August 2015.

The above decision is meant both to motivate foreign manufacturers to assemble personal computers in Russia and support domestic companies. In Russia, the share of Russian-manufactured PC does not exceed 20%, while the situation is quite the opposite in the markets of Belarus and Kazakhstan – according to experts' estimates the share of PC assembled in the territory of Russia amounts to 75%.

Belarus suggests that duties should be raised on most types of household appliances (microwave ovens and vacuum cleaners) within the limits of obligations of the Russian Federation to the WTO.