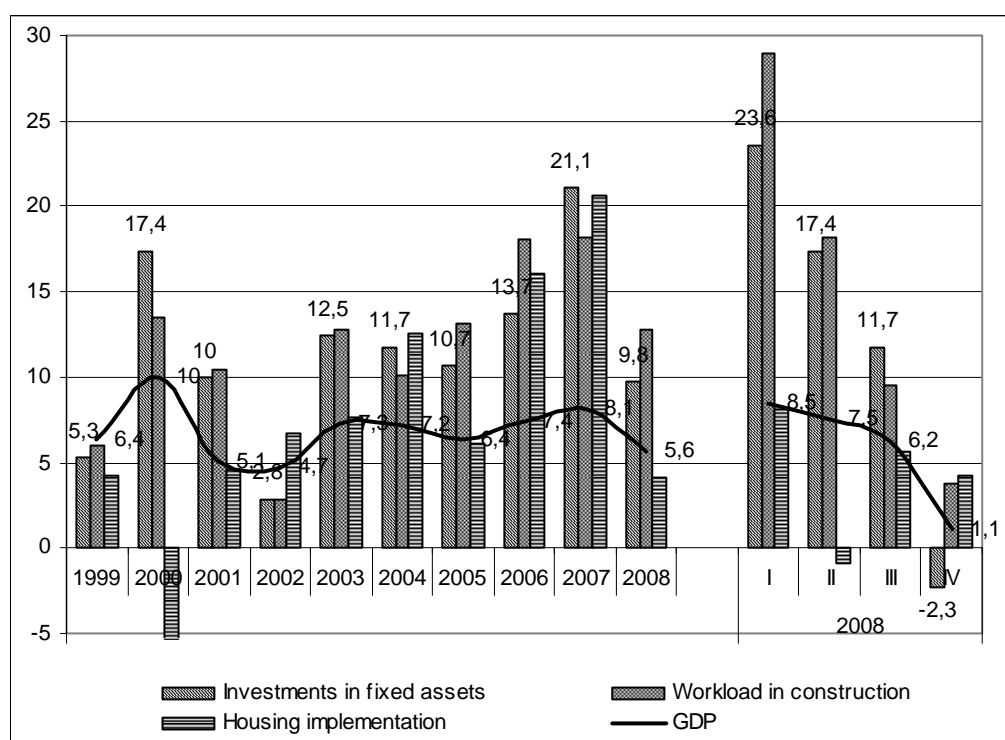


### 3.4. Investments in Real Sector of Economy

#### 3.4.1. Internal Domestic Investments in Fixed Assets

The trend for the investments in fixed assets to grow at higher rates than the GDP has been observed in the Russian economy since 2002. In 2008 this ratio sustained, though, as compared with 2007, the growth rates of both the GDP and the investments in fixed assets have slowed down considerably. In 2008 the growth of the GDP made 5.6% versus 8.1% in 2007, while the investments in fixed assets went up by 9.8% versus 21.1% (Fig. 43).



Source: Federal State Statistics Service

Fig. 43. GDP, Investments in Fixed Assets, Workload in Construction, Housing Implementation growth rates in 1999–2008, as percentage to the previous year

Slow-down of economic growth rates changed the situation in the investments sector. Throughout the whole 2008 there was a gradual slow-down of investments growth rates observed: from 123.6% in the 1st quarter to 117.4% in the 2<sup>nd</sup> and 11.78% in the 3<sup>rd</sup> quarter. Over January-September investments in fixed assets went up by 13.1% versus the growth of 21.3% in the corresponding period of 2007. In the environment of the financial crisis in November 2008 the decrease of the investments in fixed assets of 0.9% was observed, while the decrease in December 2008 made 7.5% as compared with the corresponding months of 2007. As a result, in the 4<sup>th</sup> quarter 2008 for the first time since 2000 the investments growth rates turned negative and made 97.7% versus the corresponding period of the previous year.

The anticipating growth of construction of the production and infrastructure objects as compared with the sharp slow-down in the rates of housing implementation was characteristic for 2008. Over January-September 2008 the total volume of workload in construction growing by 14.5%, increase in housing implementation made 4.0% versus, correspondingly, 18.1% and 30.9% in the analogous period of the previous year. Slow-down of the growth rates of the workload in construction occurring in the 4<sup>th</sup> quarter 2008 to 103.8% versus 118.2% in the 4<sup>th</sup> quarter 2007 was accounted for by the stabilization of the volumes of housing implementation in November 2008 and the volumes of production construction in December 2008 at the level of the corresponding periods of 2007.

In 2008 the proportion of investments in housing construction in the structure of investments in fixed assets remained at the level of the previous year and made 7.5%, the expenditures for buildings and installations increasing by 2.2 per cent up to 52.4%. the trend for the decrease of the proportion of the expenditures for machinery and equipment strengthened: as a result of 2008 this proportion was equal to 33.0%, being 1.8 per cent below the figure of the previous year. It should be noted that the most significant changes in the structure of investments as broken by branches of industry occurred in the 4<sup>th</sup> quarter 2008 (*Table 40*).

*Table 40*

**Structure of investments in Fixed Assets by Kinds of Key Assets in  
2006–2008, as percentage to the total**

	2007	2008	including	
			January-September	October-December
Investments in fixed assets, total	100	100	100	100
including by kinds of key assets:				
housing	7.5	7.5	7.6	7.3
buildings and installations	50.1	52.4	51.3	54.2
machinery, equipment, transport vehicles	34.8	33.0	33.6	32.0
other	7.6	7.1	7.5	6.5

\* not including the subjects of small business and parameters for informal activity

Source: Federal State Statistics Service

Import supplies of machinery and equipment increased, while the domestic machine-building developed at moderate rates when compared with the dynamics of the investment expenditures and characteristics of fixed assets reproduction. In 2008 the investments for the purchase of import machinery, equipment, transport vehicles (not taking into account the subjects of small business and the parameters for informal activity) made RUR 414.1 billion, or 20.0% of the total amount of investments in machinery, equipment and transport vehicles versus 17.8% in 2007.

The growth rates of the economy slowing down, the change in the role of the budget funds among the sources of financing of the investments in fixed assets is observed (*Table 41*). In January-September 2008 RUR 658.2 billion was financed at the expense of budget funds, which made 16.8% of the total volume of investments in fixed assets on the whole throughout the economy, and 10.0% was financed at the expense of the federal budget. In October-December 2008 the total volume of investment decreasing in absolute terms the increase in the volume and share of the federal budget funds in the structure of sources of investments financing was one of the conditions for mitigation of negative aftermaths of the sharp limitations of enterprises' own funds. In the 4<sup>th</sup> quarter 2008 RUR 295.5 billion of investments in fixed assets was financed at the expense of the federal budget funds as compared with RUR 214.9 billion over the first 9 months of the same year.

Table 41

**Structure of Investments in Fixed Assets As Broken By Financing Sources,  
as percentage to the total (not taking into account the subjects of small-scale  
enterprise and the parameters for informal activity)**

	2007	2008	Including	
			January-September	October-December*
Investments in fixed assets, total	100	100	100	100
including by the sources of financing:				
<i>own funds</i>	40.4	40.0	42.8	35.8
of which:				
profit	19.4	18.6	20.1	16.1
<i>borrowed funds</i>	59.6	60.0	57.2	64.7
of which:				
banks credits	10.4	11.1	11.0	11.0
including by foreign banks	1.7	2.4	1.7	3.7
borrowed funds from other organizations	7.1	6.5	6.8	6.1
budget funds:	21.5	21.0	16.8	28.1
federal budget	8.3	8.1	5.5	12.6
budgets of the subjects of the Russian Federation and local budgets	11.7	10.4	10.0	13.7
other	20.1	21.1	22.3	19.1
of which funds received for the share participation in construction	3.7	3.3	3.5	2.9
of which means of the population	1.5	1.5	1.7	1.0
Foreign investments in the total amount of the investments in fixed assets	4.3	4.6	5.2	3.7

Preliminary data

Source: Federal State Statistics Service

In 2008 the Federal Targeted Investment Program envisaged financing of 2801 construction sights, objects and measures, 1349 of which were envisaged for putting into commission in the same year. By January 1<sup>st</sup>, 2009 1075 were fully financed and 583 objects had the technical readiness from 51.0% to 99.9%.

As a result of 2008 371 objects was put into commission, 301 of which – at full capacity and 70 – at partial capacity.

Throughout 2008 some changes were made to the List of construction sights and objects, as a result the total volume of budget allocation envisaged for financing FTIP in 2008 made RUR 533.1 billion versus RUR 517.7 billion of the federal budget that was envisaged initially. In 2008 the volume of budget allocation envisaged for construction of capital construction objects of the state property of the Russian Federation increased by RUR 85.2 billion or 19.0% as compared with 2007. Nearly all the amount of the increase in the budget allotments mentioned was for the program part of FTIP<sup>21</sup>.

It should be noted that in 2008 the investments at the expense of the federal budget were directed only to the objects of capital construction of the state property of the Russian Federation, as well as to the open joint-stock companies. The objects of the property of the subjects of the Russian Federation and of the municipal property were not included in the List of construction sights and objects for 2008.

For the objects within the framework of federal targeted programs FTIP envisages RUR 289.5 billion, and for the non-program part objects – RUR 130.7 billion. The volume of funds

<sup>21</sup> Data for financing and use of the federal budget funds for FTIP realization in 2008 are given taken into account the redistribution of budget allotments from 2008 to 2009 at the total sum of approximately RUR 39.6 billion or 9.4% of the total volume of FTIP in 2008.

envisaged for financing of special works included in the state defense order was equal to RUR 112.9 billion.

In 2008 FTIP financing not taking into account construction sights and objects included in the state defense order was equal to RUR 286.4 billion or 73.1% of the yearly limit. This figure is higher than the one of the previous year (70.1%), which is mainly due to the fact that the List of construction sights and objects was adopted one and a half month earlier than in 2007.

According to the account of the Federal State Statistics Service on the FTIP construction sights and objects, not taking into account construction sights and objects included in the state defense order, financing of the yearly limit of public investments was equal to RUR 286.4 billion, including RUR 49.7 billion at the expense of the budgets of the subjects of the Russian Federation and other sources of financing. In 2008 the state customers used RUR 285.9 billion of the state investments or 63.7% of the yearly limit of funds, envisaged for construction works. On average throughout Russia 85.1% of the total amount of financed funds at the expense of all sources of financing was used.

The year limit of state investments within the framework of the industrial (87.1%) and special (75.7%) complexes was financed to substantially higher extent than the average, whereas within social complex the financing was considerably below the average (57.1%) (*table 42*). The level of funds use by different complexes differs considerably. It should be noted that the level of funds use in special complex is substantially below the average, which is connected with the financing of a number of new objects included in the List of construction sights and objects in the fourth quarter 2008.

*Table 42*

**Objects Envisaged By Targeted Investment Program for 2008**

	As units				As RUR billion			
	Number of objects		Put into commission in January-July 2008		Limit of state investments		Financed from the federal budget	Investments used at the expense of all sources of financing*
	total	including with the date of commissioning in 2008	to full capacity	partially	total	including from the federal budget		
<b>Total</b>	<b>2801</b>	<b>1349</b>	<b>301</b>	<b>70</b>	<b>448.9</b>	<b>391.5</b>	<b>286.4</b>	<b>285.9</b>
including:								
transportation complex	418	129	31	5	152.9	149.2	131.4	123.7
agriculture complex	462	296	40	35	13.3	11.0	8.1	8.7
special complex	210	65	10	2	92.7	66.0	50.0	38.4
social complex	1611	811	209	27	179.9	156.9	89.5	107.0
other objects	100	48	11	1	10.1	8.4	7.4	8.0

\*Not including investments allocated from the federal budget to purchase equipment and conduct design and survey works for construction sights and objects included in the Federal Targeted Investment Program for 2008 and being on the balance of the state customers (builders) that manage these investments

As to the territorial aspect, in 2008 the limit of funds for financing FTIP construction sights and objects was used at a considerably higher extent than the average in Southern, North-Western, Privolzhski and Siberian federal okrugs. The use of investments in Central, Ural and Far Eastern Federal Okrugs is substantially below the average (*Table 43*).

*Table 43*

**Limit of State Investments and Their Actual Use At the Expense of All Sources  
of Financing by Federal Okrugs**

Federal okrug	Limit of state investments allo- cated from the federal budget for 2008	Actually used at the expense of all sources of financing	
	as RUR billion	as RUR billion	as percentage of the yearly limit
Russian Federation – total	391.5	285.9	63.7
Central	151.6	76.8	47.3
North-Western	82.5	83.4	76.1
Southern	52.9	51.8	84.0
Privolzhski	20.6	17.5	81.4
Ural	20.1	11.6	53.7
Siberia	23.1	18.2	75.3
Far Eastern	40.7	26.5	55.5

The shift from the financing of the investments in fixed assets at the expense of the enterprises and organizations' own funds to the expansion of the participation of the borrowed funds was a fundamentally new feature in the economic growth of the recent five years. As a result of 2007 59.6% of the total amount of investments in fixed assets was accounted for the borrowed funds. As a result of 2008 the share of the borrowed funds in the structure of sources of investments financing made 60%, which corresponds well with the figure of the previous year.

The development of this process was accounted for by the increase in the activity of the banking sector, growth of the investments in housing building by the population and the intensive inflow of the foreign capital. Until recently low real value of credit resources contributed in increase in number of the borrowing organizations. Among the factors influencing the dynamics of the credits and other borrowed funds one can highlight the growth of the organized forms of population's savings. As a result of 2008 the share of funds directed to the share participation in the construction made 3.3% of the total amount of the investments in fixed assets, of which the means of the population were 1.5%.

Financial crisis defined the specific features of the investors' behavior at the market of housing construction. Whereas in January-September the share of funds received for the share participation in the construction made 3.5%, of which the funds of population accounted for 1.7%, in the fourth quarter these figures were equal to 2.9% and 1.0%, correspondingly.

In 2008 the share of banks in the structure of investment resources made 11.0% against 10.4% in 2007 and 9.3% in 2006, however the trend for the increase of the insurance and investments companies', industrial and trading enterprises in the financing of the investment activity did not sustain.

Attention should be paid to the peculiar features of foreign banks' participation in the financing of investment activity. Increase in the share of foreign investments and the growth of foreign banks' participation in financing of the investments in fixed assets in the Russian economy has been observed since 2000. In January-September 2008 the share of foreign investments in the total volume of investments was 5.2%, and the share of credits issued by foreign banks increased up to 1.7% versus 1.1% in the corresponding period of the previous year. In the fourth quarter the volumes of direct foreign investments decreasing in absolute terms by 4.0% as compared with the corresponding period of the previous year, the share of foreign investments being 3.7% of the total volume of investments in the Russian economy.

In contrast to the preceding years in 2008 the net outflow of the capital and foreign investments is observed. According to the preliminary estimation of the Central Bank of the Russian Federation, in the 4<sup>th</sup> quarter 2008 net outflow of the of the private capital made USD 130.5 billion (*table 44*).

*Table 44*

**Net Import/Export of private Capital, According to Data of Balance-of-payments,  
as USD billion**

	Net import/export of private capital, total	including:	
		Net export/import of capital by banks	Net export/import of capital by non-financial enterprises and households
1999	-20.8	-4.3	-16.5
2000	-24.8	-2.1	-22.8
2001	-15.0	-1.3	-16.2
2002	-8.1	2.5	-10.6
2003	-1.9	10.3	-12.2
2004	-8.9	3.5	-12.4
2005	0.1	5.9	-5.8
2006	41.8	27.5	14.3
2007	83.1	45.8	37.3
I quarter	13.9	0.1	13.9
II quarter	54.5	36.9	17.6
III quarter	-7.0	-3.5	-3.5
IV quarter	21.7	12.3	9.3
2008	-129.9	-57.5	-72.5
I quarter	-23.1	-9.9	-13.2
II quarter	41.1	22.1	19.0
III quarter	-17.4	-13.4	-4.0
IV quarter (estimation)	-130.5	-56.2	-74.3

*Source:* Central Bank of the Russian Federation

Throughout 2008 quite considerable changes took place in the structure of investments in fixed assets by kinds of economic activities (*Table 45*). As a result of 2008 the growth rates of investments in the industry remained in the positive field, the increase in investments in fossil fuels extraction being 4.6%, in processing industries – 7.8%, in electricity, gas and water production and distribution – 11.3%. It should be noted at the same time that the increase in the concentration of the investments resources in industry up to 44.1% of the total volume of investments in the economy occurring in January-September 2008 was replaced by the reduction of the investment activity scale in extractive and processing industries, as well as in electricity, gas and water production and distribution in the fourth quarter 2008. As a result, the share of investments in industry in the total volume of investments in the fixed assets in the economy was equal to 38.4% over the period of October-December 2008.

As compared with 2007, there was reduction of investments observed in construction (by 8.3%), in trade (by 4.4%), in communication (by 4.9%). The investments in the transportation maintained quite high dynamics at the expense of railway transportation, making 112.4% on 2007.

*Table 45*

**Structure of Investments in Fixed Assets by kinds of Economic Activity**  
**(Not taking into account the subject of small-scale business and the parameters of informal activity)**

	2007	2008	including	
			January-September	October-December*
<b>Total</b>	100	100	100	100
including by kinds of economic activities:				
agriculture, hunting and forestry	4.5	3.9	4.2	3.4
industry	40.7	42.0	44.1	38.4
minerals extraction	16.8	16.6	18.3	13.7
of which fossil fuels extraction	15.3	15.1	16.7	12.6
processing industries	15.6	16.5	17.5	14.8
electricity, gas and water production and distribution	8.3	8.9	8.3	9.9
Construction	2.7	2.4	2.7	2.0
Wholesale and retail trade; motor vehicles and motorcycles services; repair of household appliances and items of private use	3.6	2.7	2.7	2.7
Transportation	18.9	21.9	20.4	24.2
Communication	4.7	4.1	4.1	4.1
Financial activity	1.4	1.2	1.2	1.2
Operations with real estate, rent and services rendering	12.8	11.7	11.9	11.3
Education	2.4	2.2	1.8	2.8
Public administration and military defense security; compulsory social security	2.1	2.0	1.6	2.7
Health care and social services rendering	2.8	2.6	2	3.5
Rendering of other utilities, social and personal services	2.8	2.9	2.8	3.4

\*preliminary data

Source: Federal State Statistics Service

Low figures of investments activity in the fourth quarter of 2008, increase in the volumes of the unfinished construction, high interest rates and limited availability of credits account for the unfavorable environment for the economy development in 2009.

### 3.4.2. Foreign Investments

In 2008 the total of USD 103.8 bln of foreign investments was received by the Russian economy, which is 14.2% below the corresponding figure of 2007 (*Table 46*).

*Table 46*

**Structure of Foreign Investments in Russian Economy**

	As USD billion				As percentage to the previous year			
	Total	Direct	Portfolio	Other	Total	Direct	Portfolio	Other
2004	40 509	9 420	333	30 756	136.4	138.9	83.0	136.6
2005	53 651	13 072	453	40 126	132.4	138.8	136.3	130.5
2006	55 109	13 678	3 182	38 249	102.7	104.6	700.0	95.3
2007	120 941	27 797	4 194	88 950	219.5	203.2	131.8	232.6
2008	103 769	27 027	1 415	75 327	85.8	97.2	33.7	84.7
January-September	75759	19201	1296	55295	86.2	97.7	83.7	82.8
October-December	27976	7826	119	20031	84.8	96.0	4.5	90.2

Note. Direct investments are investments in real assets, purchase of the controlling stock or holding of stock that gives the right to participate in management; portfolio investments are investments in securities with the sole purpose of getting profit; other investments are investments made on repayable basis (credits of international financial organizations, trade credits etc.)

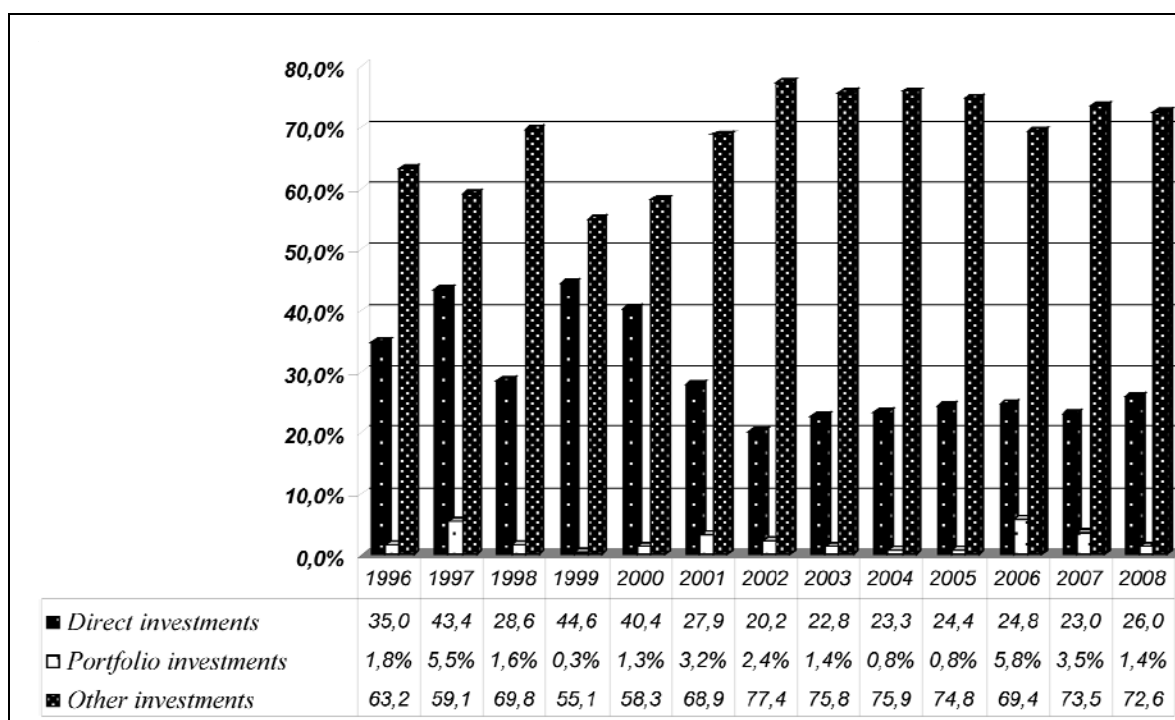
Source: Federal State Statistics Service.

According to the report on investments by UN Conference on Trade and Development published in October 2008, in 2007 Russia held the ninth place in the world by the volume of

direct investments attracted (in 2006 – 10<sup>th</sup>, in 2005 – 15<sup>th</sup>). The same as in the previous year Russia is the second among the developing countries, the first place being held by China (in 2005 – 3<sup>rd</sup> place)<sup>22</sup>.

In December international Rating Agency S&P lowered Russia’s sovereign rating from BBB+ to BBB, the forecast for the rating being negative. In the opinion of the agency, “the lowering of ratings reflects the risks connected with the sharp decrease in foreign currency reserves and other investment flows that result in the increase of the costs and difficulties arising in saturation of the country with the external financing”. Moody’s agency did not follow the example of S&P lowering the Russia’s rating, instead it confirmed the positive forecast for the Russian federation concerning its debt liabilities and deposits (in June 2008 Moody’s agency increased the Russia’s rating from Baa2 to Baa1, the forecast being positive).

As a result of 2008 the volume of the direct investments in the Russian economy has lowered by 2.8% as compared with 2007. The decrease was due to the component of credits received from the foreign co-owners of organizations that reduced by 16.3% over the period under consideration. In contrast, the payments to the authorized capital stock went up by 7.4% up to USD 15.9 billion. Thus, the proportion of credits received from the foreign co-owners of the companies in the structure of direct foreign investments in the Russian federation reduced from 42.0% in 2007 to 36.2% in 2008, whereas the share of the payments to the authorized capital stock went up from 53.2% to 58.8%.



Source: Federal State Statistics Service

Fig. 44. Structure of Foreign Investments in Russian economy in 1996–2008, as percentage

<sup>22</sup> In accordance with the data presented in the report «World Investment Report», UNCTAD 2007, 2008.



In the total structure of the foreign investments received by the Russian economy in 2008 it was in the segment of portfolio investments where the most considerable decrease (of 66.3%) was observed, the majority of which are accounted for by the investments in shares and stocks (95.5% of the total portfolio investments in 2007, 79.6% in 2008).

In 2008 the amount of other investments lowered by 15.3% as compared with 2007. The proportion of trade credits in the structure of foreign investments went up from 12.7% in 2007 to 21.5% in 2008. As to the periods of funds attraction, the volume of credits for the period over 6 months decreased by 27.1%.

Thus, as compared with the previous year, in 2008 the structure of foreign investments in the Russian economy was subject to some changes (*Fig. 47*).

The same as in the previous year, the highest concentration of investments in trade and industry sustained. It should be noted that as a result of 2008 the foreign investments in industry did not change considerably as compared with 2007, and the investments in trade reduced by half. A considerable reduction in the investments in trade resulted in the decrease in its proportion in the structure of foreign investments as broken by branches of industry when compared with the previous year. The distribution of foreign investments by main branches of Russian economy is represented in *Table 47*.

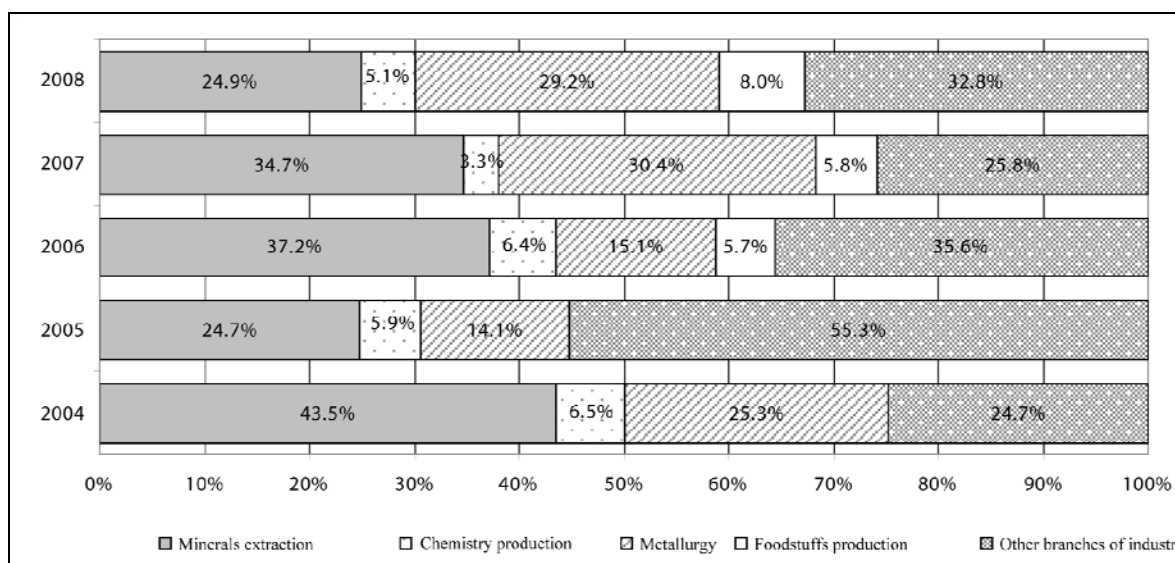
*Table 47*

**Structure of Foreign Investments in Russian Economy as Broken  
by Branches in 2006-2008**

	As USD million			Change as percentage on the previous year			As percentage to the total		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
Industry	24 607	50 163	49 704	101.2	203.9	99.1	44.7	41.5	47.9
Transport and communication	5 297	6 703	4 861	137.9	126.5	72.5	9.6	5.5	4.7
Wholesale and retail trade; motor-vehicle and motorcycles servicing; repair of household appliances and private items	13 089	47 310	23 905	64.0	361.4	50.5	23.8	39.1	23.0
Operations with real estate; rent and services rendering	5 998	8 414	15 378	230.1	140.3	182.8	10.9	7.0	14.8
Financial activity	4 698	4 450	4 977	259.1	94.7	111.8	8.5	3.7	4.8
Other branches	1 420	3 901	4 944	231.8	274.7	126.7	2.5	3.2	4.8

*Source:* Federal State Statistics Service

The decrease in the investments in minerals extraction of 28.7% was observed in the structure of foreign investments in industry as a result of 2008 (in 2007 there was a growth of 1.9 times). Foreign investments in processing industries went up by 6.2% (in 2007 the growth of investments in processing industries made 2.1 times). As to processing industry, the investments in foodstuffs production increased by 36.7%, in chemistry industry – by 53.8%, reaching the figure of USD 4.0 billion and USD 2.5 billion, correspondingly. Foreign investments in metallurgy decreased by 4.88% in 2008 as compared with the preceding year and made USD 14.5 billion.



Source: Federal State Statistics Service. There are no data available for investments in foodstuffs production in 2004-2005

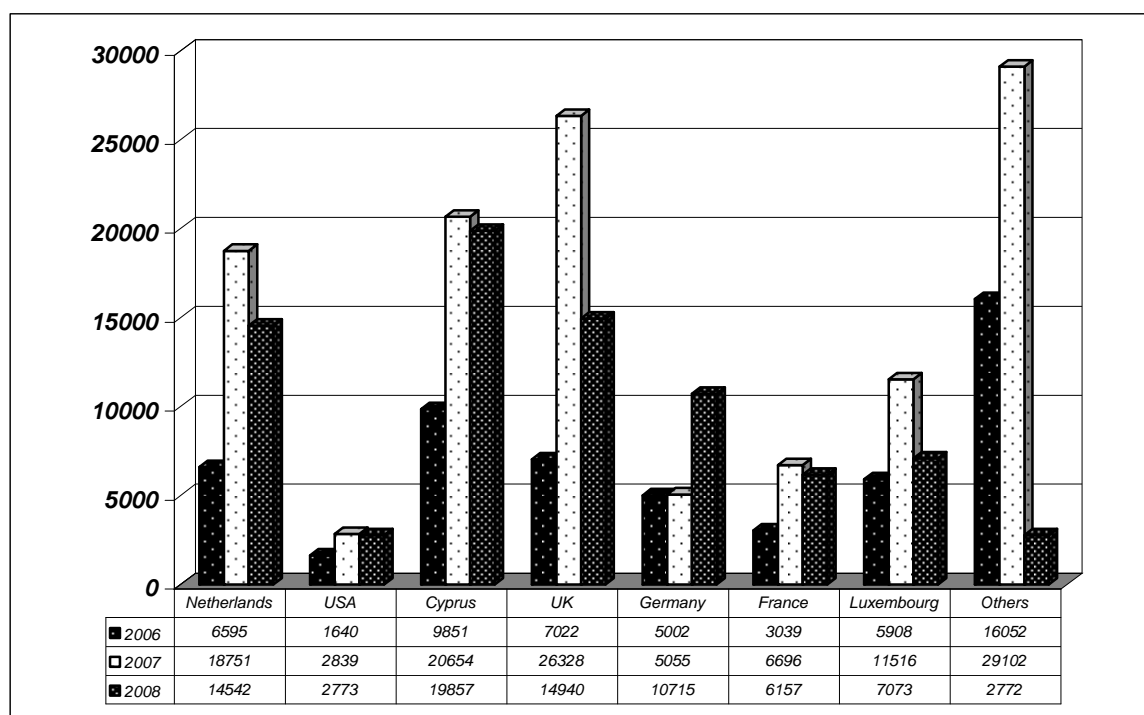
*Fig. 45. Structure of Foreign Investments in Russian Economy in 2004–2008*

In 2008 direct and portfolio investments in the industry decreased by 27.3% and 64.5%, correspondingly, as compared with 2007. Other investments in industry, in contrast, went up by 22.8% versus the previous year. Thus, the proportion of direct and portfolio investments in the industry decreased from 36.3% and 8.5% in 2007 to 26.6% and 2.3% in 2008, the share of other investments increasing from 57.3% to 71.1% over the same period.

The changes were also observed in the structure of foreign investments by kinds of economic activities in the industry (*Fig. 45*). In the sphere of minerals extraction the direct investments reduced by 2.8 times, which resulted in the contraction of their proportion in the total investments in this sphere to 40.2% (80.1% in 2007). The share of other investments in extractive industries, whose growth is estimated to be 2.1 times as a result of 2008 (up to USD 7.3 billion), increased up to 59.0% (19.8% in 2007).

The same as in the previous year, in 2008 the biggest part of foreign investments in the processing industry was accounted for by other investments, which went up by 10.5% versus 2007, reaching the figure of 81.9% in the resulting figure for the investments in processing industry. Over the same period the direct foreign investments in processing industries went up by 44.3%. The proportion of the direct investments in the processing industry went up to 17.5% (12.8% in 2007).

Cyprus, the UK, the Netherlands, Germany and Luxemburg retained their leading positions when the geographic structure of the foreign investments received by the Russian economy in 2008 is considered. As a result of 2008 the biggest amount of the investments (USD 19.9 billion, 19.1% of the total volume of foreign investments received by the Russian economy over the period mentioned) was directed from the Cyprus, USD 14.9 billion (14.4%) was received from the UK and USD 14.5 billion (14.0%) – from the Netherlands (*Fig. 46*).



Source: Federal State Statistics Service

Fig. 46. Geographic Structure of Foreign Investments in Russian Economy in 2006–2008, as USD million

In 2008 it was the investments from Germany that grew at fastest rates, increasing by 2.1 times versus 2007. At the same time investments from Cyprus decreased by 3.9%, from France – by 8.0%, from the USA – by 2.3%. The investments that decreased most considerably were from Ireland – by 43.9%, from the UK – by 43.3%, from Luxembourg – by 38.6% and from the Netherlands – by 22.4%.

The differences in the investments' dynamics resulted in the changes in the geographic structure of the foreign investments in the Russian economy.

The same as in the previous year the Cyprus investors were mainly interested in operations with real estate, trade, financial activity and construction, investing in these spheres 30.9%, 21.5%, 8.4% and 6.0%, correspondingly, of the total investments from Cyprus into the Russian Federation. As a result of 2007 these spheres accounted for 19.0%, 45.5%, 7.1% and 4.7%, correspondingly, of investments from Cyprus.

The entrepreneurs of the UK continued to invest in trade, though in 2008 this sphere received 2.9 times less investment than in 2007. As a result of 2008 the trade accounted for 39.1% of the total investments of the UK in the Russian Federation (64.2% in 2007). The share of processing industries in the structure of UK investments increased from 27.7% in 2007 to 31.7% in 2008.

As to the structure of investments in the Russian Federation from the Netherlands, there the decrease of the proportion of the fossil fuels extraction from 67.1% in 2007 to 33.1% in 2008 occurred. Russian power industry accounted for 14.7% of investments directed from the Netherlands in the Russian Federation in 2008.

As on the end of 2008 the accumulated foreign capital not taking into account the institutions of monetary and credit regulation, commercial and savings banks, including ruble investments recalculated in US dollars made USD 264.6 billion, which is 19.9% above the corresponding figure of the beginning of the year.

It is the Cyprus, the Netherlands, Luxembourg, the UK and Germany that still hold the leading positions in the total volume of accumulated foreign investments, their share being 70.3% (72.0% in 2007). At the same time the share of the first five leading countries in the segment of direct and other investments reduced to 73.4% and 57.6% (77.0% and 67.85 in 2007), and in the structure of portfolio investments it went up to 75.3% (65.1% in 2007) (*Table 48*).

*Table 48*

**Accumulated Foreign Investments as Broken by Main Investing Countries**

	Accumulated by 01.01.2009, USD million				Change calculated on 01.01.2008, percentage			
	Total	Direct	Portfolio	Other	Total	Direct	Portfolio	Other
USA	8 769	3 193	662	4 914	102.2	87.8	54.8	131.5
Germany	17 425	7 275	26	10 124	147.8	161.9	26.5	140.7
France	9 542	1 927	1	7 614	161.2	124.0	3.2	175.7
UK	30 811	4 647	2 339	23 825	105.4	135.2	101.1	101.5
Cyprus	56 902	40 732	1 728	1 442	114.7	115.0	101.6	11.6
Netherlands	46 346	35 931	41	10 374	118.6	101.9	78.8	275.8
Luxembourg	34 402	1 217	273	32 912	118.0	165.6	124.7	116.7
Other countries	60 402	27 470	557	45 375	127.8	148.3	50.3	164.3
<b>Total</b>	<b>264 599</b>	<b>122 392</b>	<b>5 627</b>	<b>136 580</b>	<b>119.9</b>	<b>118.8</b>	<b>83.6</b>	<b>123.3</b>

*Source:* Federal State Statistics Service

It is other investments that prevail in the structure of foreign investments accumulated by the end of 2008, their share being 51.6%. The corresponding figure for direct foreign investments was 46.3%.

In the environment of reduction in the amount of foreign investments in the Russian economy the volume of withdrawn capital in the form of profit of foreign investors transferred abroad as well as in the form of payments of interest for the use of credits and credits repayments went up by 16.4% in 2008 as compared with 2007, making USD 67.95 billion (65.5% of the foreign investments received in 2008). In 2007 48.3% of the received foreign investments was withdrawn.

### **3.5. Russian Agrifood Sector: Performance and Trends**

#### **3.5.1. Organizational structure of agriculture**

The organizational structure of agriculture consists of corporate farms of different ownership types, individual private farms and household farms. Table 1 shows the number of these entities and their share in agricultural output. Over 95% of all agricultural entities are private. The dominating legal forms are limited liability companies (37.8%) and agricultural

production cooperatives (35.4%). In most entities joint stock, contributions or shares are dispersed among hundreds of participants.

*Table 49*

**Number of agricultural entities as of January 1 (thousand) and their share in gross agricultural output (%)**

Types of agricultural entities	1990		2000		2008	
	number	% of GAO	number	% of GAO	number	% of GAO
Corporate farms and institutions	29.4	73.4	27.6	43.4	24.0	43.4
incl. state farms and institutions, %	16.6*	n.a.	4.9	n.a.	4.2	n.a.
Small entities		n.a.		n.a.	23.3	n.a.
Individual private farms	4.4	0	261.7	3	265.0	7
Individual entrepreneurs	-		-		92.2	
Household farms, million**	16.3	26.6	16	53.6	22.7	49.6

\* - including 13 thousand state farms.

\*\* - the share in agricultural output is given for household farms in general irrespective of their type since their performance by types is not statistically recorded.

Source: Russian Agriculture. Russian Agrifood Sector, RF Ministry of Agriculture. Russian Statistical Yearbook.

According to data of the 2006 Agricultural Census the share of actually operating entities in the total number of registered entities of respective types equaled: corporate farms – 68.6% (70.6% for large and medium farms and 63% for small ones), individual private farms and individual entrepreneurs engaged in agricultural business – 51.7%<sup>23</sup>.

Household farms formally are not regarded as small entrepreneurial entities although they produce about one half of agriculture’s gross output and about one third of its commodity output. They are traditionally considered to be small entities.

In recent years the role of agroholdings in Russian agriculture was discussed. However, their exact number is not known. According to estimates of V.Ya.Uzun<sup>24</sup> about 21% of large and medium corporate farms are associated into such holdings. They produce 26.5% of the total output of this group of farms. 318 private holdings associate only 6.5% of the total number of large and medium corporate farms. Most efficient are the entities incorporated in agroholdings with foreign mother companies – their profitability was more than twice above the average for large and medium corporate farms.

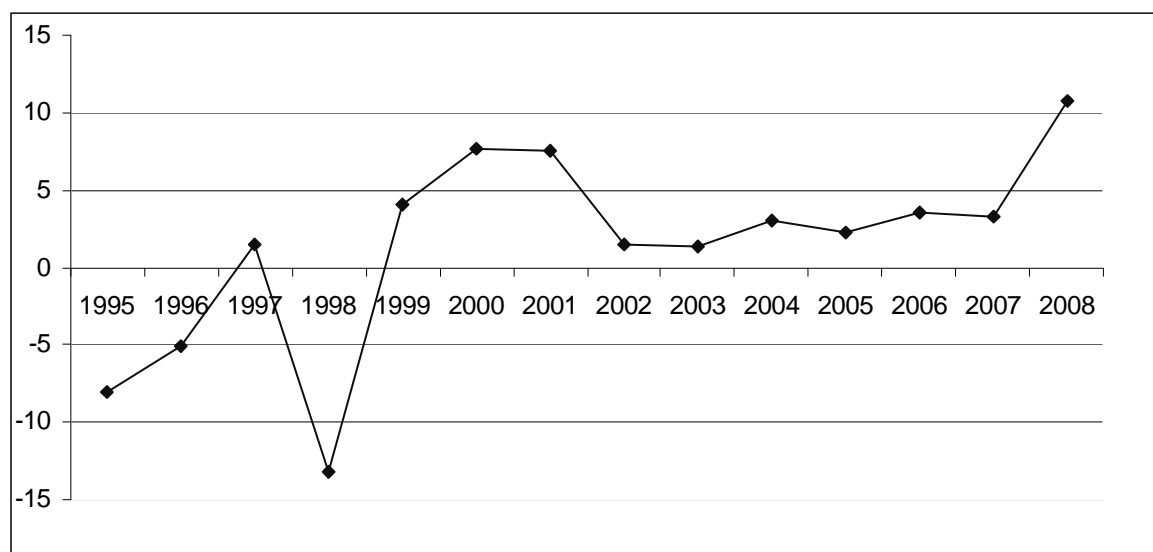
### 3.5.2. Agricultural output and structure of farm production

In 2008 the gross agricultural output in Russia was below the pre-reform level. Still, the 2008 farm performance should be regarded as positive: the annual production growth was maximum over the whole examined period (*Fig. 47*).

Household farms continue to play quite an important role in agricultural production. Before the start of agrarian reform in 1990 they accounted for 26.6% of gross agricultural output. During the transition period this share sizably grew – up to 58.6% in 1998. In the following years it was reducing and by the end of 2007 fell down to 49.6% (as of January 1, 2008). There has also formed and is steadily developing the sector of individual private farms. Yet, its share in GAO is still relatively small – about 7%.

<sup>23</sup> 2006 All-Russian Agricultural Census, preliminary results. Vol.2, pp. 20-21.

<sup>24</sup> Uzun V.Ya. Rating of large and medium corporate farms in Russia in 2004-2006. Moscow, All-Russian Institute of Agrarian Problems and Informatics named after A.A.Nikonov, 2007.



Source: Rosstat.

*Fig. 47. Russia: percent change of annual gross agricultural output in 1995-2008*

The role of small entities (small enterprises, individual private farms, household farms, individual entrepreneurs engaged in agriculture) differs greatly by RF regions. In 6 of them such entities account for over 90% of gross agricultural output, in 24 – for over 70%. They produce less than 30% of GAO only in Belgorod oblast where agroholdings are rapidly developing and in three northern regions where due to unfavourable climatic conditions population has actually stopped producing farm products while corporate farms subsidized from the budget still continue doing that (Murmansk oblast, Chukotsky and Nenetsky autonomous districts).

Despite their small share in gross agricultural output of the country at large, individual private farms play quite an important role in some RF regions. For instance, in Astrakhan and Magadan oblasts, Kalmyk, Kabardino-Balkarian and Yakutia republics they produce 23-29% of GAO. In 7 RF regions the share of individual private farms in gross agricultural output is larger than that of corporate farms of all organizational and legal types. The high share of household farms in agricultural production after 1990 is traditionally attributed to slower production decline as compared with corporate farms. However, that's not true. Output of household farms was growing (in 1994 it was 57% above the 1990 level in comparable prices) while output of corporate farms was falling (by 37% over the same period<sup>25</sup>).

In 9 months 2008 index of agricultural production by all types of farm producers amounted to 106.5% (104% - livestock production and 109% - crop production), in January-October 2008 – 108.8% as compared with the respective period of 2007.

Crop output is prevailing in the structure of GAO – in the recent 6 years its share ranges from 52.8 to 55.4%.

---

<sup>25</sup> Russian Agriculture. Official edition. Moscow, State Committee for Statistics. 1995, p.30.

**Crop production**

2008 is considered to be one of the most successful years as regards agricultural production starting from the early 1990s. Output of grain, sunflower seeds and vegetables exceeded all the preceding annual averages beginning from 1986-1990 (*Table 50*).

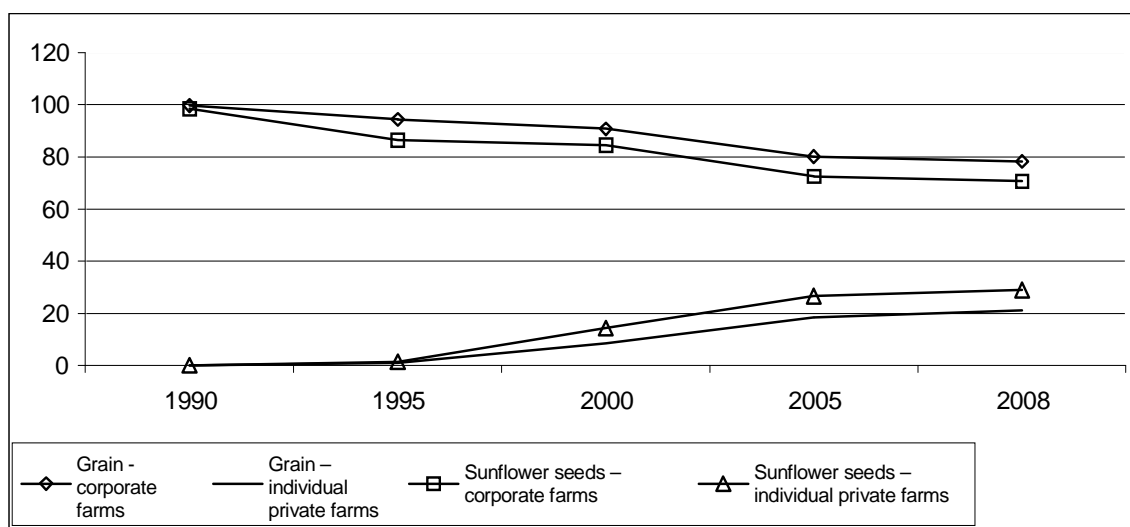
*Table 50*

**Gross output of basic farm crops, million tons**

	Annual average			2005	2008
	1986-1990	1991-1995	1996-2000		
Grain (weight after primary processing)	104.3	87.9	65.2	78.2	108.1
Potatoes	35.9	36.8	34.5	37.3	28.9
Vegetables	11.2	10.2	11.4	15.2	13.0
Sunflower seeds	3.1	3.1	3.3	6.4	7.3
Sugar beets	33.2	21.7	14	21.4	29.0

Source: Rosstat.

Similarly to previous years, in 2008 corporate farms remained the basic producers of grains (78.2%), sugar beets (89.2%) and sunflower seeds (70.7%). Potatoes and vegetables continue to be traditionally grown in household farms – 83.5% and 70.7% respectively. Individual private farms already account for over 21% of the country’s grain output and 28.9% of the total output of sunflower seeds.



Source: Rosstat.

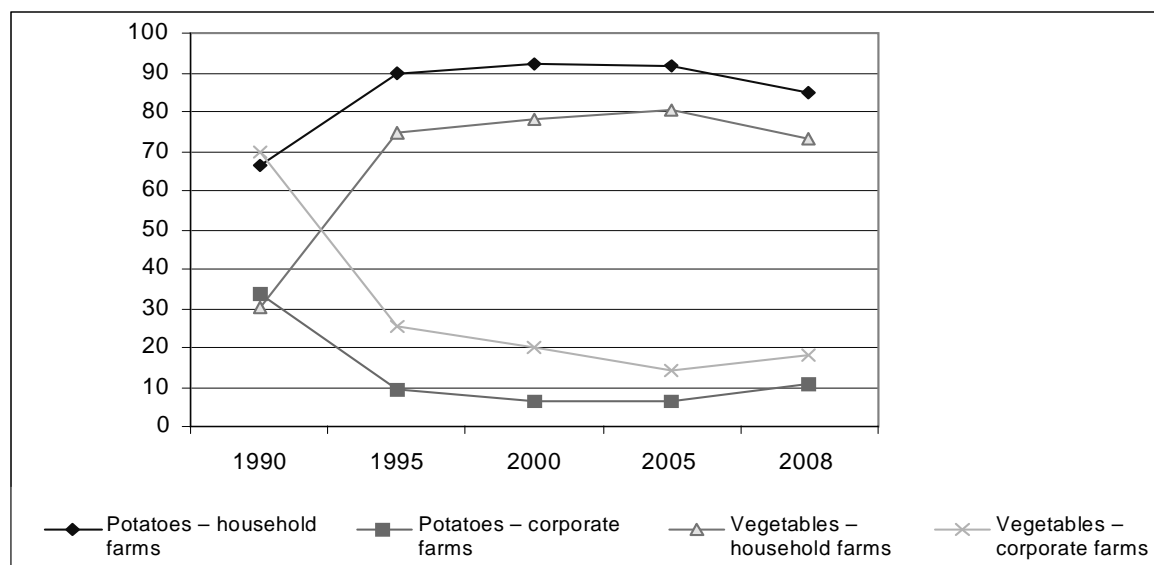
*Fig. 48.* Production of grain and sunflower seeds in corporate farms and individual private farms (as % of the total)

The extreme lowering of prices received by farms in October-November 2008 (down to 4 rubles per kg for food grain and 2.5 rubles per kg for feed grain<sup>26</sup>) served the basis for forecasts predicting contraction of areas planted and consequently smaller gross grain output in 2009. However, the Rosstat data so far do not confirm these forecasts: areas planted in winter grains in autumn 2008 are 5% larger than in 2007. At the same time the area of autumn

<sup>26</sup> [http://www.mcx.ru/dep\\_doc.html?he\\_id=949&doc\\_id=20253](http://www.mcx.ru/dep_doc.html?he_id=949&doc_id=20253)

ploughing reduced by 2% preconditioning smaller areas under spring crops. One can observe a trend towards minor shifting of grain and sunflower production from corporate farms to individual private farms (*Fig. 48*).

In 2005 the trend towards larger production of potatoes and vegetables in household farms observed since 1990 reversed – the share of corporate farms and individual private farms in their output started to grow. As compared with 2007 the share of household farms in output of potatoes fell by 2%, in that of vegetables – by 1.7% (*Fig. 49*).



Source: Rosstat.

*Fig. 49.* Production of potatoes and vegetables in corporate farms and household farms (as % of the total)

### ***Livestock production***

In the pre-reform period over 75% of livestock output was produced in corporate farms. From the early 1990s to 2000 the share of corporate farms in livestock production fell down to 40%. Starting from 2001 it was gradually growing and in 2008 approached 49%<sup>27</sup>.

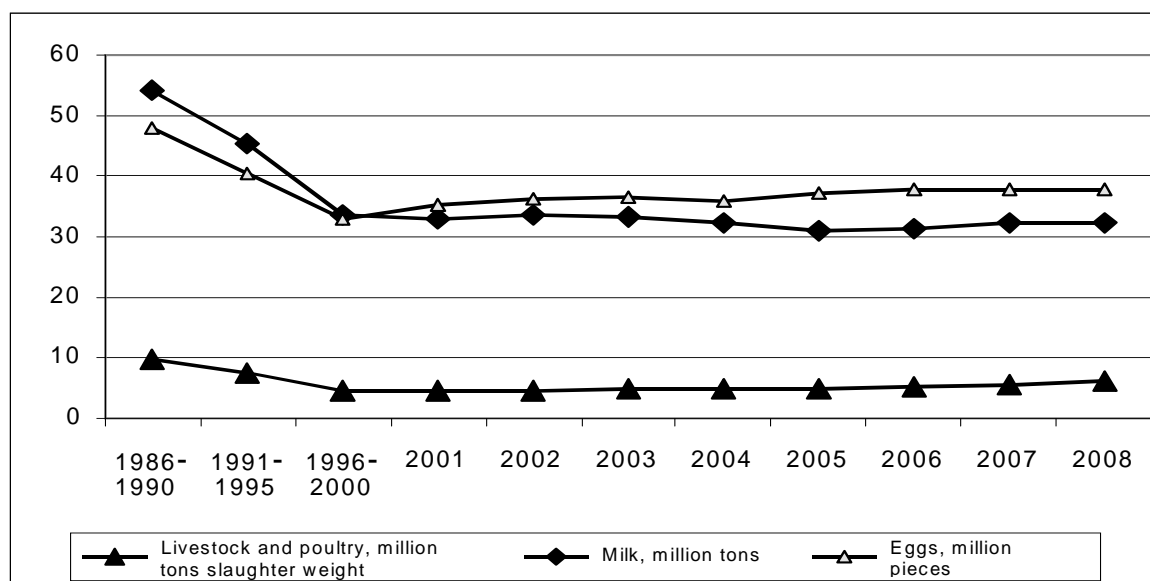
*Fig. 50* shows the aggregate average annual output of basic livestock products in all farms.

As compared with 2007 the total production of meat in all types of farms increased by 6.7%. The increase is primarily due to larger output of poultry meat (up 19% as compared with 2007) and pork (up 14%) meaning growing application of intensive technologies in meat production. Although livestock sector is growing since 2001, the current output of meat approaches only the 1970 indicator, the output of milk – the indicator of 1958<sup>28</sup>. In 2008 the output of slaughter livestock equaled 81.3% of the respective 1991-1995 indicator, the output of milk – 71.4%, the output of eggs – 93.8%. Production of meat and milk is growing since 2006, production of eggs – since 1996.

<sup>27</sup> Rosstat.

<sup>28</sup> Russian Statistical Yearbook. Official edition. Moscow, 2006, p. 457.





Source: Rosstat.

Fig. 50. Output of basic livestock products

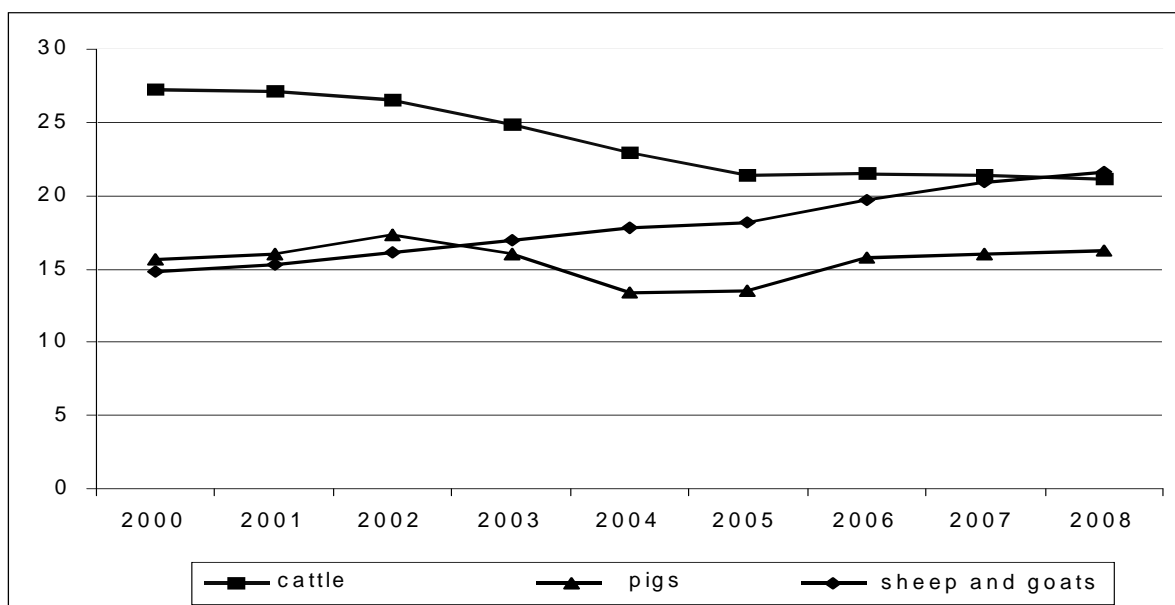
Since the start of land reform rural population has got better access to hay and pasture lands: in the early 1990s over 20 million hectares of former collective and state farms' agricultural lands were transferred into the jurisdiction of rural administrations. The privatization of these former farms' agricultural lands (about 124 million hectares) in favour of most part of rural residents has also contributed to production increase in household farms. This is due to the traditional practice when tenants (corporate farms and individual private farms) pay the rent to land owners / lessors in the form of grain used for feeding livestock and poultry in household farms rather than for food purposes. At the same time rural residents could exchange their shares in land transferred to them in the course of privatization from former collective and state farms for physical plots outside rural settlements to be used for extending household farming. The area of such plots can amount to dozens of hectares per rural family. They are also largely used for livestock production. This enables households to keep 47.5% of the total cattle inventories, 33.8% of pigs and 52.1% of sheep and goats. In 2008 production of pork shifted to corporate and individual private farms while the share of households fell by 3.8%.

At present livestock production in household farms is supported in the framework of State program for agricultural development and regulation of agricultural and food markets for the 2008-2012 period. However, one should admit that the share of budget funds allocated to the support of such farms is small and does not correspond with their share in commodity agricultural output. The situation in livestock production is traditionally worse than in crop production. This is primarily due to the fact that actually all livestock products need to be sold within 1-2 days. Producers of milk and meat are forced to agree to any terms set by the purchasers.

Awaiting the introduction of new technical regulation for milk<sup>29</sup> dairy plants reduced purchase prices for whole milk down to 6.5-8 rubles per litre (September 2008). It's obvious that within the period till December 20, 2008 they hurriedly utilized stocks of dried milk. Such policies of dairy plants often incorporated in a limited number of dairy holdings are extremely harmful and undermine the opportunities for larger domestic production of farm products in the long term.

There are also problems with marketing of livestock products produced by domestic agriculture. The collection of non-dressed carcasses and the forming of homogeneous lots of primarily processed products for delivery to food producers or traders require larger transaction costs as compared with import of such products. Given that imported products remain attractive, importers won't re-orient towards buying domestic output and developing the system of work with small meat producers. This stimulates small producers of farm products to self-organize and learn to protect their interests<sup>30</sup>.

The dynamics of livestock inventories in 2000-2008 are shown at *Fig. 51*.



Source: Rosstat.

*Fig. 51.* Livestock inventories, million heads by the end of the period

By the end of October 2008 cattle inventories in farms of all types totaled 21.1 million heads (2.6% below the corresponding indicator of the previous year) including 9.2 million cows (down 1.3%), inventories of pigs – 16.3 million heads (up 1.2%), inventories of sheep and goats – 21.6 million heads (up 2.7%). The decrease of livestock and poultry inventories is accompanied by the improvement of their productivity – *Table 51*. However, the average annual milk production per cow despite being the highest ever in the history of Russian corpo-

<sup>29</sup> The new technical regulation prohibits the use of name “milk” for products made out of dried milk.

<sup>30</sup> Address of representatives of 422 rural settlements in Volgograd oblast to the RF President D.Medvedev about restriction of meat import in view of the growing production in household farms. 26.01.2007. Shelestovo rural settlement of the October district of Volgograd oblast.

rate farms (it's currently approaching 4 thousand kg) still remains far below the level of developed countries<sup>31</sup>.

*Table 51*

### Livestock and poultry productivity

	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2007 as % of 1990
Annual milk production per cow, kg	2731	2007	2343	2553	2808	2979	3065	3280	3564	3758	137.6
Annual egg production per laying hen, pieces	236	212	264	273	279	285	292	301	302	301	127.5
Annual wool production per head, kg	3.9	2.7	3.2	3.1	3.1	3.2	3.1	2.8	2.7	2.7	69.2

*Source:* Russian agrifood sector in 2007, RF Ministry of Agriculture.

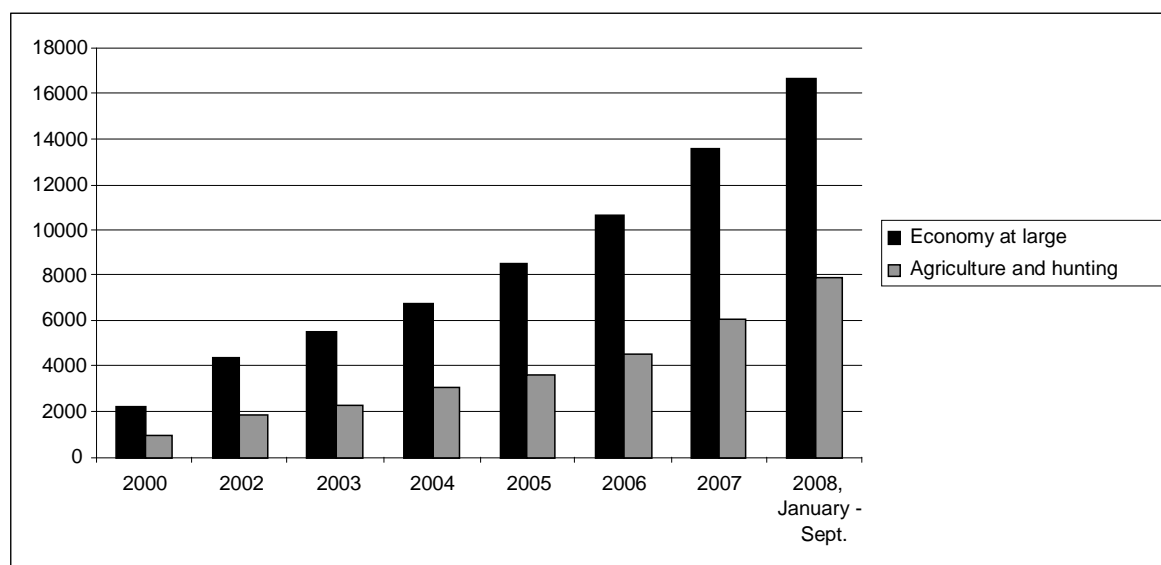
The quality dynamics are also positive: from 2004 to 2007 the share of highest-grade milk in the total milk sales grew by 20%; the share of marketed slaughter livestock and poultry of the best and first category finish is also expanding.

#### 3.5.3. Agricultural labour

Since about one half of agricultural output in Russia is produced by household farms it's not easy to estimate labour resources engaged in farming. According to data of the Agricultural Census, as of July 1, 2006 there were 22.8 million household and other individual farms in the country of which 88.7% were engaged in agricultural activities. The Census also for the first time provided data about the distribution of household and other individual farms by the number of employed in farm works. Household farms are usually small and micro entities that over the year employ not more than 2 persons in such works (69%); the share of farms employing more than 4 persons therein does not exceed 4%. The number of employees in corporate farms totaled 2613.9 thousand, in peasant (individual private) and individual entrepreneurs' farms – 553.5 thousand; on the average one corporate farm employed 80 workers, one peasant or individual entrepreneur's farm – 4 workers. Beginning from 1995 agricultural employment is steadily shrinking both absolutely and relative to the total number of employed in the national economy. In 2007 the average annual number of employed in farming, hunting and forestry equaled 6756 thousand (10% of the total employment in the national economy).

For the third successive year wages in agriculture are growing at accelerated rates. In January-September 2008 they increased by 37.3% while in the economy at large – by 28.7%. During this period the average monthly wage in the sector equaled 7883 rubles, or 47.4% of the national economy's average. Such situation persists for quite a long time (*Fig. 52*). The average wage in agriculture continues to be one of the lowest as compared with other economic activities.

<sup>31</sup> In 2007 the average annual milk production per cow in the US was about 9.2 thousand kg. <http://www.census.gov/compendia/statab/tables/09s0831.xls>



Source: Federal Service of State Statistics.

*Fig. 52. Average nominal monthly wages in agriculture, hunting and the economy at large, rubles*

Meantime the actual average work time of workers on payroll in corporate farms is the longest among all kinds of economic activity (7.63 hours in January-September 2008). Notwithstanding, vacancies are few: in January-September they equaled 1.2% of the payroll by the end of the period; lower indicators were observed only in education and fishery. During October wage arrears in agriculture grew by 9.6% (in economy at large – by 33.6%); however, situation on the agricultural labour market gives no grounds for optimism since the employment rate in rural areas is still low – 59.3% in August 2008 (in urban areas – 66.3%). Many rural residents are forced out to the non-formal sector. In August 2008 the share of rural residents employed in non-formal sector amounted to 33% of the total rural employment while that of urban residents – to 16% respectively. The biggest number of employed in non-formal sector work in agriculture (30.3%) and trade (32.5%).

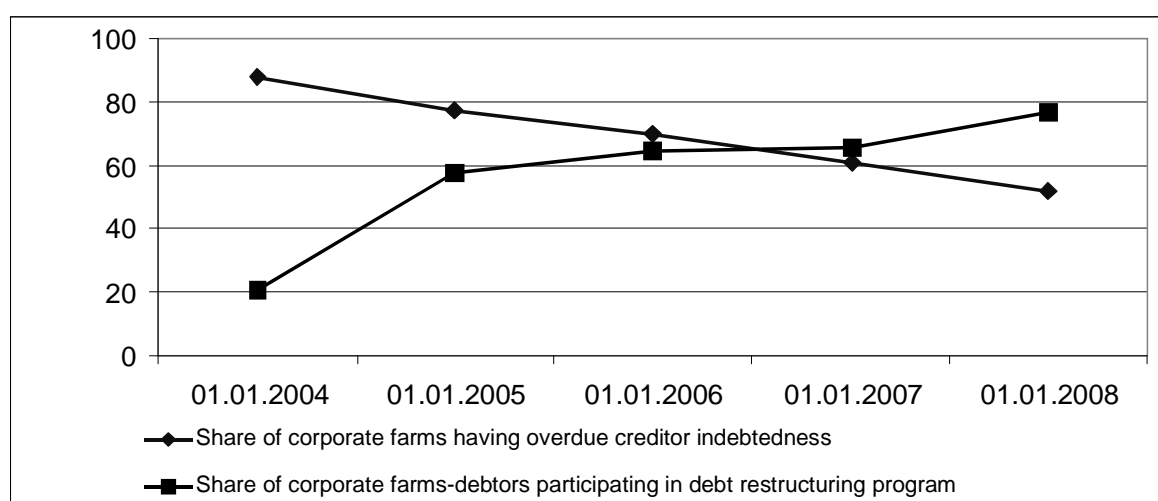
In August 2008 there were 1762 thousand unemployed rural residents, or 39.4% of the country's total. Out of them 0.7 million or 41.5% were unemployed stagnantly (looked for a job for 12 months and more).

As productivity grows able-bodied population is forced out from corporate farms to the sector of household farms, to the non-formal sector. Due to the lack of alternative employment opportunities wages of rural residents won't grow sizably implying difficulties in solving the housing problem (low wages preclude farm workers from getting a credit for buying dwellings that is envisaged by the State program). Therefore the creation of alternative employment opportunities in rural areas should be made a central point of rural development policies or the outflow of young people from these areas will continue.

#### 3.5.4. Farm financial performance

From 1990 to 1998 the share of loss-making corporate farms grew from 3 to 88%, overdue debts were accruing. These developments necessitated the working out of a state program for restructuring farm debts. Such a program was adopted on July 9, 2002 in the form of Fed-

eral Law “On financial recovery of agricultural commodity producers” (No.83-FL). By the beginning of large-scale implementation of the state debt restructuring program almost 90% of corporate farms had overdue creditor indebtedness. The main creditor of corporate farms was the state through its tax bodies and non-budget state funds. The program of restructuring envisaged delay (for not less than 5 years) and spreading (for not less than 4 years) of the principal debt’s repayment and the writing off of penalties and fines (both lump sum and as the principal debt is being repaid). The dynamics of corporate farms’ enrolment in the state debt restructuring program is shown at *Fig. 53*.



Source: RF Ministry of Agriculture. [http://www.mcx.ru/index.html?he\\_id=734](http://www.mcx.ru/index.html?he_id=734)

*Fig. 53.* Enrolment of corporate farms in the debt restructuring program, %

During the years of program’s implementation the number and share of corporate farms with overdue creditor indebtedness have notably reduced. By the beginning of 2008 they accounted for 52% of the total number of corporate farms. More and more debtors get enrolled in the restructuring program: by the beginning of 2008 76.8% of farms with overdue creditor indebtedness (primarily to tax bodies) became its participants. As a result of its implementation they will have to repay 39.9 billion rubles while 43.8 billion rubles of penalties and fines will be written off. The necessary condition for joining the debt restructuring program is the debtors’ obligation and ability to make current payments under their commitments. During the program’s implementation (as of January 1, 2008) over 4.8 thousand entities lost the right to participate in it having failed to meet current payment commitments. Over 9.3 thousand corporate farms with overdue debts cannot participate in the program, one of the causes being ongoing bankruptcy proceedings.

In 2008 the process of bankrupting corporate farms slowed down that is probably due to the termination of earlier initiated proceedings. While in 2005 7.4 thousand bankruptcy proceedings were underway, in 2006 – 10 thousand, as of January 1, 2008 – only 4.2 thousand. There is no information about restoration of corporate farms’ solvency as a result of bankruptcy proceedings (financial sanation and external management). Practice shows that the only effective proceeding is the one when an entity ceases to exist as a single property complex.

The enrollment in restructuring program enabled farms to exclude rescheduled debts from the list of outstanding ones and improved the entities’ balance, making them more attrac-

tive for direct investments and trustworthy for granting credits. Selected indicators of the sector's financial performance are given in *Table 52*.

*Table 52*

**Selected indicators of corporate farms' financial performance**

	2004	2005	2006	2007	2008 (est.)
Profitability including subsidies, %	10.5	7.8	9.9	17.2	7.2
Profitability less subsidies, %	5.3	2.1	2.6	8.1	-2
Share of profitable entities, %	63	58	65	75	81.8
Share of entities having overdue debts, %	87.8	77	69.9	61.1	51.9
Creditor indebtedness as % of receipts	89.6	89.1	105.8	112.7	n.a.

*Source:* RF Ministry of Agriculture.

In 2004-2005 subsidies from the state budget provided for about 5% of the corporate farms' profitability rate. In 2006-2007 this indicator already ranged from 7 to 9%.

The growth of creditor indebtedness is not a sign of negative trends. Taking into account bigger receipts and higher share of profitable entities, it evidences larger use of bank credits that has a positive effect on the sector's development. The amount of credits received by the agrifood sector in 9 months 2008 is 20 billion rubles above the previous year indicator and totals almost 324 billion rubles<sup>32</sup>. According to data of the RF Ministry of Agriculture at present the principal direct foreign investors in the Russian agrifood sector are Cargill, Nestle, Bunge, Coca-Cola, Craft, Mars, PepsiCo, Tetra Pak, British American Tobacco, Unilever. In 2005-2008 the amount of direct investments made by these companies in the launched or already implemented projects on the territory of the Russian Federation totaled over 1.8 billion US dollars including 649 million dollars in January-September 2008. Investments are made both in the construction of new technologically advanced enterprises and the extension and modernization of already existent production capacities. Such enterprises meet the highest modern ecological standards and quality requirements.

In 2008 the sector's production indicators were rather good while its financial performance deteriorated. The lowering of profits received and profitability rates of corporate farms was first of all due to the growth of prices for agricultural inputs. For instance, in 9 months 2008 prices for mineral fertilizers rose by 70% as compared with December 2007. In the sowing and harvesting periods prices for diesel fuel surged by over 30% as compared with the beginning of the year. At the same time prices for agricultural products on the whole grew by only 1.6% and prices for livestock products even fell by 2.7%<sup>33</sup>.

### 3.5.5. Production and availability of agricultural inputs

Despite a certain growth of agricultural inputs' production, the availability of some machinery for farm commodity producers decreases due to the accelerated retirement of outdated machines (*Table 53*).

As of October 15, 2008 (current departmental information) there were 493.35 thousand tractors, 146.9 thousand ploughs, 179.45 thousand cultivators and 222.4 thousand seeders in

<sup>32</sup> Data of RF Ministry of Agriculture.

<sup>33</sup> Data of RF Ministry of Agriculture.

the country. From the beginning of the year agricultural producers bought 19.6 thousand tractors, 8.4 thousand grain harvesters and 2.2 thousand fodder harvesters<sup>34</sup>.

From January 1, 2008 farms got 620 tractors, 14 harvesters, 327 trucks and 326 units of other agricultural machinery on leasing terms through the open joint-stock company “Rosagroleasing”.

The technical and technological modernization of agriculture is a separate component of the State program for agricultural development in 2008-2012. Altogether the purchase of over 175 thousand tractors and 55 thousand grain harvesters is to be supported within this period. By 2012 the renewal of machinery taking into account its retirement will amount to 40% for tractors and 50% for grain harvesters (as compared with 2006). 38.1 billion rubles over the 5-year term are envisaged for these purposes in the federal budget and are to be used for partial subsidizing of expenditures on loan interest. In addition 6 billion rubles will be invested in the “Rosagroleasing’s” authorized capital.

At present the demand of agricultural producers for tractors is primarily satisfied by import supplies although in 2008 their domestic production has largely grown. All the 8 operating tractor plants are currently united into “Agromachholding”.

Production of grain and fodder harvesters has also expanded so that both domestic and export demand is satisfied. “Rostsel’mach” produces 80% of all harvesters in the country and meets 65% of the respective market demand while Krasnoyarsk plant (that was rather strong in Soviet times) has recently cut production to a great extent (in 2007 “Rostsel’mach” produced 5185 grain harvesters while the Krasnoyarsk plant – only 1626)<sup>35</sup>.

*Table 53*

**Production of selected farm inputs, thousand pieces**

	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	I-X 2008 as % of I-X 2007
Tractors	214	21.2	19.2	14.2	9.2	8.1	8.4	9.6	11.0	13.4	178.8
Tractor ploughs	85.7	4.0	2.8	3.1	2.3	1.0	1.3	2.4	1.1	n.a.	146.1
Tractor seeders	51.1	1.6	5.2	6.4	5.3	4.2	5.7	6.5	5.2	n.a.	137.5
Tractor cultivators	101	2.0	4.7	5.6	6.6	6.2	8.3	8.8	6.6	n.a.	129.3
Grain harvesters	65.7	6.2	5.2	9.1	7.5	5.43	8.05	7.47	6.87	7.16	121.8
Mineral fertilizers, million tons	16.0	9.6	12.2	13.0	13.6	14.1	15.8	16.6	16.2	17.3	103.9

*Source:* Rosstat (1990-2002), RF Ministry of Agriculture (2003-2006), Soyuzagromach (2007).

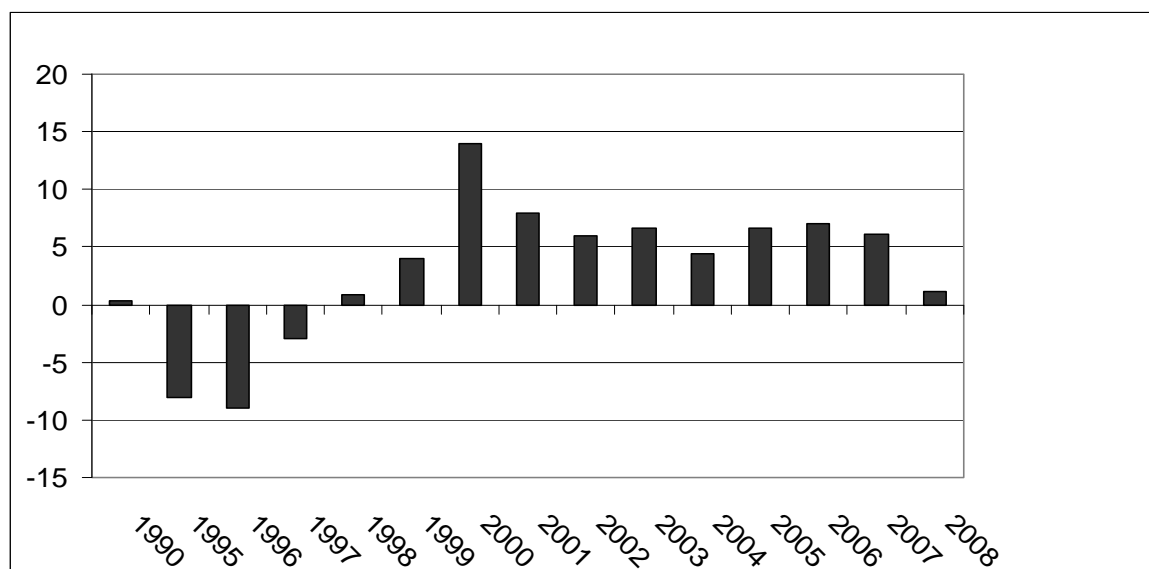
As different from farm machinery sector production of mineral fertilizers grew as compared with 1990 since during all these years it was a stable source of export revenues (about 90% of output was exported). Exports of potash fertilizers increased 2.2 fold, of nitrogen fertilizers – by 80.3%. Domestic demand for mineral fertilizers grows insignificantly. As compared with the previous year production of herbicides and other agrochemicals decreased slightly – down to 86% (Rosstat data for January-October 2008).

<sup>34</sup> The report of Agricultural Minister A.V.Gordeev at the State Duma session “On the implementation in 2008 of the State program for agricultural development and regulation of agricultural and food markets in 2008-2012 and the objectives for the future”. Published on November 5, 2008.– www.mcx.ru

<sup>35</sup> Data of Soyuzagromach.

**3.5.6. Food industry performance and food security doctrine**

In 2008 the index of food (including beverages and tobacco) production amounted to 101.1% as compared with 2007. In the first half of the year the sector developed more dynamically but due to the production decline in October (91.3% as compared with September 2008) the annual increase was insignificant (*Fig. 54*).



Source: Rosstat.

*Fig. 54. Percent change of food industry output in 1990-2008*

The most dynamic sector of food industry is the production of meat and meat products and especially of poultry meat and products that are more affordable for all strata of population (the increase being 17.4%). The outputs of sausage, margarine and pasta products have reached the pre-reform level and those of granulated sugar and vegetable oils have even surpassed it almost twice (*Table 54*).

*Table 54*

**Production of basic food products, thousand tons**

	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	I-X 2008 as % of I-X 2007
Meat	6484	2370	1193	1284	1456	1677	1698	1827	2100	2561	111.6
Sausage products	2283	1293	1052	1224	1468	1700	1832	1957	2010	2411	101.4
Butter	833	421	267	271	279	285	271	277	274	272	102.2
Whole milk products in milk equivalent, million tons	20.8	5.6	6.2	6.7	7.7	8.5	8.7	9.5	10	10.5	95.5
Vegetable oils	1159	802	1375	1281	1197	1598	1867	2206	2600	2735	90.2
Granulated sugar	3758	3155	6077	6590	6165	5841	4852	5588	5800	6112	96.0
Flour, million tons	20.7	14	12.1	12	10.9	11.2	10.8	10.2	10.2	10.3	98.5
Groats	2854	1418	932	994	951	890	893	926	966	1113	97.0
Pasta	1038	603	704	764	821	874	950	982	1028	1014	100.7
Margarine products	808	198	462	515	536	542	561	630	677	752	95.6

Source: Rosstat.



In recent years the demand for food products grew faster than the average real incomes of population but due to the financial crisis this trend may discontinue. The first to drop will be the demand for highly income-elastic products of foreign origin – fruits, cheese and coffee. In 2008 the share of food products in the structure of retail trade turnover totaled 45.3%.

The deepening of the crisis and the surge of prices for food products revived concerns for food security issues in the RF Ministry of Agriculture. From the point of view of Agricultural Minister A.V.Gordeev “the food security of our state can be deemed guaranteed if in case of terminated food supplies from abroad the country doesn’t plunge into a food crisis. It is assured by the high share of domestic agricultural and food products in consumption: 95% for potatoes, 90% for grain, milk and milk products, 85% for edible salt, 85% for meat and meat products, 80% for fish and fish products, sugar and vegetable oils”<sup>36</sup>.

It should be noted that fears about getting dependent on food supplies from abroad are not justified: the share of imported products in consumption exceeds 20% only for meat and meat products (*Table 55*). In 2007 this share fell as compared with 2006.

*Table 55*

**Share of imports in the consumption of food products in 2007, thousand tons**

	Potatoes	Vegetables and melons	Meat and meat products	Milk and milk products	Eggs, million pieces
Imports	334	2391	3177	7134	856
Personal and industrial consumption	35532	17801	8745	38647	38360
Exports	132	715	66	590	398
Imports minus exports	202	1676	3111	6544	458
<b>Imports minus exports as % of consumption</b>	<b>0.6</b>	<b>9.4</b>	<b>35.6</b>	<b>16.9</b>	<b>1.2</b>

*Source:* calculated using balances of commodity stocks of food products. Rosstat, 2007.

The Ministry of Agriculture submitted to the RF Council of Federation a draft Doctrine of food security that has rather a political than economic implication<sup>37</sup>. The document justly asserts that in order to provide food security one should first of all “assure *economic affordability of foodstuffs* and for this purpose ... take measures for raising personal incomes, ensuring state support to low-income social groups and encouraging food quality improvement”. At the same time it contains target indicators for “lowering the share of imports in the supply of meat and meat products from 34 to 12%, milk and milk products – from 17 to 12%, granulated sugar – from 39 to 20%”.

### 3.5.7. Foreign trade

In 2008 the trend towards increasing the turnover of foreign trade in agricultural and food products preserved. In 9 months 2008 imports of respective items amounted to 27.7 billion USD – up 35.5%. On the contrary, exports of food commodities (less raw agricultural products) reduced, e.g. the sale of basic export item – grains – fell down to 7472 thousand tons (76.9% of the respective previous year indicator), the sale of sunflower seeds – down to 28.5 thousand tons (30.8%)<sup>38</sup>.

<sup>36</sup> Speech of A.V.Gordeev in the RF Council of Federation “On the current food security of the Russian Federation and measures for guaranteeing it”. October 28, 2008. [www.mcx.ru](http://www.mcx.ru)

<sup>37</sup> Doctrine of food security – draft. [www.mcx.ru](http://www.mcx.ru)

<sup>38</sup> Rosstat – [www.gks.ru](http://www.gks.ru)

Thanks to the government foreign trade policies targeted at the restriction of sugar import and accelerated development of domestic production of sugar beets (pursued during the 3 recent years), sugar supplies from abroad tend to decrease (*Fig. 56*).

*Table 56*

**Imports of basic agricultural and food products in 2000-2007, thousand tons**

	2000	2001	2002	2003	2004	2005	2006	2007	I-IX 2008 as % of I-IX 2007
Beef	282.3	459.2	504.6	507.8	510.9	696.2	1411.3*	1489.4*	124.5
Pork	212.9	369.6	602	535.2	455.2	562.9			
Poultry meat	687.2	1383.3	1375.2	1190	1101.3	1318.5	1282.4	1294.9	97.5
Milk	48.0**	85.4**	11.8**	26.5**	256.3	313.9	297.3	250.9	101.5 <sup>c</sup>
Butter	45.4	81.4	94.1	114	70.3	66	164.8	129.4	
Sunflower oil	149.5	182.8	175.7	200.8	161.2	131.5	100.0	132.0	99.4
Cereals	3333.5 <sup>a</sup>	1123 <sup>a</sup>	713.7 <sup>a</sup>	850.2 <sup>a</sup>	2898.5	1449	2313.4	1066.6	n.a.
Flour and groats	-	-	-	-	129.4	74.1	82.2	87.8	n.a.
Sugar	4818 <sup>b</sup>	5553.5 <sup>b</sup>	4604.2 <sup>b</sup>	4263.1 <sup>b</sup>	3209.7	3512.2	2981.9	3709.4	73.1 <sup>d</sup>

\* Meat less poultry meat.

\*\* Condensed milk and cream (data of the RF Federal Customs Service).

<sup>a</sup> Wheat and wheat/rye mix + corn.

<sup>b</sup> Raw sugar + white sugar.

<sup>c</sup> Milk and milk products.

<sup>d</sup> Raw sugar.

Source: Rosstat.

The aggregate imports of dairy products grew insignificantly while those of dried milk increased by 65.7%. Similarly to previous years import supplies of fresh and frozen meat and vegetables were also up. The increase of food imports in 2008 was conditioned by the growth of personal incomes that continued till September. The scope of the global financial crisis' slackening effect on this trend won't be clear till the middle of 2009.

Russia still retains its traditional status of net importer of food and agricultural commodities. The trend towards growing deficit of agrifood trade that originated in 2000 persists. In January-September 2008 the negative balance of trade in respective items amounted to 19.4 billion dollars.

### 3.5.8. Basic commodity markets

#### *Grain market*

##### *Market situation*

The market of grain that is largely oriented towards export is the most affected by the global financial crisis. In 2008 the Russian grain market experienced excessive supply that was due to several reasons:

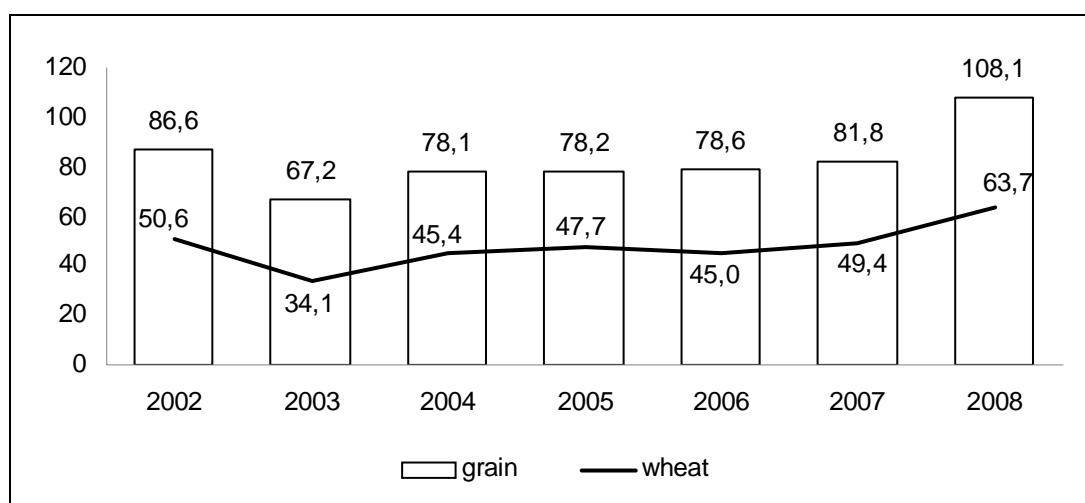
- record grain crop in 2008;
- factors hindering export;
- crisis in the banking sector that led to the shortage of funds for buying grain.

According to estimates the gross output of grains in 2008 is about 108 million tons, which is the record indicator over the last 15 years (Picture 9). It is conditioned by the sharp growth of production as compared with 2007: wheat – by 29% (up to 63.7 million tons), bar-

ley – by 48.5% (up to 23.1 million tons) and corn – by 76.3% (up to 6.6 million tons) (Fig. 55,56).

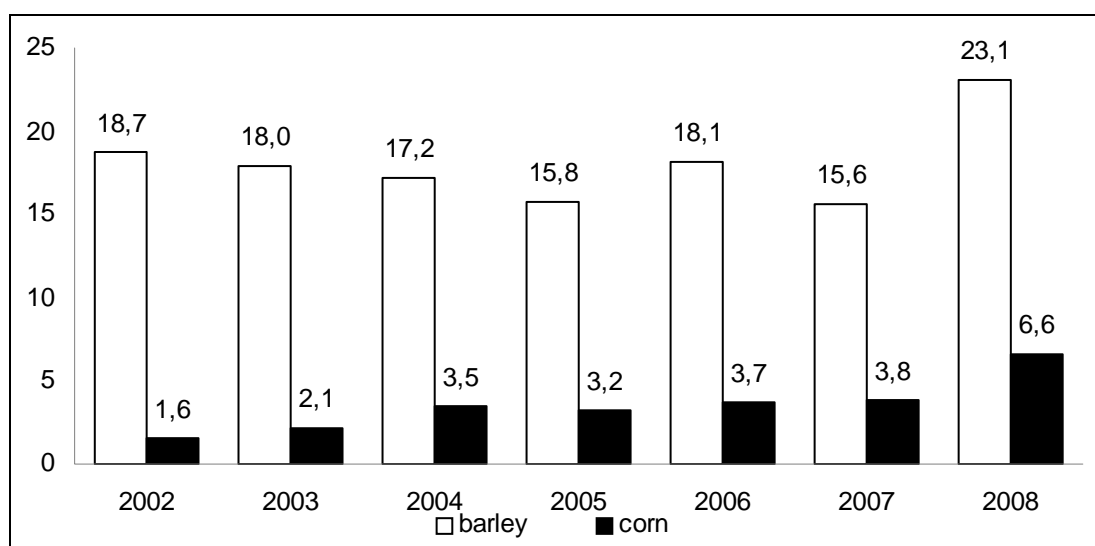
The principal increase was provided by regions oriented towards export of grain – the Central and Southern federal districts, while the gross output of grain in the Urals and Siberian regions reduced.

Under the pressure of large new crop supplies domestic prices for grain at the beginning of 2008/2009 MY started to fall (Fig. 57). Over 6 months (from April 2008 when prices hit the highest point, to November 2008) the price for food wheat #3 fell two fold – from 9150 rubles per ton to 4475 rubles per ton (EXW Northern Caucasus). The drop of prices for feed wheat and barley was most dramatic – 2.5 fold on the average.



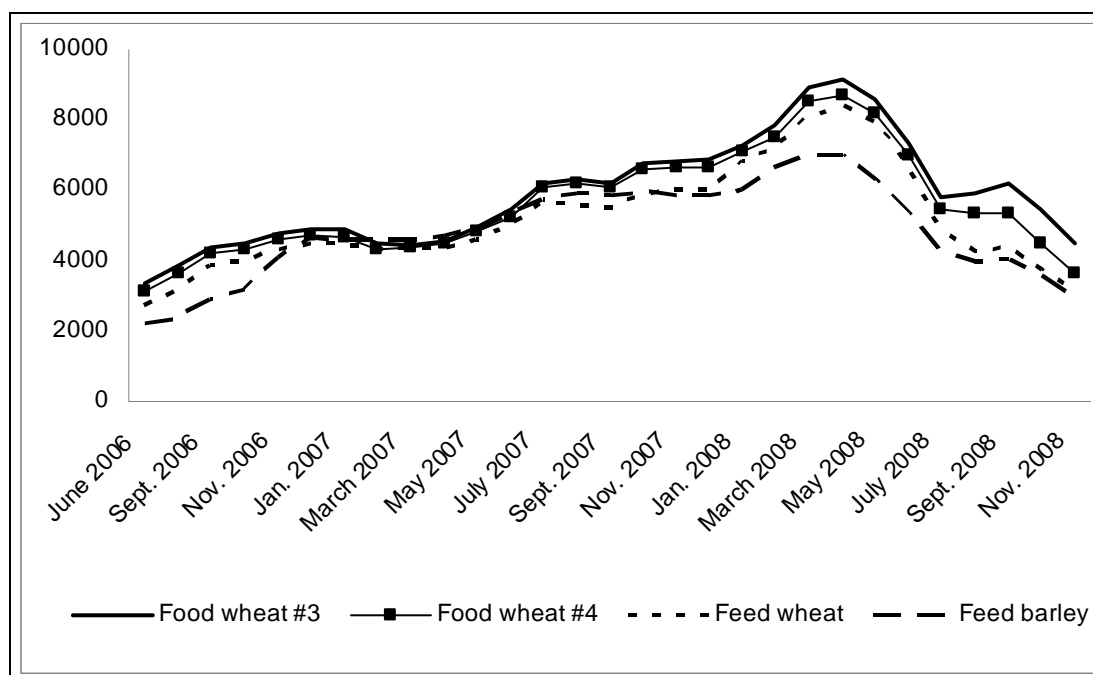
Source: Rosstat, "Sovecon" Analytical Center.

Fig. 55. Russia: gross output of grain and wheat, million tons



Source: Rosstat, "Sovecon" Analytical Center.

Fig. 56. Russia: gross output of barley and corn, million tons



Source: "Sovecon" Analytical Center.

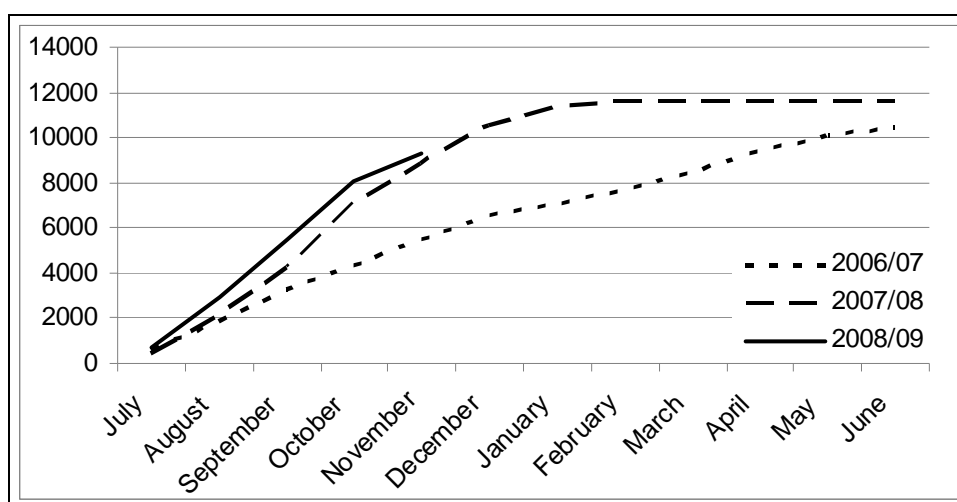
*Fig. 57. Domestic prices for grains (EXW Northern Caucasus), rubles per ton*

In the conditions of excessive grain supply and negative price dynamics the market could be supported by the increase of domestic consumption, exports and state purchases.

The financial crisis has largely limited opportunities of the domestic market. First, processors got short of funds and had to reduce purchases of domestic grain. As a result the marketing of grain with long-term delay of payment became a common practice.

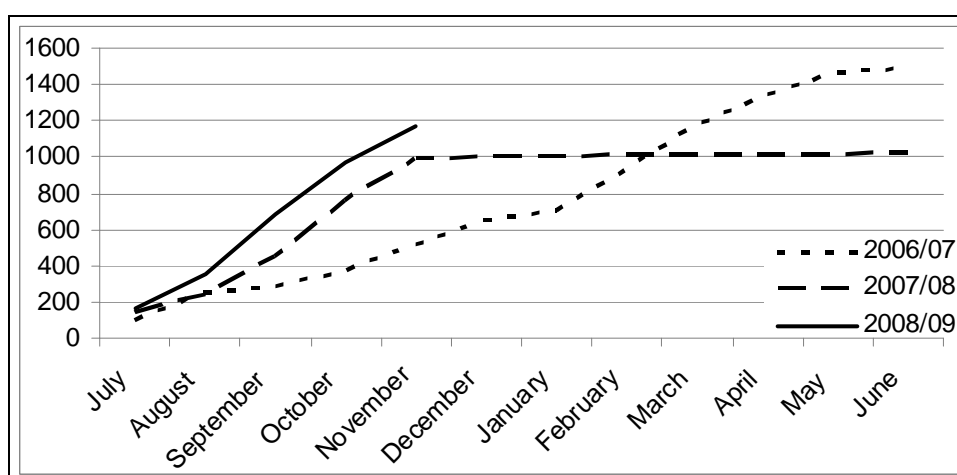
Second, prospects for larger consumption of feeds in livestock production are questionable. In 2008 rates of pig inventories' growth were below those of the previous year. Smaller consumer demand for livestock products due to lower purchasing power of population in the crisis situation will also have a negative effect. According to estimates of "Sovecon" Analytical Center domestic consumption of grains in 2008/2009 MY won't change substantially as compared with 2007/2008 MY and will amount to 74 million tons versus 70 million tons respectively.

The prospects for increasing Russian grain exports are also not so bright. From the beginning of 2008/2009 MY the country exported large volumes of wheat and barley that were above the previous years' indicators. In July-October 2008 8.07 million tons of wheat and 974 thousand tons of barley were exported. But in October-November export supplies started to decrease due not only to the developments on foreign markets but also to the changing situation on the domestic market, i.e. the growth of state purchases of grain (*Fig. 58,59*).



Source: calculated using data of "Sovecon" Analytical Center.

Fig. 58. Cumulative wheat exports, thousand tons



Source: calculated using data of "Sovecon" Analytical Center.

Fig. 59. Cumulative barley exports, thousand tons

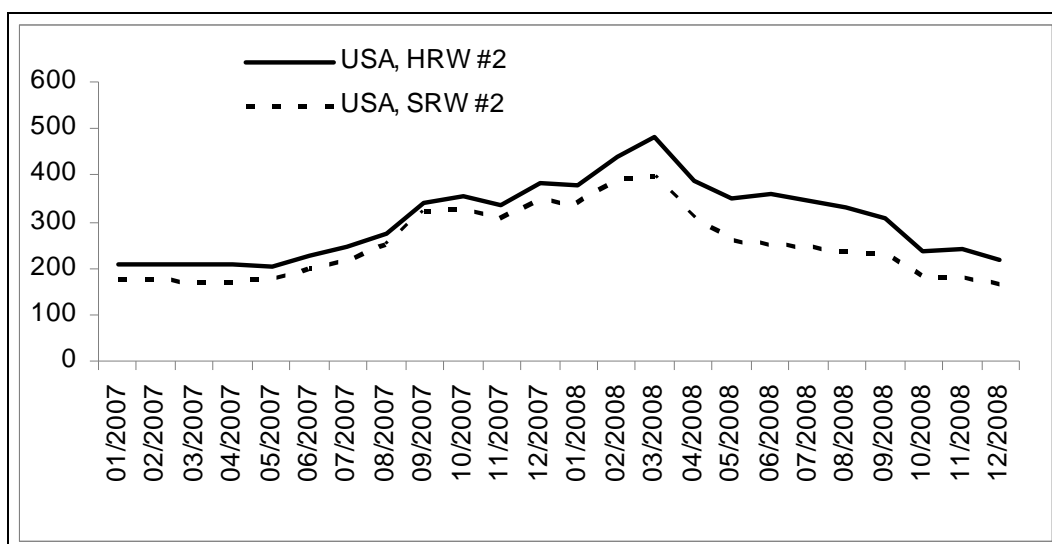
Large supplies of food wheat from Russia and Ukraine at the beginning of 2008/2009 MY resulted in saturation of markets in basic countries-importers of grain in the Black Sea region, first of all Egypt and Pakistan. Lower interest in purchase of cheap poor quality wheat from Russia and Ukraine may be accompanied by the shifting of demand towards non-expensive but higher quality food grain. In this situation the main competitor for the Black Sea-origin wheat on the Mediterranean markets will be Australia. The growing importance of the country on the world market is due to the restoration of its production capacities and a sharp drop of freight rates that raises the competitiveness of Australian grain in the Mediterranean region. The world freight rates are lowering for all classes of vessels and for all routes<sup>39</sup>.

<sup>39</sup> Data of the International Grain Council.

From the price point of view Russian wheat still remains competitive. The average price offer for Russian grain at the GASC tender in November 2008 was about 175 dollars per ton, for French wheat – 185 dollars per ton<sup>40</sup>.

The global financial crisis that coincided with grain harvesting in major exporting countries led to the accelerated decline of the world prices for grain (*Fig. 60*). Prices for corn depend on the prices for oil: the lowering of oil prices pulls down prices for corn that is a raw input for producing biofuel. Such dynamics of the world market steadily undermine price advantages of the Russian grain.

The policies of state purchase of grain into the intervention fund can also result in the lowering of Russian grain export competitiveness (see below). As prices on the domestic market fell, the interest in sale of grain to the state started to grow. The prices at which the state buys food wheat are 30% above prices of the domestic market<sup>41</sup>. In September 2008 state purchases of grain amounted to 207 thousand tons, in October – to 403 thousand tons, in November – to 851 thousand tons. So, export flows may re-orient towards domestic market.



Source: International Grain Council.

*Fig. 60.* World prices for wheat, dollars per ton

### *State policies*

In 2008 state policies on the domestic grain market were rather active. The volume of intervention purchases into the state fund in 2008/2009 will be quite large – 6-8 million tons. In the previous good crop years it never exceeded 2 million tons.

Given the current market situation this measure is rather contradictory. On the one hand, state intervention purchases are a key factor of domestic market support and slowing down of domestic price decline. On the other hand, they entail a conflict of interests between export supply and sale on the domestic market (into the intervention fund).

<sup>40</sup> The State Egyptian company.

<sup>41</sup> Data of “Sovecon” Analytical Center.

In the situation of financial crisis there is a need to relieve tension in the agrifood sector as regards crediting and normalization of payments and to encourage export that demonstrates slowing down.

A whole set of measures to support grain export is envisaged for 2009:

- subsidizing of export;
- reduction of infrastructure costs – railway and port transshipment rates;
- accelerated procedure of repaying export VAT;
- granting of bound credits to importers for purchasing Russian grain and flour.

#### *Market outlook*

According to expert estimates in case weather conditions in 2009 will be close to the climatic average over the last few years, the gross output of grain will be large – over 90 million tons<sup>42</sup>. Combined with high ending stocks it may again cause oversupply of grain on the domestic market.

The competition on the world market will remain rather tough. Consumption of wheat in Asian and Central African countries is expected to fall – due to lower oil prices they reduce state support to grain importers. At the same time the International Grain Council forecasts a record consumption of wheat for feeding purposes in 2008/2009 MY – 119 million tons (30 million tons above the previous season indicator).

Efficient state policies will be needed to support the market, first of all as regards problems connected with transportation infrastructure. In the coming years the deficit of railway grain cars will get worse. While in 2008 it equaled 2033 units, in 2009 this indicator will grow up to 8781 units, in 2013 – to 20466 units or 35.9% of the total grain car fleet<sup>43</sup>. Given the current misbalance between export potential and the potential of grain export infrastructure the envisaged measures for encouraging grain export supplies won't bring the desired result. Besides, the Ministry for economic development and trade forecasts that by 2020 the output of grains in Russia will further grow – up to 120-125 million tons<sup>44</sup> - and there won't be enough capacities for export.

#### *Sugar market*

##### *Market situation*

In 2008 the situation on sugar market was not as favourable as before: profitability of sugar beet production declined and areas planted in this crop contracted. The surge of grain production profitability in 2007 has shifted producers' interest from sugar beets to grains.

In 2007 areas under sugar beets were record over the last 15 years – 1065.4 thousand hectares. But while prices for grains and oilseeds in 2007/2008 grew, those for sugar beets remained actually the same. Just a minor rise is expected in 2008/2009 – up to 1.4 thousand rubles per ton from 1.3 thousand rubles per ton in 2007/2008<sup>45</sup>. At the same time the growth of prices for fertilizers and fuels and oils raised production costs.

---

<sup>42</sup> "Sovecon" Analytical Center's estimate.

<sup>43</sup> Data of "RusAgroTrans".

<sup>44</sup> Concept of long-term social and economic development of Russian Federation (of August 5, 2008).

<sup>45</sup> Data of IKAR (Institute for Agricultural Market Studies).

Lower profitability combined with higher expenditures forced many producers to reduce areas planted in sugar beets. In 2008 they declined by 22% down to 819 thousand hectares. While several years ago the profitability of sugar beet production was around 30%, at present it fell to 10-15%. Only companies having long-term contracts with buyers or their own processing facilities still retain interest in sugar beet business.

Due to the intensification of production – higher yields and sugar content – the output of sugar in 2008 will reduce to a smaller extent than areas planted in sugar beets – by 11.7% (from 3.14 to 2.77 million tons)<sup>46</sup>.

*Table 57*

**Production indicators of Russian sugar market**

	2001	2002	2003	2004	2005	2006	2007	2008 (estimate)
Areas sown in sugar beets, thousand hectares	772.8	809	924.2	850.8	805.3	1002.9	1065.4	819.3
Yields of sugar beets, 100 kg per hectare	188.4	193.6	209.7	256.8	266	307.7	265	288
Gross output of sugar beets, million tons	14.5	15.6	19.3	21.8	21.4	30.8	28.2	30.7
Output of sugar out of sugar beets, million tons	1.6	1.6	1.9	2.2	2.4	3.2	3.1	2.7

*Source:* Institute for Agricultural Market Studies (IKAR).

*State policies*

Sugar market in Russia is a subject of tight government regulation. The duty on white sugar import is 340 dollars per ton. The import of raw sugar is regulated by variable import duty that depends on the average monthly price for raw sugar at the New York Board of Trade. In 2008 the rate of domestic market protection against respective import amounted to 140 dollars per ton. Besides, for the second year running raw sugar import is subject to seasonal duties – 220-270 dollars per ton (depending on the exchange quotations) from December 1, 2008 to May 31, 2009.

A big problem for the market is sugar import from Ukraine. Till 2009 sugar was excluded from the free trade regime between Russia and Ukraine. This means that unless the problem is settled by the Government supplies of beet sugar from Ukraine after January 1, 2009 won't be subject to import duties. Experience shows that under the guise of beet sugar Ukraine can export to Russia cheap sugar made out of raw sugar free of duty. Ukraine has big stocks thereof and large sugar processing facilities.

It should be noted that the problem of minimizing risks from commodity import from Ukraine is one of the most acute since Ukraine has already joined WTO on more liberal terms than are offered to Russia. Unless measures are taken to regulate mutual trade between the two countries, Russia may face either import of goods from the third countries after minor re-packing in Ukraine or larger supply of Ukrainian commodities for which the above goods will substitute in Ukraine.

<sup>46</sup> Forecast of IKAR (Institute for Agricultural Market Studies).



### *Market outlook*

Production of sugar turned out to be more sustainable to the crisis than, for instance, production of grain. In the situation of global financial crisis the world sugar markets do not demonstrate sharp drops. The slump in grain prices makes sugar beets more profitable as compared with other crops. Besides, the mechanism of regulating raw sugar market makes prices for sugar in Russia more predictable. Therefore in 2009 the situation on sugar market will look more promising than that on markets of other crops. Acreage under sugar beets is expected to stabilize or even grow. However, here too the financial crisis will have its effect and accelerate the following market processes:

- non-efficient farms will withdraw from the market;
- the share of independent beet producers will reduce while the number of vertically integrated structures will grow;
- processors will more actively invest in sugar beet production. According to expert estimates sugar producers currently own over half of areas planted in sugar beets in the country<sup>47</sup>. In two years time processors will grow 80% of domestic sugar beets.
- small and non-profitable processing plants will close. According to data of “Soyuzrossahar” there were 84 sugar processors in the country of which only 75 were operating in 2008. 6 operators (“Prodimex”, “Euroservice”, “Rusagro”, Sucden, “Dominant” and “Razguliay”) control a large share of the market (over 60%)<sup>48</sup>.

### *Meat market*

#### *Market situation*

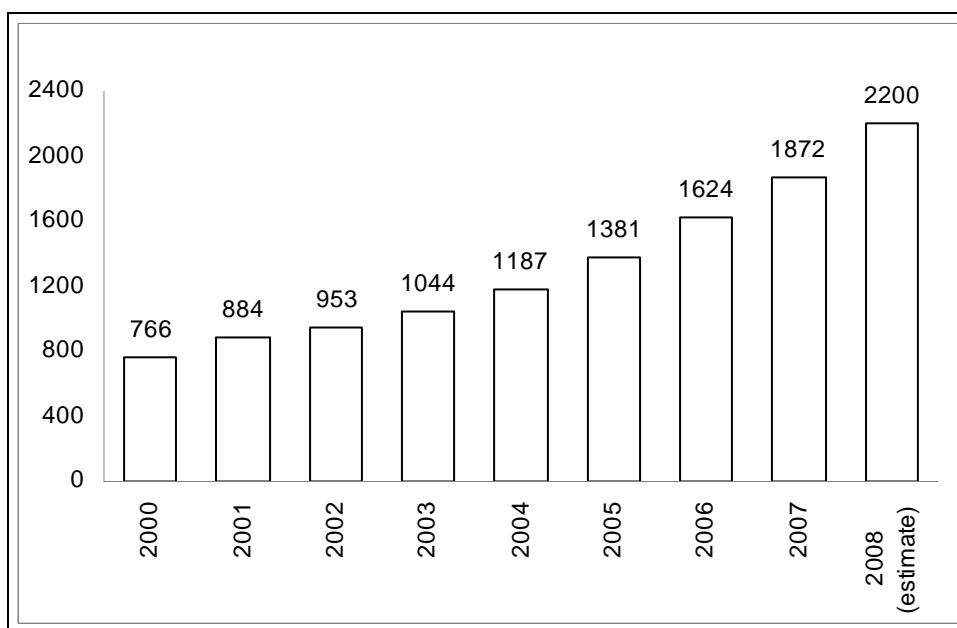
In 2008 trends on the Russian meat market remained the same as in the previous years, i.e. positive dynamics in pig and poultry production preserved. According to preliminary data the output of poultry meat in farms of all types grew by 16% as compared with 2007 up to 2.2 million tons, the output of pork – by 8% up to 19.7 million tons (*Fig. 61,62*).

In recent years the average annual growth rates in poultry production range from 15 to 20%. The domestic output of chicken meat increases 20 fold faster than imports. In 2007 1.3 million tons of poultry meat were imported and the 2008 indicator will most likely be close to this level. The share of imported poultry on the Russian market is about 38%. According to estimates of the Russian Meat Union by 2010 it should fall down to 29%. Import of poultry meat (similarly to other kinds of meat) is regulated by tariff quotas. In 2009 this regime will be tightened with the view to create favourable conditions for further development of Russian poultry production.

---

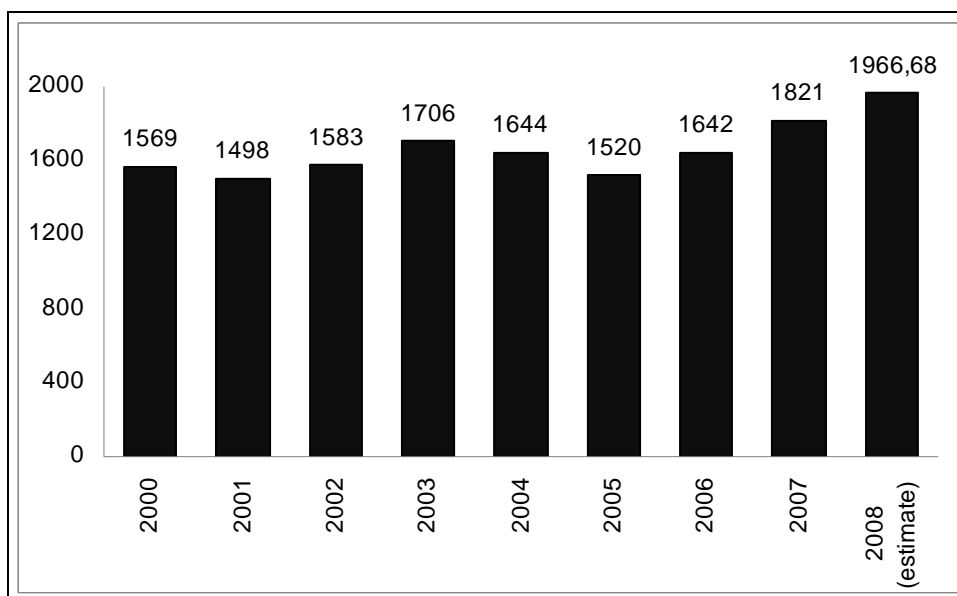
<sup>47</sup> Data of investment group “Capital”.

<sup>48</sup> Data of IKAR (Institute for Agricultural Market Studies).



Source: National Meat Association.

*Fig. 61.* Russia: poultry meat production, thousand tons (slaughter weight)



Source: National Meat Association.

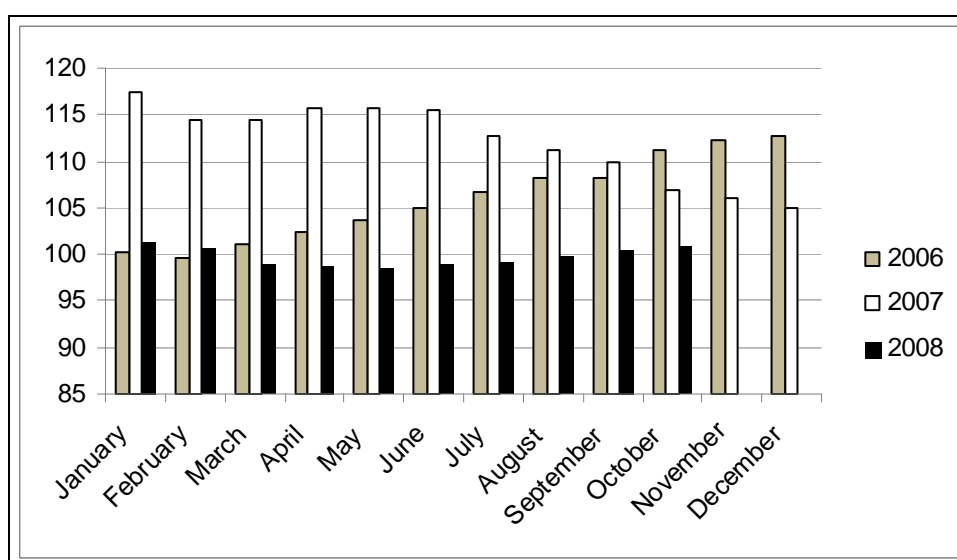
*Fig. 62.* Russia: production of pork, thousand tons (slaughter weight)

First investments in the Russian pig breeding were made in 2005. In 2006 the trend was supported in the framework of the National Project “Development of agrifood sector”. This resulted in a sharp growth of pig inventories in farms of all types – in 2006 they were up 17% as compared with 2005. After putting in operation several large pig breeding complexes the trend preserved in 2007 but as compared with the previous year growth rates slowed down noticeably (*Fig. 63*). As of January 1, 2008 pig inventories increased by only 4.3% as compared with January 1, 2007. Lower growth rates in pig breeding were conditioned by the

change of economic situation on the market. The drop of prices for pork in 2007 and the rise of prices for grain and fuels and oils resulted in the decline of sector's profitability from 25-30% in 2006 to 15-20% in 2007<sup>49</sup>.

In 2008 pig inventories stopped to increase. The reason is that most pig breeding complexes recently put in operation should have reached their full capacity in 2008-2009. But the financial crisis caused problems with additional financing of the approved plans. In this situation one can speak only of implementing the already launched projects rather than of expanding pork production.

In the context of current market developments the Government is preparing a branch target program for the development of pig breeding. According to the "Concept of pig production development in the Russian Federation till 2020" worked out by the Ministry of Agriculture the output of pork by 2020 should be increased 3 fold – up to 7.7 million tons (live weight).



Source: Rosstat.

Fig. 63. Inventories of pigs in farms of all types (as % of the previous year)

Table 58

**Imports of meat to Russia, thousand tons**

	2002	2003	2004	2005	2006	2007	2008 (Jan.-Oct.)	
							thousand tons	as % of Jan.-Oct. 2007
Beef	330	320	405	687	695	726	1335.4	121.8
Pork	580	500	445	550	650	664		
Poultry meat	1360	1145	1270	1303	1265	1308	978.8	94.6

Source: Rosstat.

<sup>49</sup> Data of the National Meat Association.

*State policies*

Beginning from 2003 import of meat to Russia is constrained by tariff quotas: within the quota set by the Government imported meat is subject to lower customs duties while duties for meat supplied in excess of this quota are much higher. This restricting mechanism will continue to be applied in 2009 but out-of-quota tariffs on import of poultry meat and pork will be raised sharply (*Table 59*).

The previous years' experience showed that imported cheap frozen meat remained competitive on the Russian market even in case it was subject to high out-of-quota duty. For instance, about 25-30% of pork is imported in excess of the quota. In the context of projected growth in Russian pig and poultry production a more rigid limitation of import looks quite justified. But one should take into account that meat processors use mostly frozen imported meat. According to estimates of the Institute of Agrarian Marketing this meat is 15% cheaper than Russian meat. Its replacement with more expensive domestic meat can result in higher prices for processed products.

*Table 59*

**Tariff quotas on import of meat to Russia**

	2006	2007	2008	2009
<b>Beef, fresh or chilled</b>				
Quota, thousand tons	27.8	28.3	28.9	29.5
Within-quota tariff	15%, but not less than 0.2 EUR/kg	15%, but not less than 0.2 EUR/kg	15%, but not less than 0.2 EUR/kg	15%, but not less than 0.2 EUR/kg
Out-of-quota tariff	40%, but not less than 0.4 EUR/kg	40%, but not less than 0.4 EUR/kg	30%, but not less than 0.3 EUR/kg	30%, but not less than 0.3 EUR/kg
<b>Beef, frozen</b>				
Quota, thousand tons	435	440	445	450
Within-quota tariff	15%, but not less than 0.15 EUR/kg	15%, but not less than 0.15 EUR/kg	15%, but not less than 0.15 EUR/kg	15%, but not less than 0.15 EUR/kg
Out-of-quota tariff	40%, but not less than 0.4 EUR/kg	40%, but not less than 0.4 EUR/kg	30%, but not less than 0.3 EUR/kg	30%, but not less than 0.3 EUR/kg
<b>Pork including trimmings</b>				
Quota, thousand tons				
pork	476.1	484.8	493.5	502.2
trimmings	-	26.5	28	29.7
Within-quota tariff	15%, but not less than 0.25 EUR/kg	15%, but not less than 0.25 EUR/kg	15%, but not less than 0.25 EUR/kg	15%, but not less than 0.25 EUR/kg
Out-of-quota tariff	60%, but not less than 1.0 EUR/kg	60%, but not less than 1.0 EUR/kg	60%, but not less than 1.0 EUR/kg	75%, but not less than 1.5 EUR/kg
<b>Poultry meat</b>				
Quota, thousand tons	1130.8	1171.2	1211.6	952
Within-quota tariff	25%, but not less than 0.2 EUR/kg	25%, but not less than 0.2 EUR/kg	25%, but not less than 0.2 EUR/kg	25%, but not less than 0.2 EUR/kg
Out-of-quota tariff	60%, but not less than 0.48 EUR/kg	60%, but not less than 0.48 EUR/kg	60%, but not less than 0.48 EUR/kg	95%, but not less than 0.8 EUR/kg

Source: RF customs legislation.

*Market outlook*

At present meat market in Russia is characterized by high fragmentation. The share of the 10 largest companies in domestic pork output is only 25.2%; in poultry production it's higher – 53.8% (*Table 60*). These are small producers who will be most affected by the current financial crisis. Due to that in 2009 the meat sector (and first of all pig breeding) is expected to actively consolidate. Small and medium producers will go bankrupt while large companies will find new opportunities for expanding their business by taking over entities unable to sustain competition.

Table 60

**Russia: structure of poultry meat and pork production in 2007**

Market of poultry meat (tons of slaughter weight)		Market of pork (tons of live weight)	
“Cherkizovo” group	12.1%	Prodo Management	5.9%
“Prioskolie”	8.8%	Agroholding	3.0%
Prodo Management	8.4%	Agro-Belogorie	2.9%
“Belgrankorm”	5.3%	“Cherkizovo” group	2.9%
“Kochetkov”	4.6%	“Povolzhskoye”	2.5%
Sibirskaya guberniya	4.4%	Miratorg	2.2%
Mossel’prom	3.9%	Sibirskaya AG	1.9%
Resource	3.4%	Exima	1.6%
Stavropolsky broiler	2.9%	“Aleyskzernoproduct”	1.3%
Other	46.2%	Other	74.8%

Source: Institute of Agrarian Marketing.

3.5.9. Agricultural land market

Land privatization in Russia primarily concerned farmlands included in the category of “lands of agricultural destination”. As of January 1, 2008 both corporate farms and individual private farms based their land use on agricultural lands of which about 70% were owned not by the state but by individuals and legal bodies. Lands of other categories have actually kept on being the state property. The approaches applied to privatization of former collective and state farms’ agricultural lands determined the emergence of a special type of ownership – the common share one. In place of a former collective or state farm one plot running to several thousand hectares was formed that consisted of hundreds of fields, perennial plantations, hay and pasture lands separated by natural or man-made boundaries. The title to this entire plot was transferred to hundreds of persons – employees and pensioners of former collective and state farms and workers of rural social sphere. Each of them became a co-owner of the plot and got a share in title to it – the so-called land share. Actually such a share-owned plot is either entirely used by a corporate farm – the legal successor of this former collective or state farm, or is divided to parts that are transferred to different corporate or individual private farms.

Table 61

**Structure of ownership for agricultural lands used by different groups of farm producers (as of January 1, 2008)**

	Total, million ha	incl. private, million ha	of them owned by user		
			million ha	% of the total	% of the privately owned
Individuals not registered as individual private farmers	41.5	17.2	16.6	40.0	96.5
Individual private farms	20.5	12.7	6.6	32.2	52.0
Partnerships, companies, cooperatives	113.2	94.1	4.2	3.7	4.5
State institutions	10.7	0.7		0.0	0.0
Other institutions	4.6	1.4	0.2	4.3	14.3
Total	190.5	126.1	27.6	14.5	21.9

Source: Rosnedvizhimost.

Household farms use farmland plots with different types of permitted use (for household farming, vegetable gardening and horticulture, haying, pasturing, etc.) of which only 40% are

owned by individuals-users (Table 13). Members of individual (family) farms own only one third of the used agricultural land. 79% of farmlands used by agricultural partnerships, companies and cooperatives are in common share ownerships of individuals. All other agricultural lands remain in state ownership.

It's not clear how this active transfer of land from owners to users is effected – official statistics do not give an answer to this question. This is due to several reasons. First, different classifications are used when collecting statistical data about land transactions thus complicating the analysis. In one case the gathered information reflects transactions with plots of land of agricultural destination but doesn't specify how many of them are acquired by farm producers. In another case – transactions with plots acquired by corporate and individual private farms without indicating the category and type of lands. In the third case – transactions with plots for farming purposes without indicating the buyer. In the fourth case the number of transactions with agricultural plots includes transactions with plots for individual dwelling and summer suburban (dacha) construction that does not necessarily imply farming activities (Table 62).

*Table 62*

**Transactions with agricultural land plots situated outside settlements**

	2004		2006		2007	
	Trans- actions, thou- sand	Area, thou- sand ha	Trans- actions, thou- sand	Area, thou- sand ha	Trans- actions, thou- sand	Area, thou- sand ha
<i>State and municipal lands:</i>						
Sale to individual private and corporate farms	0.240	8.1	2.9	194.5	2.1	285.7
Sale to individuals for individual dwelling and summer suburban construction, household farming, vegetable gardening and horticulture, etc.	3.3	0.7	4.4	0.8	2.3	0.8
Lease of lands of agricultural destination	92.8	54289.8	127.9	88569.5	102.8	97337.4
<i>Plots of individuals and legal bodies:</i>						
Sale of plots to individuals and legal bodies for farming purposes	1.4	49.1	7.7	180.2	8.3	368.2
Sale of plots by individuals for household farming, gardening and livestock production	177.8	28.4	187.2	68.9	203.8	33.4
<b>Total</b>	275.5	54376.1	330.1	89013.9	319.3	98025.5

Source: Rosnedvizhimost.

Second, statistical recording is organized in such a way that only transactions with land plots are traced. In respect to farmlands this approach is unacceptable: the most part of them are a common share property of hundreds of co-owners and transactions with such plots are impossible since they would require a unanimous agreement of all the participants. In this case land titles are transferred not through the purchase and sale of plots but through the purchase and sale of land shares with further parceling out of physical plots that become objects of individual private ownership.

Till 2008 Rosnedvizhimost submitted information about the share of commonly owned lands that are leased out. Beginning from 2008 this data is not available. As of January 1, 2007 about 68% (i.e. about 60 million hectares) of lands being common share property were

leased out to corporate farms. But as can be seen from the Table such a widespread transaction is not subject to the federal state statistical recording.

In addition to all the above, information about transactions for the federal state statistical recording is collected through district departments of Rosnedvizhimost while transactions themselves are registered in the district departments of judicial bodies authorized to register real estate titles and transactions with them. The legal ambiguity in exchange of information entails non-transfer of information about transactions from the judicial bodies to Rosnedvizhimost agencies. As a result the error in data about land transactions averages 20%<sup>50</sup>.

The problem with gathering information about land transactions is obvious if one compares data of the above Tables: farm producers employ 162.9 million hectares of agricultural land belonging to outside owners while the recorded transactions embrace only 98 million hectares. So, the re-distribution of land ownership and use titles in agriculture is largely beyond statistical recording. One can estimate the scale of land re-distribution, prices for land purchase and lease only by carefully studying selected cases. Transaction costs connected with carrying out of land transactions and entering information about earlier acquired land titles in the Single State Register of Real Estate Titles and Transactions are extremely high<sup>51</sup>.

The issue of high costs of preparing information about plots for their registration in the State Real Estate Cadastre is more or less discussed in the society. At the same time the issue of extremely high costs of access to the system of registering land titles and transactions is beyond the government's concern. Only at the end of 2008 amendments to the RF Tax Code were introduced that reduced the amount of state fee for registering titles and encumbrances to land plots of agricultural destination. For instance, the state fee for registering a share in the common title to a land plot was cut 10 fold. Up to then each co-owner was charged the 500-ruble fee. As a result the fees received by the budget for registering two similar plots differed 50 fold in case one of them was an individual property and the other – the common property of 50 persons. One more problem is that the growth of transaction costs is determined by provisions of the acts that are not subject to broad discussion and are not to be approved by legislators. For instance, the surrender of title to a land plot that incorporated adjacent fields being common property of a group of individuals resulted in forming of dozens of plots each of them being a common share property of these individuals. This new provision was introduced by departmental directives, orders, letters and software applied in cadastre recording. As a result expenditures of each co-owner on registering his land titles increased as many fold as many plots were formed. The expenditures of a corporate farm leasing these plots also grew as many fold as many new plots commonly owned by a group of lessors became new objects of cadastral recording. High transaction costs create ample conditions for the mass transfer of land titles from the initial owners (who got their titles in the course of privatization) to the ones who can bear these costs.

Since farmlands are not protected against their withdrawal from agricultural production<sup>52</sup> there is a stimulus for the respective market's invasion by operators interested in nonag-

---

<sup>50</sup> State (national) report "On the condition and use of lands in the Russian Federation in 2007". Moscow, Rosnedvizhimost, 2008, p.174.

<sup>51</sup> Shagayda N.I. Market of lands of agricultural destination: the practice of limitations. – "Voprosy ekonomiki", No.6, 2005, pp. 119-128.

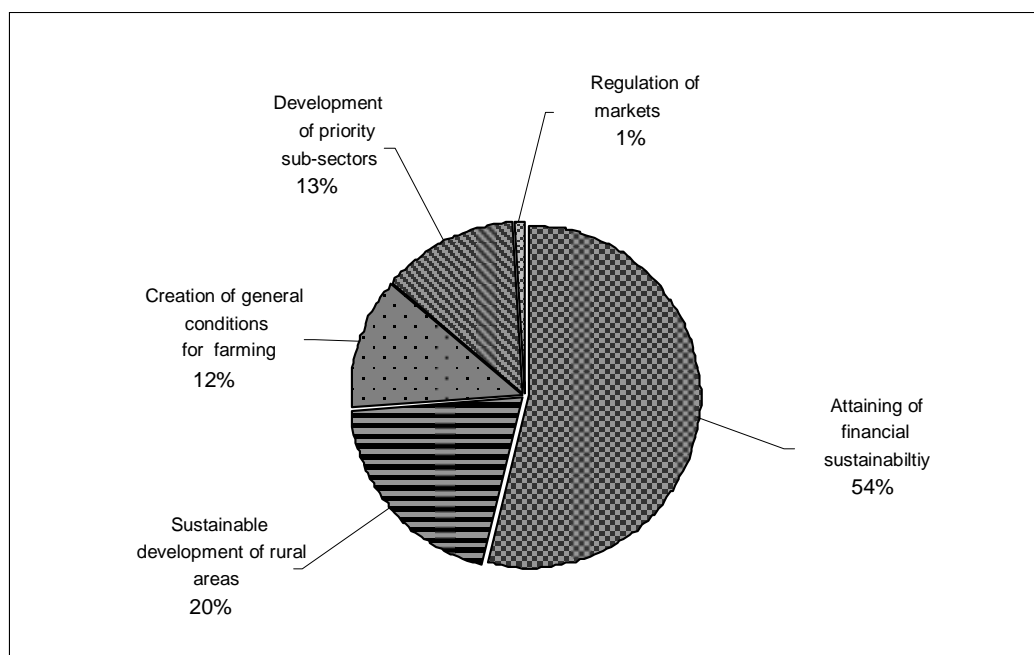
<sup>52</sup> Shagayda N.I. Protection of lands from withdrawal from agricultural production. – Eco, No.5, 2008, pp. 138-147.

gricultural utilization of such lands<sup>53</sup>. As a result the market of farmlands is distorted: it includes transactions with agricultural land plots priced as sites for construction development. Imperfection of institutions and documents proving land titles causes their large-scale taking away from the owners who acquired their property rights in the course of land reform<sup>54</sup>.

One of the specific features of agricultural land transactions is their conclusion not by direct agreement with the land owner but by agreement with the owner's trustee. Usually one person carries out transactions by procuration for and on behalf of dozens and hundreds of owners. This evidences that the seller doesn't know the price of the deal and that such deals are not transparent.

### 3.5.10. State program for agricultural development and regulation of agricultural and food markets in the RF constituent members for 2008-2012

Beginning from January 2008 the country's farm sector is financed in the framework of the State program for agricultural development and regulation of agricultural and food markets in the RF constituent members for 2008-2012 that was approved by RF Government Resolution No.446 of July 14, 2007 (hereinafter referred to as the State Program) (*Fig. 64*).



*Fig. 64.* Share of expenditures by components of the State Program for 2008-2012

---

<sup>53</sup> Studies show that about 80% of owners sell their land shares in case there is a buyer.

<sup>54</sup> One of the scenarios of taking away: new members enter the entity, shares are concentrated, land title is registered in the name of the entity although documents belong to individuals, land is sold. The technology is widely used in the Moscow region. In Russia at large the share of farmlands owned by agricultural partnerships, companies and cooperatives equals 4.5% of the lands used by them, in the Moscow region – 28%.



Among the Program's targets the first place belongs to the "sustainable development of rural areas, growth of employment and improvement of living standards of rural population". Such a positioning of rural development problems may be regarded as revolutionary for agricultural administrative bodies. The input supply section included in Part "Sustainable development of rural areas" contains no provisions pertaining to the employment rate: funds are envisaged for measures to improve housing conditions, to develop water supply and gasification and to support complex compact construction in rural settlements in the framework of pilot projects. The planned financing of sustainable rural development in the framework of the State Program in 2008 accounts for less than 10% of the total expenditures on its implementation. Though other Parts of the document also contain measures directly pertaining to sustainable development (e.g. consulting support of farm producers) this is rather an exception. The amount of funds for creating non-agricultural employment in rural areas is small (these are subsidies for compensating interest rate on credits and loans taken to develop folk handicrafts, gathering of mushrooms and berries, rural tourism, etc.) although higher employment rate in rural areas is declared to be the Program's main goal.

The most sizable component of the State Program (292.7 billion rubles over 5 years or 54% of the total funds) is the *attaining of agriculture's financial sustainability*. The envisaged measures include:

- subsidizing of interest rate on short-term and investment credits (loans in credit cooperatives) for agricultural commodity producers of all organizational and legal types;
- improvement of financial sustainability of small entities to be achieved through credit (loan) subsidizing and enlargement of "Rosselkhozbank's" authorized capital;
- technical and technological modernization of agriculture including subsidies for partial compensation of expenditures on interest rate and contribution to the authorized capital of "Rosagroleasing";
- lowering of risks in agriculture, i.e. partial compensation of insurance premiums from the budget funds.

The State Program sets quite ambitious plans for attracting credits to agriculture. To fully benefit from the funds envisaged for subsidizing, farm producers should get credits to the amount of 911 billion rubles over 5 years. Non-program agrifood sector activities require additional credit support of not less than 500 billion rubles, 70% of which should be long-term credits. In 9 months 2008 the amount of credits received by the Russian agrifood sector exceeded the corresponding 2007 indicator by 20 billion rubles and totaled almost 324 billion rubles<sup>55</sup>.

The main focus is made on and principal funds are allocated to the subsidizing of interest rate. Studies<sup>56</sup> show that the mechanism of distributing budget funds in the framework of the National Project "Agrifood sector development" (2005-2006) was meant to support primarily large commodity farms and this practice gets continued in the State Program.

The distribution of funds by groups of farms is very uneven: 6% of corporate farms got over 50% of all subsidies and compensations. Farms of this group accounted for 29% of the total receipts and each of them on the average received 12 million rubles of budget funds

---

<sup>55</sup> Operational information of the RF Ministry of Agriculture.

<sup>56</sup> Uzun V.Ya., Gataulina A.A., Yanbykh R.G. et al. Methods of estimating the efficiency of state support to large and small business in the agrifood sector. All-Russian Institute of Agrarian Problems and Informatics, scientific report. 2008, p.92.

which was almost 89 fold above the average amount received by one farm in the fourth group and 525 fold above respective indicator in the fifth group. It should be also noted that far from all corporate farms of the first group were profitable, i.e. efficient. Of 926 corporate farms of this group 114 had balance losses to the amount of 1.6 billion rubles, i.e. the state actually covered their losses. Others received no subsidies even despite their successful performance.

In 2008 profits of corporate farms grew up to 117.5 billion rubles, i.e. by almost 10 billion rubles or 9% as compared with 2007. The share of profitable farms in the total number of corporate farms (23015) amounted to 82%, i.e. was up 1% as compared with the previous year.

*Table 63*

**Share of corporate farms in the total amounts of subsidies and compensations by groups in 2007, %**

Groups of farms by the amount of received subsidies and compensations, thousand rubles	Share in the total number of corporate farms	Share in subsidies	Share in balance profits	Share in receipts	Share in the total number of employed	Share in farmland area
1. Over 5000	5.5	52.5	46.3	28.7	18.0	10.7
2. 4999-1000	20.5	34.8	38.5	32.3	32.2	30.6
3. 999-250	24.9	10.8	12.1	17.1	23.1	26.7
4. 249-50	16.0	1.7	0.9	7.0	10.4	12.9
5. 49-0.1	8.1	0.1	1.3	2.5	3.9	5.3
6. No subsidies received	24.9	0.0	0.9	12.4	12.3	13.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

*Source:* Uzun V.Ya., Gataulina A.A., Yanbykh R.G. et al. Methods of estimating the efficiency of state support to large and small business in the agrifood sector. All-Russian Institute of Agrarian Problems and Informatics, scientific report. 2008.

The strict co-financing requirements set in the State Program may deprive farm producers in most deficit-budget regions of the federal support. The working out of regional programs and their coordination with the federal State Program should have coincided with amending budgets of the RF constituent members but it didn't happen. Besides, regions should have appraised the real need in funds and planned expenditures basing on these estimates and not only on available limits of federal financing. So, the situation is possible when RF regions won't fully utilize limits under some Program components due to the lacking demand while other components will suffer from a dramatic shortage of federal co-financing funds.

One more broadly advertised component of the State Program was the *facilitation of small-scale farming* that, however, was to receive only 7.9% of the total program funds (43.8 out of 551.3 billion rubles). Besides, one third of these allocations should be used for enlarging the authorized capital of "Rosselkhozbank"<sup>57</sup> (Russian Agricultural Bank). Meantime the financing of such really efficient measures as subventions for the development of material and

<sup>57</sup> The decision to enlarge authorized capital of "Rosselkhozbank" by 33.5 billion rubles taken at the end of 2008 envisages equal amounts to be used for subsidizing interest rate and replenishment of the bank's working capital. The decision is also taken to grant "Rosselkhozbank" subordinated credit to the amount of 25 billion rubles "for overcoming the deficit of credit resources". Besides, at the meeting in Odintsovo district of Moscow region in December 2008 the Prime-Minister V.V.Putin declared the RF Government's intention to allocate additional 45 billion rubles "for the replenishment of working capital" in the nearest time.

technical basis of agricultural cooperatives, replenishment of credit cooperatives' fund of mutual financial assistance, creation of security funds for granting guarantees to small business is not envisaged in the State Program. It should be noted however that about 10% of RF regions have still found funds for additional support to development of small rural business primarily through assisting agricultural cooperation.

The network of agricultural cooperatives continued to develop. According to RF regions' preliminary data, as of January 1, 2009 there were 5100 agricultural consumer cooperatives in the country including 912 processing, 2450 purchase, supply and marketing and 1738 credit cooperatives. According to estimates of the Ministry of Agriculture only 65% of them are actually working. Among credit cooperatives this indicator averages 71.5%, among processing ones – 57%, among purchase, supply and marketing cooperatives – 63.4%. Over the year the number of working cooperatives grew by 1137. Agricultural cooperation is most developed in Volgograd and Tjumen oblasts and Mordovia republic (over 100 stably operating cooperatives in each), republic Sakha (Yakutia) – 205 operating agricultural cooperatives. Also in the framework of the National Project many cooperatives were founded in Belgorod, Orenburg, Rostov, Penza, Irkutsk, Omsk, Chita oblasts, Buryat, Tatarstan, Kalmyk and Chuvash republics, Krasnodar and Krasnoyarsk regions.

According to data of the Ministry of Agriculture in 2007 out of agricultural consumer cooperatives that submitted annual reports 912 were making profit (to the amount of 104 million rubles) and 181 were making losses (to the amount of 11.1 million rubles). By the end of the year there were almost 110 thousand members in the system of agricultural cooperation; they got 76.5 thousand loans (over 60% - household farms).

However, the *system of agricultural consumer cooperation* faces some problems the basic of which are under-capitalization of credit cooperatives and impossibility to get a credit without sufficient mortgage, difficulties with marketing of output and low skills of cooperative managers. Besides, the getting of subsidies is arranged in such a way that it's easier to apply for a credit to "Rosselkhozbank" than to a credit cooperative. This also weakens the system of agricultural cooperation.

The role of small-scale entities is difficult to overestimate since they are often the only employment opportunity for rural residents. For instance, in Kurgan oblast over half of agricultural workers are employed outside corporate farms, over half of farmlands earlier cultivated by corporate farms currently belong to land share owners.

State support to small-scale entities creates favourable conditions for their development: the consolidated budget subsidizes their expenditures on paying interest rate on credits to the amount of 100% of discount rate. Individual private (family) farms have the same rights to state support as corporate farms<sup>58</sup>.

Still, the government efforts to support small-scale farming are obviously not sufficient. An overview of support measures financed from the regional budgets shows that the share of funds envisaged for smallholder entities is incomparable with their share in agricultural output. It usually ranges around 1% of the total budget of regional programs for supporting agri-

---

<sup>58</sup> According to data of RF regions in 2008 the amount of credits and loans received in Russian credit institutions and credit consumer cooperatives for the development of small-scale farming amounted to 48.1 billion rubles while the target annual indicator was 30 billion rubles. So, the actual amount exceeded the target one 1.6 fold. Credits and loans received by small rural entities accounted for 11.3% of the total subsidized credits and loans to agriculture.

culture. Besides, even these funds are not allocated in full. The repayment of small entities' expenditures on interest rate is sometimes dragged out for a year.

A chronically unsettled problem is the inclusion of household farmers in the state insurance system through the simplified procedure of making installments from the declared income or through the system of patents. One more issue to be addressed is VAT paid by processors purchasing output of small farms that are not subject to VAT. The delay results in lower prices received by small entities. Otherwise processors have to increase their expenditures on VAT when selling their output since they cannot reduce them to the amount of VAT included in the cost of purchased agricultural products. One should also adjust the system of accounting for consumer cooperatives and relationships with their members in order to avoid double income taxation.

As of November 10, 2008 the State Program's financing amounted to 88.4% of the limit of allocated funds (*Table 64*).

*Table 64*

**Financing of State Program's components, million rubles**

	<b>Limit</b>	<b>Allocations</b>	<b>% of the limit</b>
<b>I.</b> Sustainable development of rural areas	8 135.5	6 047.6	74.3
<b>II.</b> Creation of general conditions for farming	17 892.1	14 257.8	79.7
incl. subsidies for mineral fertilizers	10 300	8 597.8	83.3
<b>III.</b> Development of priority agricultural sub-sectors	15 228.5	12 263.5	80.5
<b>IV.</b> Attaining of agriculture's financial sustainability	77 245.2	71 616.0	92.7
incl. easier access to credits	34 349.8	28 765.1	83.7
<b>V.</b> Regulation of agricultural and food markets	580.0	320.4	55.2
In addition – subsidies for mixed feeds	10 000.0	8 398.0	84.0
<b>TOTAL under the State Program</b>	<b>118 208.1</b>	<b>104 505.3</b>	<b>88.4</b>

*Source:* Ministry of Agriculture.

In recent months the 2008 State Program's budget got additionally about 60 billion rubles, i.e. was increased by approximately  $\frac{3}{4}$ .

In particular, the decision was taken to allocate additional funds to the partial compensation of expenditures on purchase of mineral fertilizers (to the amount of 8 billion rubles) and mixed feeds for pig and poultry production (10 billion rubles) and to the compensation of farm producers' extra expenditures on diesel fuel.

In 2009 the percentage of subsidizing interest rate on credits will grow from  $\frac{2}{3}$  (66.7%) up to 80% of the Central Bank's discount rate and for livestock entities – up to 100% thereof. The amount of credits to the sector is supposed to reach 866 billion rubles (in 2008 it was over 700 billion rubles)<sup>59</sup>. However, the financial crisis and the expected sequestering of the 2009 budget will surely adjust all the planned indicators downwards.

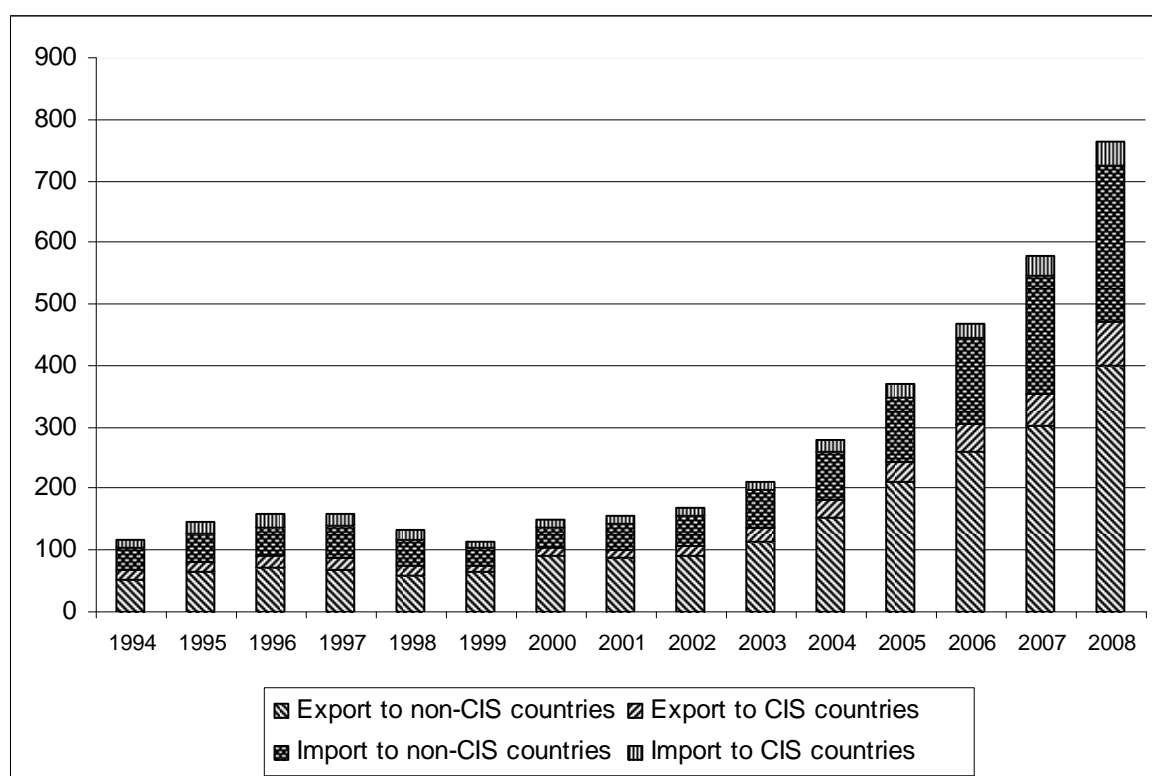
<sup>59</sup> The report of the First Vice-Premier V.Zubkov at the session of RF Government in January 2009.

### 3.6. Foreign Trade

#### 3.6.1. Foreign Trade Turnover

The formation of the Russian foreign trade in 2008 proceeded under the effect of the following key factors: a considerable price rise for energy resources at the world market in the first eight months of the year and a sharp drop starting in September, slow down of the world industrial production, instability of the international financial flows, which is connected with crisis at the biggest world stock exchanges. The increase in the aggregate internal demand at the beginning of the year stimulated the import expansion, however the ruble depreciation and the decrease in the incomes of the population in recent months have resulted in the considerable reduction of import supplies.

Despite the slow-down of the world economy growth rates and the worsening of the situation at the world market in the second half of 2008 a considerable growth of the main indices allowed to reach high values as a result of the year.



Source: Central Bank of the Russian Federation

Fig. 65. Russian Foreign Trade Turnover (as USD billion)

In 2008 indices characterizing Russia's foreign trade hit 18 year-high values. Russian foreign trade turnover calculated on the basis of the balance-of-payments methodology made USD 763.7 billion, exceeding the figure of 2007 by 32.2% (Fig. 65). It should be noted that in the 4<sup>th</sup> quarter the trade turnover was 4.6% below the corresponding figure of 2007. The export dropped by 10.4% and import went up by only 4.4% versus the 4<sup>th</sup> quarter 2007.

The share of export in the total amount of the turnover was 61.8% in 2008 (61.4% in 2007), while that of import - 38.2% (38.4%).

Due to the plummeting prices for oil and raw materials in the first 7 months of 2008 there was an anticipating growth of export observed as compared with the import. As a result the foreign trade balance in 2008 made USD 179.8 billion, exceeding by 37.3% as on the prior year. However the decrease of prices in September and the drop of prices for many raw materials and especially for oil in October that followed resulted in the correction of the foreign trade indices. The problem of contraction of the foreign trade balance again becomes acute in 2007 the prospect of the deficit balance looming in the nearest future.

The coefficient of trade balance disequilibrium (ratio of positive trade balance to foreign trade turnover) increased from 22.8% in 2007 to 23.5% in 2008.

### 3.6.2. Situation on the World Market

In the report of the International Monetary Fund<sup>60</sup> on the state and prospects of the development of the world economy prepared in October 2008 it was noted that in 2008 the world economy entered the period of deep recession, which was caused by sharp worsening of the situation at the world market (the similar recession was noted in 1930ies). In the period from 2004 to the middle of 2007 the world economy was steadily on the rise. The world GDP went up by 5% a year on average (the highest figure since 1970ies), approximately three quarters of this growth were accounted for by the countries with the developing economy and countries with the transitional economy. The level of inflation remained comparatively low, though there was a trend for its increase observed.

In 2007 the world market was unfavorably influenced by the deepening crisis at the world financial market, downward trend at the housing market of many developed countries as well as plummeting prices for raw materials. The first evidence of the financial crisis evolved in August 2007 and by September 2008 the crisis had entered into a new stage characterized by sharp loss of creditability in financial institutions and markets. The growing apprehensiveness concerning the worsening of the situation at the financial market resulted in a number of bankruptcies, as well as merges of financial companies and the state intervention in the USA and Western European countries, which has led to a considerable change in the structure of the financial sector.

Negative trends at the financial market resulted in a considerable slow-down of the growth of the world economy. In the period from the 4<sup>th</sup> quarter 2007 to the 2<sup>nd</sup> quarter 2008 the GDP growth rates were on average only 1% whereas in the 1<sup>st</sup>-3<sup>rd</sup> quarter of 2007 they made 2.5%. It was the USA economy where the first evidence of recession appeared, however the slackening of the financial policy conducted by the Federal Reserve System of the USA as well as the packet of measures adopted by the American Government as well as the steady growth of export against the background of dollar slackening allowed to alleviate a negative effect of the financial crisis, but the growth rates of the American economy starting with the 4<sup>th</sup> quarter 2007 on average did not exceed 1.25%.

In 2008 the GDP of the USA went up by 1.3%, which is the lowest figure since 2001, when it was connected with the terroristic attacks in New York and other cities of the USA. It

---

<sup>60</sup> <http://www.imf.org/external/russian/index.htm>

should be noted that in the 4<sup>th</sup> quarter 2008 the GDP of the USD dropped by 3.8%. This is the lowest figure since 1982, which was the time the American economy suffered deep recession.

The business activity in the countries of Western Europe has slowed down considerably, which is due to a downward tendency on the housing market of a number of countries, stagnant economic situation in the USA and the appreciation of the euro exchange rate. According to the report of the European committee published in January 2009<sup>61</sup>, the GDP of Eurozone increased only by 0.1% in 2008. At the same time the European Committee is forecasting that in 2009 the GDP of the Eurozone will drop by 1.9%, this being the first time the economy has fallen as a result of the year after the Euro was introduced in 1999. It is also mentioned in the report that the recession in the Eurozone started in the second quarter of 2008, when the GDP of the region dropped by 0.2% as compared with the previous quarter. In the fourth quarter the drop aggravated to 1.5%.

In 2008 the economy of Japan officially entered the period of recession the GDP of the country having decreased by 3.0% and 0.5% in the second and the third quarter of the year, correspondingly. At the same time the volume of the GDP in Japan dropped by 12.1% at once in the fourth quarter, which has been the most dramatic fall since the first quarter of 1974 (then the GDP volume dropped by 13.1%). Earlier it had been expected that the GDP of Japan was to fall by 4.1% in the fourth quarter in year terms.

The developing countries and countries with transitional economy also were not able to avoid the economic recession. Average rates of GDP increase in them lowered from 8% in the first-third quarters of 2007 to 7.5% in the fourth quarter of 2007- 2<sup>nd</sup> quarter of 2008, the growth of net export and internal demand slowing down. The slow-down of the economic development was most considerable in the countries that have close trading relations with the USA and Western European countries. The countries whose deficits of balance-of-payments are financed at the expense of the inflow of the foreign investments, which has reduced considerably due to the crisis, have also been hard hit.

During last months of 2008 the world volume of production and trade contracted considerably. The continuation of the financial crisis connected with the political elite being unable to eliminate uncertainty resulted in a dramatic decrease in price of assets in all the countries with the developed economy and the countries with the market in process of formation, which led to the decrease in the well-fare of the population, and, thus the contraction of the consumers' demand. Besides, the negative expectations of the population made the people to postpone the expenditure, decreasing the demand for the consumer and investment goods even further.

In January 2009 the International monetary fund reduced the forecast for the growth of the world economy in 2009<sup>62</sup> by 1.7 per cent versus its latest forecast published in November 2008 – from 2.2% to 0.5% (*Table 65*). According to the report of the International Monetary Fund, the growth of the economy this year will be the lowest since the Second World War. Despite the efforts of the Government of different countries, the paralytic situation in the financing and banking system cannot be overcome, which inevitably results in the slow-down of the development of the real sector of economy. In this connection, the IMF suggests devising new measures, which will enable clearing the market from the helpless institutions and non-liquid assets and reanimate the financial flows.

---

<sup>61</sup> <http://ec.europa.eu/news/economy/>

<sup>62</sup> <http://www.imf.org/external/russian/pubs/ft/weo/2009/update/01/pdf/0109r.pdf>

According to the new version of the forecast the economies in nearly all the developed countries will reduce on average by 1.5-2.5% in 2009. Thus, the decrease in the GDP in the USA will make 1.6% as a result of the year, in Japan – 2.6%, in the UK – 2.8%. The GDP of Eurozone countries will drop by 2.0%. The smallest fall is forecast for Canada, where the reduction of the GDP will make only 1.2%.

As to the developing markets, they did not live up to the hopes of the economists regarding them as a force able to lead the world economy out of the recession, For instance, the forecast for the GDP in China for 2009 was corrected by 1.8 per cent down to the growth of 6.7%, and in India – by 1.2 per cent, down to 5.1%.

The IMF has also reduced the forecast for the growth of the Russian economy in 2009 by 4.2% as compared with its latest forecast published in November 2008. Now the fund expects that this year not only the GDP will not increase by 3.5%, but in contrast it will decrease by 0.7%. Moreover, the authors hold that the increase in the Russian economy by 2010 will make only 1.3% (instead of the growth of 4.5% that was forecast before).

The forecast for the economies of the CIS countries for 2009 was also reconsidered: from the growth of the total GDP by 3.2% to the decrease of the index by 0.4 per cent. It should be noted that the CIS countries will return to the growth by 2010, though it is now forecast to be at the level of 2.2% (not 4.5%).

*Table 65*

**Dynamics of Global Gross Product and World Trade**  
**(as percentage to the previous year)**

	2004	2005	2006	2007	2008 <sup>1)</sup>	2009 <sup>2)</sup>	2010 <sup>2)</sup>
<b>GDP</b>							
<b>World, total</b>	105.3	103.4	105.1	105.2	103.4	100.5	103.0
Industrially developed countries	103.2	102.6	103.0	102.7	101.0	98.0	101.1
USA	103.9	103.1	102.8	102.0	101.1	98.4	101.6
Countries of Eurozone	102.1	101.5	102.8	102.6	101.0	98.0	100.2
Japan	102.3	101.9	102.4	102.4	99.7	97.4	100.6
Other developed countries	104.6	103.9	104.5	104.6	101.9	97.6	102.2
Developing countries and countries with transitional economy	107.7	106.8	107.9	108.3	106.3	103.3	105.0
Countries of Central and Eastern Europe	106.5	105.6	106.7	105.4	103.2	99.6	102.5
CIS countries	108.4	106.6	108.2	108.6	106.0	99.6	102.2
Russia	107.2	106.4	107.4	108.6	106.2	99.3	101.3
Asian countries	108.8	109.2	109.9	110.6	107.8	105.5	106.9
China	10.1	110.4	111.6	113.0	109.0	106.7	108.0
<b>World trade with goods and services</b>	110.6	107.5	109.2	107.2	104.1	97.2	103.2
<b>Import</b>							
Industrially developed countries	109.1	106.1	107.5	104.5	101.5	96.9	101.9
Developing countries and countries with transitional economy	116.4	112.1	114.7	114.5	110.4	97.8	105.8
<b>Export</b>							
Industrially developed countries	108.8	105.8	108.4	105.9	103.1	96.3	102.1
Developing countries and countries with transitional economy	14.6	111.1	111.0	109.6	105.6	99.2	105.4

<sup>1)</sup> Estimation <sup>2)</sup> Forecast

Source: <http://www.imf.org/external/russian/pubs/ft/weo/2009>

According to the forecasts of the WTO the volume of the international trade will reduce by more than 2.1% in 2009, whereas in 2008 there was a growth of 6.2% registered. The number of antidumping investigations increased by 40% as compared with the corresponding figure of 2007. For the first time limitations of foreign trade introduced in order to fight the recession may in fact complicate finding the way out of the crisis for the world economy.



### 3.6.3. Situation at World Market

On the whole in 2008 the situation with prices for the main goods of the Russian export was favorable despite a drop of prices for oil and many other raw materials in the 3<sup>rd</sup> and the 4<sup>th</sup> quarters (*Table 66*).

Throughout 2005-2007 there was a plummeting growth of prices for oil observed. At the beginning of 2008 the situation at the oil market was highly optimistic: prices for American stocks started to decrease at quite high rates, dollar continued weakening, developing markets also did not seem stable in case the world financial crisis had aggravated. Under such conditions the investors preferred placing funds in the instruments they understood best, namely, oil and gold.

As a result of high demand for energy carriers not only from the main consumers but also from the investors in March 2008 world prices for oil exceeded USD 100 per barrel.

The ascending accelerated when on May 2, 2008 the prices starting with the level of USD 110.5 per barrel went up to USD 125.5 per barrel in seven trading sessions. There was a number of factors that caused such increase. A big oil company, Shell, had to additionally reduce the production in connection with the military campaign in Nigeria. Besides, the growing tension between Iran and Western countries also contributed into the increase in oil prices. The traders purchased oil more actively, expecting Iran to reduce its supplies.

On June 5, 2008 oil quotations rose from USD 121.75 to USD 137.5 per barrel. The renewal of the growth was caused by the proceeding weakening of US dollar, as well as by the aggravation of the situation with Iran. This was an incentive for aggressive purchase of oil. As a result of the growth that followed, on July 11, 2008 the price of oil grade Brent reached the unexampled maximum of USD 147.11 per barrel.

As a result of the decrease in consumption in the USA and the expectations of the Saudi Arabia increasing oil production over the period from July 15 to July 18 oil grade Brent became cheaper by more than 10%.

In the second half of 2008 a cautious growth of prices was observed only for a few times. On September 23, 2008 the long-lasting decreasing surge started, which brought the quotations back to the level of the beginning of 2005. The reasons for the drop for prices were the apprehensions connected with the world demand for oil, as well as the refusal of the investment funds to use borrowed funds. The participants of the market started to sell all the assets they had to get liquidity. Further drop was more of a collapse and up to the present has been defined by a number of the same factors: decrease in the real demand for oil from the USA and the developing countries, apprehensions about the slow-down of the world economy and further decrease in consumption.

This year the highest price for oil grade Urals was registered on July 11, being USD 139.87 per barrel, which was a new record-breaking level. The lowest price was observed on December 5, being USD 34.88 per barrel.

Following the oil, oil products started to go down in price as well. Petrol and diesel fuel cheapened by 4-6% on average in the 3<sup>rd</sup> quarter. Prices for natural gas, furnace fuel (mazut) and coal continued to grow (becoming, correspondingly, 17.9, 12.8 and 17.4% more expensive than in the 2<sup>nd</sup> quarter).

In the 1<sup>st</sup> quarter 2008 at the markets of metals a moderate increase in the quotations was observed against the background of natural disasters (floods, earthquake in China), strikes becoming more frequent (Chile, Peru), moderate growth of the demand for metals, weakening

of the dollar and growing price for oil. All these factors supported the balance of the demand and supply of metals and forced the prices to grow.

In the 2<sup>nd</sup> quarter 2008 in connection with the increase of the influence of the contraction of the demand from the OECD countries on the market, the prices for basic metals started to decrease. Economic recession in the USA and at the key European markets connected with the collapse in the real estate sector had a negative influence on the demand for basic metals.

In the second half of 2008 the decrease in prices for metals was caused not only by the reduction of the demand but also by the strengthening of dollar, development of crisis phenomena, provoking the start of the recession in the developed and developing countries, and by the slump in the industrial sector. The stagnation in the economy of China, which is the main consumer of non-ferrous metals, and problems in the motor-vehicle industry of the USA and Europe had the biggest impact on the metal quotations.

In 2008 aluminum dropped in price by nearly 40% - from USD 2445.5 per ton (average monthly price in January) to USD 1490.4 per ton (average monthly price in December). At the beginning of July there was a sharp plummeting of the prices for aluminum observed, provoked by the decision of 20 leading producers of aluminum in China to reduce the output of the metal by 5-10% because of the shortages with the electric power. However in August 2008 against the background of the decrease in the demand for metal from the construction companies and motor-vehicles producing concerns there began a decrease in prices for aluminum.

In 2008 world prices for copper decreased by 43.5% - from USD 7061 per ton at the beginning of the year to USD 3071.98 per ton in December. Despite the fact that prices for oil demonstrated the increase in the first half of 2008, even then there were conditions created for the drop of quotations. As long ago as March the International Copper Study Group reported on the existing excesses of metal at the market of 17 thousand of tons, and on the total excess of 19 thousand of tons in the 1<sup>st</sup> quarter 2008 versus the deficit of 80 thousand of tons in 2007. At the same time in the middle of 2008 the quotations at the market of copper were supported by a large number of strikes, interruptions of the production, floods and terroristic attacks. The financial crisis that broke out provoked the drop in demand for copper and in copper quotations.

Over past few years the prices for nickel grew steadily. In 2007 the price for a ton of the metal reached the unexampled record value of USD 51650 per ton. However over the whole 2008 the prices for nickel kept decreasing due to the growth of excesses of the metal at the world market. On July 23 the price for nickel dropped below the level of USD 20000 per ton. On the whole over the year the decrease was equal to 35% - from USD 27689.5 per ton in January 2008 to USD 9686.43 per ton in December.

Prices for other raw materials of the Russian export (excluding wood and timber) were considerably higher than in January-September 2007.

In October the index of 19 major raw materials by Reuters/Jefferies CRB dropped by 53% from the peak in July due to the apprehensions that the world recession would undermine the demand for raw materials. Up to that moment, over the period from 2001 to December 31, 2007 the index nearly doubled its value. The rate at which the price for oil decreased was record-breaking, and prices for copper and gold decreased at the rates that were maximal for the past two decades.

*Table 66*

**Average Annual Prices**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Oil (Brent), USD/barrel	14.1	15.9	28.19	24.843	25.022	28.83	37.4	54.38	65.15	72.32	99.53
Natural gas, USD/1 mln BTU	2.5469	2.1876	4.3442	3.9764	3.3857	5.461	5.993	8.870	12.2	7.27	9.103
Petroleum, USD/gallon	0.511	0.529	0.887	0.7922	0.755	0.891	1.197	1.508	1.81	2.06	2.703
Copper, USD/ton	1775.3	1539.9	1863.9	1613.6	1592.9	1785.6	2808.2	3606	6851	7119	6970
Aluminum, USD/ton	1413.5	1318.0	1550.0	1444.7	1350.7	1424.7	1693.2	1871	2619	2639	2576
Nickel, USD/ton	5352.5	5239.5	8624.0	5966.0	6175.1	9580.8	13757	14692	22038	37230	21108

*Source:* calculated on the basis of London Metal Exchange, Intercontinental Oil Exchange (London)

Prices for the main kinds of foodstuffs imported by Russia had a diverse dynamics at the world markets. Prices for crops, vegetable oils and animal fats decrease, those for meat and sugar – increased.

After a sharp increase in world prices for wheat, observed from June 2007 to March 2008, in April the trend for the decrease in prices prevailed, which was connected with the expectations of big harvest and was strengthened in the 3<sup>rd</sup> quarter by the situation in the world economy. As compared with the previous quarter in the 3<sup>rd</sup> quarter 2008 the American wheat became 8.3% cheaper, and Canadian wheat – 19.4% cheaper. Prices for corn and barley under the influence of the remaining high demand for these crops (including in the production of biofuel) continued to increase throughout all the first half of 2008.

However in the 3<sup>rd</sup> quarter the trend for the decrease of prices appeared at these markets as well: corn started to go down in price in July, and barley – in August. As compared with the 2<sup>nd</sup> quarter of 2008 the prices for American corn decreased by 5.5% , and the prices for Canadian barley – by 9.4%. However despite the decrease the prices for crops in January-September 2008 were considerably higher than in the corresponding period of the previous year: American wheat went up in price by 58.5% (by 21.4% in January-September 2007 as compared with January-September 2006), Canadian wheat – by 90.1% (by 23.1%), American corn – by 49.5% (46.0%), Canadian barley – by 36.0% (54.1%). A sharp acceleration of growth of prices for rice in the 2<sup>nd</sup> quarter (by 1.8 times versus the preceding quarter) was caused by low harvest, decrease in stocks, restrictions for export by some countries and evolving deficit at the world market of rice. The expectations of good harvest and the general trend for the decrease in prices at the markets of raw materials contributed in the decrease in prices for rice as well (it cheapened by 17.8% in the 3<sup>rd</sup> quarter).

As a result of nine months of 2008 the price for rice was 2.1 times higher than in the corresponding period of the previous year (by 4.7% in January-September 2007 as compared with January-September 2006).

The increase in prices for energy and for fodder as well as the enhancement of the world demand resulted in the growth of prices for meat. At the same time the expectations of good harvests of crops, decrease in prices for fuel and energy, slow-down of demand growth rates connected with the unfavorable situation in the economy of the leading countries, decrease of the world prices at the majority of the trading markets affected the dynamics of prices at the meat markets as well: beef started cheapening in August, pork and poultry – in September

2008. However as a result of the 3<sup>rd</sup> quarter of the previous year, as compared with the preceding quarter beef went up in price by 11.9%, pork – by 8.7%, poultry – by 5.4%. In January-September 2008 versus the corresponding period of the previous year the prices for beef went up by 26.3% (by 3.75 in January-September 2007 as compared with January-September 2006), prices for pork – by 0.3% (by 4.3%), prices for poultry – by 7.0% (13.1%).

After a considerable growth of prices at the world market of milk and dairy products in 2007, from the beginning of 2008 the prices at this market generally decreased, mainly due to the increase of these goods supplies to the world market.

As a result in the 3<sup>rd</sup> quarter the average contract import price for milk decreased by 6.1% as compared with the preceding quarter. In January-September 2008 the average contract price for milk import in Russia went up by 12.8% as compared with the corresponding period of the previous year (by 47.8% in January-September 2008).

In the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2008 the growth of prices for butter slowed down and made 4.2 and 0.4%, correspondingly (as compared with 27-28% in two preceding quarters). In January-September 2008 the butter at the world market was 1.9 times more expensive than in January-September of the previous year (by 8.7% in January-September 2007).

The growth of prices for sunflower seed oil in the first half of 2008 took place under the influence of the reduction in its production in two preceding agriculture years as well as the sharp decrease in its export from Argentina and Ukraine. In the 3<sup>rd</sup> quarter the trend for the lowering of prices for oil outlined: as compared with the preceding quarter the prices for it decreased by 29.4%. However the level of prices for vegetable oils at the world market remained high in January-September 2008: as compared with the corresponding period of 2007 the sunflower seed oil was 1.9 times more expensive (by 1.4 times in January-September 2007).

At the world market of sugar the trend for the growth of prices was observed in January-September 2008. The steady growth of demand for sugar against the background of the reduction of its production in India and Europe in the first place, resulted in the decrease of its export and the contraction of the world stocks of sugar. In the 3<sup>rd</sup> quarter prices started to grow at higher rates and as compared with the preceding quarter: raw sugar went up in price by 13.9%, white sugar – by 13.4% (in the 2<sup>nd</sup> quarter went down in price by 11.0 and 1.4%, correspondingly). As a result of nine months of 2008 as compared with the same period of 2007 prices for raw sugar went up by 16.8%, for white sugar – by 13.6% (in January-September 2007 sugar cheapened by 40.7 and 34.0%, correspondingly).

*Table 67*

**Dynamics of Average World Prices for Some Agriculture Goods**

	2005	2006	2007	2008			
				August	September	October	November
Wheat, USD/ton							
Canadian, CWRS	197.6	216.8	300.4	400.8	369.1	316.4	324.7
American, HRW	152.4	192.0	255.2	329.3	295.6	237.4	226.8
American, SRW	135.7	159.0	159.0	255.4	223.8	185.9	183.0
Corn							
American, USD/ton	98.7	122.0	163.0	235.0	233.8	183.1	163.8
Barley, USD/kilo	95.0	117.0	172.0	212.3	189.5	143.4	130.1
Soybeans, USD/kilo	274.4	268.4	384.0	556.0	509.0	394.0	379.0
Soy oil, USD/ton	545.1	598.6	881.0	1322.0	1226.0	928.0	813.0

Source: World Bank.

### 3.6.4. Dynamics of Main Russian Indices of Foreign Trade

#### *Export*

In 2008 value volume of export increased by 33.1%, in 2004 the figure reached 34.8%, in 2005 – 33.1%, in 2006 – 24.5%, in 2007 – 16.8%. The basis for the high rates of export growth was the extremely favorable dynamics of world prices for oil and other energy carriers in the first half of the year. In 2008 export increased due to the growth of prices despite the decrease of physical volumes (*Table 68*).

*Table 68*

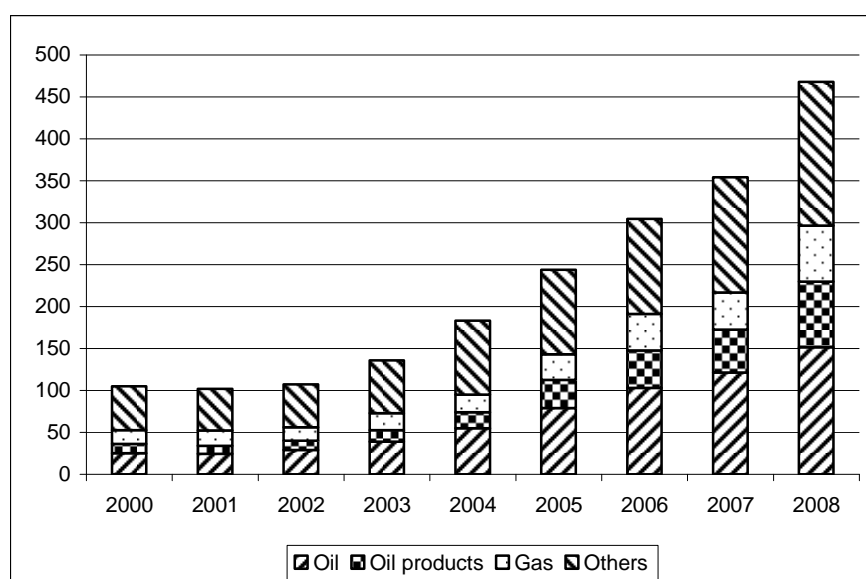
**Dynamics of Russian Export**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Export, USD billion	105.0	101.9	107.2	135.4	183.2	245.3	303.9	355.2	471.8
Including:									
non-CIS countries	90.8	86.6	91.0	113.9	152.9	211.6	260.6	301.5	400.7
Growth rates, as % to the previous year									
Index of physical volume	110.2	104.2	115.0	109.5	110.7	104.7	105.8	105.0	96.8
Price index	128.2	93.8	86.0	113.4	122.7	126.9	119.7	110.9	137.4

*Source:* Central Bank of Russian Federation, Ministry for Economic Development

In 2008 monthly dynamics of export demonstrates that the increase in export volumes occurred mainly in the first half of the year: from USD 34.5 billion in January to USD 47.8 billion in July. However, starting with August in connection with the worsening of the foreign economic situation at the world trading markets and the decrease in the world prices for oil and oil products, value volumes of the Russian export decreased from USD 45.6 billion in August to USD 38.9 billion in October, USD 30.1 billion in November and USD 26.3 billion in December 2008.

At the same time the main positions of the goods hardly changed. The first place is still occupied by the export of goods of fuels and energy complex, whose share increased by 4.4 per cent as on the level of 2007 (*Fig. 66 and 67*).



*Fig. 66.* Russian Export (as USD billion)

The expansion of the proportion of fuel and energy commodities in the total volume of the Russian export (*Table 69*) was primarily defined by the growth of prices for oil by 1.4 times, the physical volumes of export reducing by 7%, and the export of oil products and natural gas increasing considerably both due to the increase in contract prices by 1.46 times and 1.53 times and due to the increase in physical volumes of supplies by 3.6% and 1.72%, correspondingly.

*Table 69*

**Value Volumes of Russian Export of Oil, Oil Products and Gas (as USD million)  
and Their Share in Total Volume of Russian Export (as percentage)**

	Oil		Oil products		Gas	
	as USD million	%	as USD million	%	as USD million	%
1992	6662	12.4	2202	4.1	6389	11.9
1993	8061	13.5	3061	5.1	6964	11.7
1994	8948	13.3	3398	5.0	7939	11.8
1995	12297	15.2	4108	5.1	13381	16.5
1996	15578	17.6	7442	8.4	14683	16.6
1997	14346	16.2	7145	8.1	16420	18.6
1998	10254	13.7	4262	5.7	...	...
1999	14101	18.8	4713	6.3	...	...
2000	25284	24.1	10938	10.6	16644	16.1
2001	24576	24.1	9402	9.4	18303	18.3
2002	28950	27.0	11227	10.5	15897	14.9
2003	38816	28.6	14064	10.5	19981	15.0
2004	55024	30.0	18998	10.5	20918	11.5
2005	79216	32.5	33650	13.6	30424.2	12.9
2006	96675	31.7	44217	14.5	42815	14.1
2007	114145.2	32.4	51470.4	14.6	42755.1	12.1
2008	151668.6	32.4	78 325	16.7	66 399.7	14.2

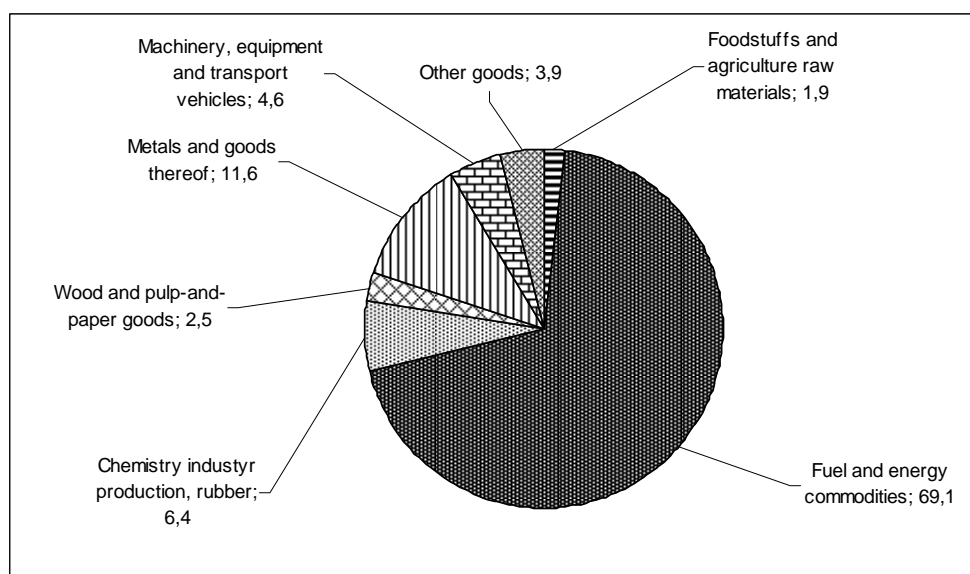
*Source:* Federal State Statistics Service data, Federal Customs Service data for 2008

The share of metals and goods thereof in the structure of the Russian export reduced considerably due to the fact that the export of this group of commodities grew at slower rates (111.7%) than the export in general (133%). The growth of the total value of metal and metallic goods supplies was mainly connected with the increase in the value volume of the ferrous metals export.

As compared with 2007 the increase in export of chemistry industry goods was substantially affected by the growth of prices for the largest group of goods, namely, fertilizers. As a result the value volume of the export of chemistry industry production increased by 45.5%.

Timber and pulp-and-paper goods export lowered by 5.7%, export of unprocessed and processed wood decreasing, correspondingly, by 15.6% and 13% due to the reduction in the physical volumes of supplies.

Export of machinery, equipment and transport vehicles went up in terms of value by 17% in 2008 as compared with 2007. Despite the increase in the export of some kinds of machine-building production, its share in the total volume of Russia's export continued to decrease.



Source: Federal Customs Service of the Russian Federation

Fig. 67 Structure of Russian Export by Kinds of Commodities in 2008 (as percentage)

Favorable situation at the world market in the first half of 2008 secures a considerable growth in contract prices for the main goods of the Russian export (table 70).

Table 70

**Average Contract Prices for Main Goods of Russian Export  
(supplies to non-CIS countries, as USD per ton)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Crude oil	179.9	156.4	162.4	181.2	231.9	344.3	429.8	485.4	684.3
Oil products	171.9	145.2	147.9	180.2	230.3	340.6	430.1	464.1	678.7
Natural gas, thousand of cu. m	85.91	105.21	91.4	112.3	113.6	154.7	–	240.6	381.0
Ammonia	97.5	81.7	72.4	118.5	158.3	176.2	195.7	224.2	456.5
Nitrogenous fertilized	57.9	61.8	60.6	76.0	103.1	139.1	146.0	197.3	352.9
Potassium fertilizer	86.6	76.8	74.9	77.8	94.3	133.9	150.3	174.5	447.0
Roundwood, cu m	43.4	45.6	44.8	47.8	56.2	59.6	63.8	84.0	95.1
Pulp	352.2	293.4	300.0	321.7	371.9	386.1	436.7	545.6	569.8
Newsprint	386.6	421.7	332.2	338.3	387.9	455.3	498.6	527.0	599.2
Cast iron	80.7	86.2	91.1	126.8	242.7	274.4	244.4	313.6	483.6
Ferrous alloys	625.6	601.7	625.7	634.6	1097.8	1582.5	1492.3	1673.2	2487.2
Copper	1675	1465.3	1371.4	1564.9	2587.6	3389.8	6361.7	6657.8	6086.6
Nickel	8629	5730.9	6143.9	8584.0	12660.0	14242.5	22674.4	33852.1	19615.8
Aluminum	1296	1176.3	1036.9	1050.0	1162.1	1299.2	1633.5	1984.0	2178.1

Source: Federal Customs Service

However the decrease of prices at the world markets of fuel and raw materials affects the dynamics of the Russian export stronger and stronger. Whereas in August last year the decrease of prices was characteristic only for oil among the main goods of the Russian export, in September 2008 the decrease of prices affected a larger number of goods. Thus, according to the data of customs statistics, besides the decrease in export prices for oil by 13.2% in September on August, the decrease of prices was observed for oil products – by 9.8%, for natural gas – by 10.8%, for copper – by 9.4%, for aluminum – by 1.2%, for unprocessed wood – by 3%, for processed wood – by 3.6%, for ferrous metals – by 8.4%. In last months of 2008 the rates of decrease of contract prices for oil, oil products, non-ferrous metals accelerated.

The steady orientation of the export at non-CIS countries persists, their share in the total volume of Russia's export increasing from 84.7% in 2007 to 85% in 2008.

### Import

Import of goods was characterized by a considerable growth, reaching in 2008 USD 291.97 billion, which is by 30.6% higher than the level of 2007. However whereas in the 1<sup>st</sup>-3<sup>rd</sup> quarters the growth versus the corresponding quarter of the preceding year made more than 40%, in the 4<sup>th</sup> quarter it was only 4.4% (*Table 71*).

In 2008 in the monthly dynamics of the Russian import there was an increase in terms of value observed from USD 15.6 billion in January to USD 29 billion in July. In August-October the value volumes of Russian import remained at practically the same level and were equal to approximately USD 27 billion. In November the value of the import goods reduced considerably and made USD 21.7 billion, in December – USD 23.9 billion, which is, correspondingly, 20.1% and 11.9% below the figures of October. Such dynamics was a consequence of the contraction of the investment and consumer demand as a result of credit crisis. Starting with November the biggest banks practically stopped issuing consumer credits and the volume of credits in the real sector increased but negligibly.

*Table 71*

**Russian Import (as USD billion)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Import, total	44,9	53,8	60,5	76,1	97,4	125,3	163,9	223,1	291,97
Including:									
non-CIS countries	31,4	40,3	48,2	60,1	76,4	103,5	138,6	191,2	253,1
Growth rates, as % to the previous year									
Index of physical volume	84,4	129,2	129,1	117,6	119,2	124,2	122,4	130,1	127,1
Price index	82,1	86,7	94,3	93,4	98,7	106,1	106,5	105,5	107,6

*Source:* Central Bank of the Russian Federation, Ministry for Economic Development

Physical volumes of supplies from decreased by 2.3%, the prices growing by 25.5%. Import from non-CIS countries increase at the expense of both the physical volume, and the prices by, correspondingly, 16.2% and 16.6%.

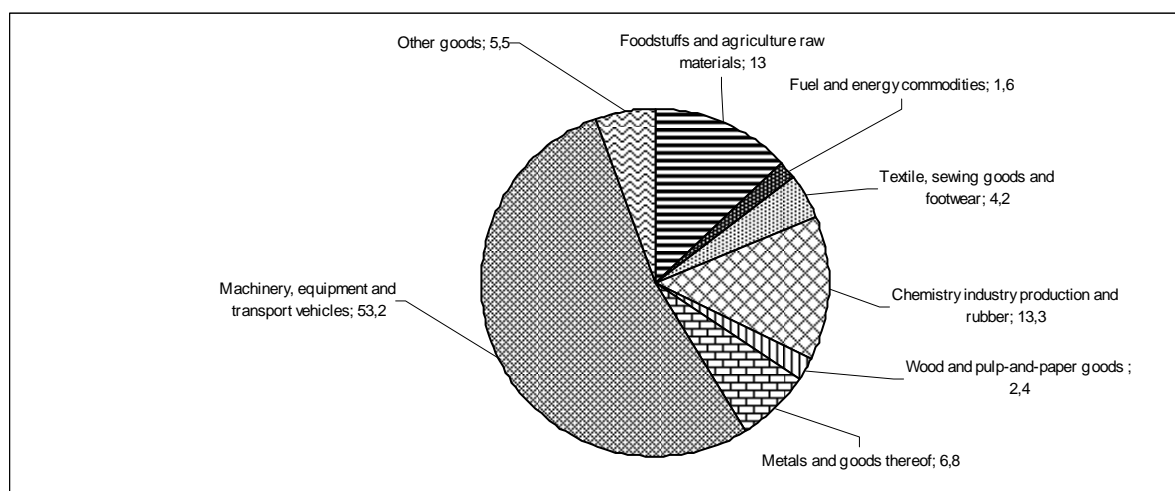
High import growth rates were accounted for mainly by the increase in machinery, equipment and transport vehicles import by 38.4%. The proportion of the goods of this group in the structure of the Russian import increase by 1.8 per cent in 2008. import of passenger cars and trucks went up by 41.8% and 39.5% in terms of value and by 24.7% and 10.5% in terms of physical volume, correspondingly. (*Fig. 68*).

As compared with 2007, in 2008 value volume of foodstuffs and agriculture raw materials import increased by 27.35 and mainly due to the increase in contract prices for the main kinds of foodstuffs. The value of import of fresh and frozen meat, poultry, cheese, curd, crops, butter, and sunflower seed oil increased to the highest extent. The value of import of wheat, wheat and rye mixture, barley, raw sugar and white sugar decreased.

The value indices for import of textile, textile goods and footwear increased by 34.9%. The supplies of leather clothes and footwear rose at especially high rates, their value volume growing by 1.5 and 1.3 times, correspondingly.

Import of the goods of chemistry industry increased in value by 27.4%. To a significant extent the growth was accounted for by the increase in medications supplies.





Source: Federal Customs Service of the Russian Federation

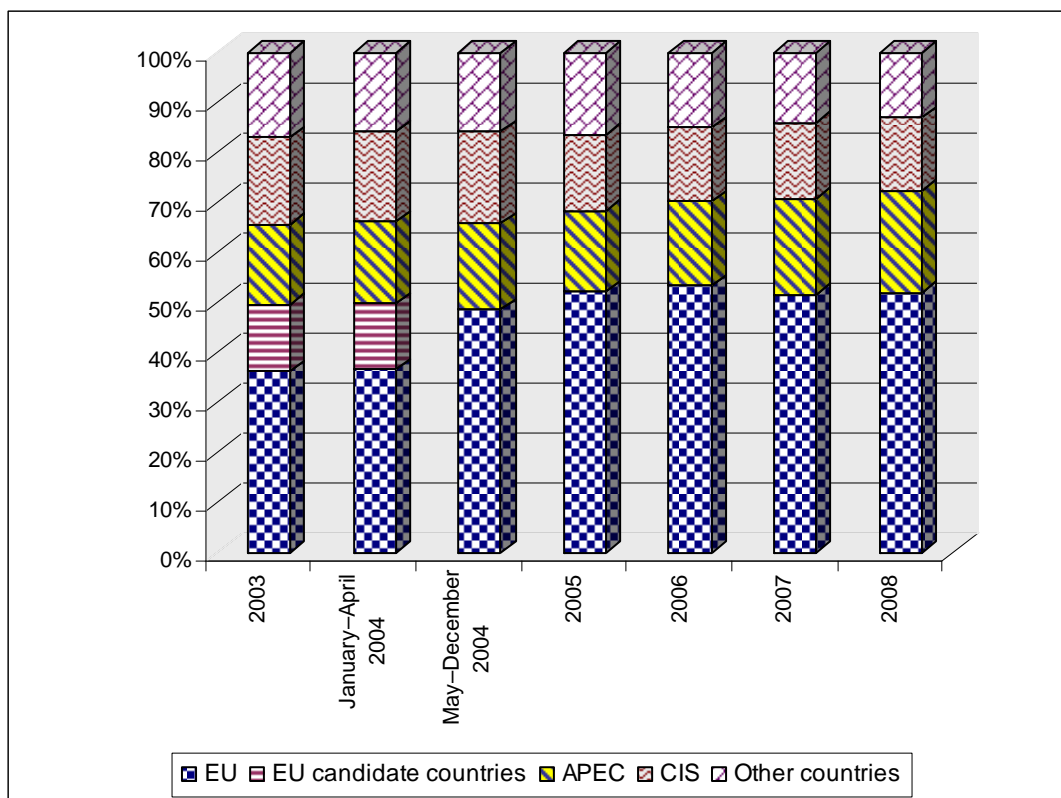
Fig. 68. Structure of Russian Import by Goods in 2008 (as percentage)

### 3.6.5. Geographic Structure of Foreign Trade

In 2008 the share of the EU in the structure of Russia's foreign trade turnover enhanced by 0.7 per cent. It is still Germany that remained the main trading partner of Russia, though its share decreased by 0.4 per cent down to 9.2%. The second place by the volume of the foreign trade turnover is occupied by the Netherlands, whose share decreased by 0.1 per cent and was equal to 8.4%. Italy was the third by the volume of the foreign trade with Russian among the countries of the European Union, its share being 7.2%, having increased by 0.2 per cent as compared with 2007. On the whole, in 2008 the countries of the European Union enhanced the volume of trade with Russia by 35% as compared with 2007, the volume of the Russian export growing by 35.6%, and import – by 33.6%.

The share of the countries of Asia-Pacific economic cooperation in the Russia's foreign trade turnover increased from 19.3% to 20.4%. The growth of import was 39.8% and of export – 40.9% as compared with 2007. The main Russia's trading partner in this group is China, whose share in the foreign trade turnover went up by 0.3 per cent, reaching 7.6%. the second place in this group is still occupied by the USA, whose share increased from 3.2% to 3.7% of the total Russia's foreign trade turnover. The share of Japan increased by 0.2 per cent and was equal to 3.95 as a result of the year.

The share of CIS countries in the Russia's foreign trade turnover reduced from 15.2% to 14.5%. The main trading partners in this group are Ukraine and Belorussia, whose shares are 5.4% and 4.7%, correspondingly. On the whole Russia's foreign trade turnover with the countries of this group increased by 29% as compared with 2007, import increasing by 22.5%, export – by 32.7% (Fig. 69).



Source: Federal Customs Service of the Russian Federation

*Fig. 69. Geographic Structure of Russia's Foreign Trade*

The trade balance with all the groups of countries, excluding APEC, is positive.

In 2008 Russia had negative trade balance with 24 countries, whose share in the total Russia's foreign trade turnover was 32.9%. It was China (-13.6 USD billion), Japan (-8.1 USD billion), Korea (-2.7 USD billion), Brazil (-2.6 USD billion), Malaysia (-1.5 USD billion) that made the most considerable contribution to the formation of the negative trade balance.

Among non-CIS countries it was Germany, the trade turnover with which was USD 67.3 billion (127,2% on 2007), the Netherlands – USD 61.8 billion (132.3%), China – 55.9 billion (138.6%), Italy – 52.9 billion (146.7%), Turkey – USD 33.8 billion (149.0%), Japan – 29.0 billion (142.4%), the USA – USD 27.3 billion (153.2%), Poland – USD 27.2 billion (151.8%), the UK – 22.5 billion (134.8%), Finland – USD 22.4 billion (142.1%) that were the main trading partners of the Russian Federation (*Fig. 70*).

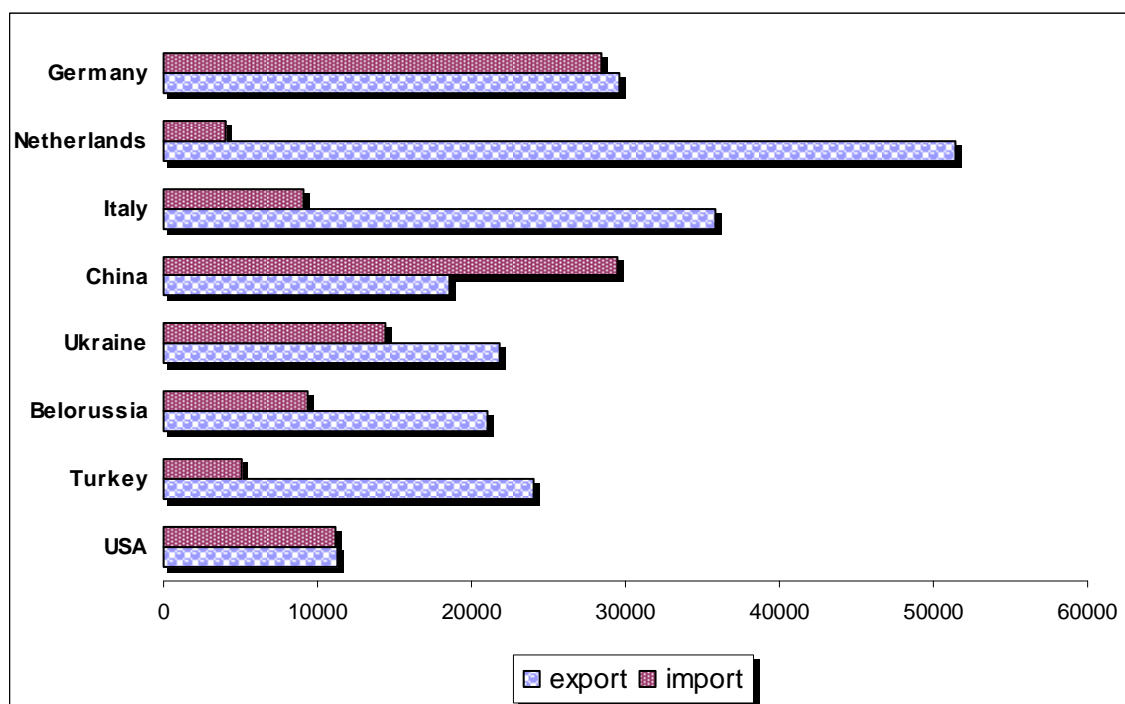


Fig. 70. Major Trading Partners in 2008 (as USD million)

### 3.6.6. Regulation of Foreign Trade

In 2008 69 decrees on the changes in the customs duties rates were developed and adopted by the Government of the Russian Federation, most important of which are the following:

- from 11.03.08 No 159 “On approval of customs duty rates for some kinds of fertilizers exported outside the countries participating in the agreements on Customs Union”

The main purpose of the export duty rates for the fertilizers, mineral or chemical, nitrogenous complex fertilizers at the rate of 8.5% or for the potassium fertilizers at the rate of 5% of the customs value of the commodity is to decrease the prices for the fertilizers for the domestic agriculture producers;

- from 20.03.08 No191 “On approval of export duty rates for sulfur in all forms, except sublimed precipitated or colloid sulfur, as well as for the natural calcium phosphates, aluminum-calcium phosphates and phosphate chalk”

In connection with the steady trend for the increase in world prices for sulfur and apatite concentrate the export duty rates were increased from 0% to .5% of the customs value of commodity;

- from 29.03.08 No 225 “On approval of export duty rates for wheat, wheat and ray mixture and barley exported outside the countries participating in the agreements on Customs Union”

In order to increase the reserves of crops at the internal market and to prevent the increase in the internal prices the customs duty rate for wheat and ray and wheat mixture was increase by the decree up to 40%, but no less than Euro 0.105 per kilo;

- from 28.03.08 No 218 “On making changes to the decree of the Government of the Russian Federation from October 12, 2007 No 671 “On seasonal duties on raw cane-sugar and some kinds of sugar imported into the territory of the Russian Federation in 2007 and 2008”

This decree prolongs the period of action of the seasonal duty till the end of May 2008 by abolition of the reservation on the pre-term cancellation of the action of the seasonal duty rates in case average monthly price for raw sugar at New-York raw materials exchange exceeds USD 259.99 per ton;

- from 05.07. 2008 No 421 “On prolongation of the action of export duty rates on some kinds of vegetable oils”

By this decree the period of action of the reduced export duty rates (5%) for some kinds of vegetable oils was prolonged;

- from 04.06. 2008 No 428 “On temporary import duty rates on live chickens and some kinds of eggs of poultry”

In order to develop poultry production the import duty rates for incubatory eggs and pedigree chicks at zero rate;

- from 06.06.08 No 439 “On prolongation of the action of import duty rates on some kinds of tropical oils”;

Duty-free import of tropical oils will allow to maintain the positive dynamics of the production of oil and fats, reduce expenses of enterprises connected with import, will contribute to limitation of the prices for the production form the vegetable oils, as well as for the production of adjacent branches of industry (bakery, confectionery, dairy industries), which will result in the increase of the competitiveness of the domestic foodstuffs production;

- from 16. 09. 2008 No 695 “On seasonal duties for raw cane sugar and some kinds of sugar imported in the territory of the Russian Federation in 2008 and in 2009”

This Decree envisages the prolongation of the effect of the seasonal duties for raw sugar for the period of December 1, 2008 to May 31, 2009 in the range of USD 220-270 per ton depending on the level of the world prices for cane raw sugar. The purpose of this measure is to equalize the economic conditions for the production and sale of sugar from raw sugar and beetroot, as well as to stimulate investments in domestic sugar production;

- from 11.09.2008 No 659 “On making changes to the customs tariff of the Russian Federation with respect to plasma module (screens) and devices on liquid crystals”

According to this decree import duty rates for the components for the production of plasma and liquid crystals television sets were nullified. Up to that moment only the companies working in the special economic zone of Kaliningrad enjoyed the preferences for their privileged import. The segment of the production of plasma and liquid crystals equipment was practically absent in Russia and the rate of 10% of customs duty was an additional obstacle for the development. Before the duties were abolished the production of television sets with these components was 25-30% more expensive in Russia than in Japan or China. Up to 60% of the cost of the finished goods is accounted for the plasma or liquid crystals modules. It is supposed that the abolition of duty rates will enable the Russian enterprises to become more competitive with regard to Asian and Eastern European producers. In those countries the duties for components were abolished several years ago.

- from 05.12 2008 No 903 “On making changes to customs tariffs on some kinds of motor-vehicles”

The Decree was adopted within the framework of the series of measures for the diminution of the crisis aftermaths for the domestic motor vehicles production. According to the introductions the import duty rates for passenger cars and trucks are increased, the period after which the passenger cars are regarded as used is changed from 7 to 5 years. Import duty rates for passenger cars with the period of exploitation from 1 to 5 years were increase on average from 25% to 30% of the customs value with the proportional increase of the specific rate, calculated in terms of Euro (per 1 cu. cm of the engine volume) (*Table 72*).

*Table 72*

### Customs Duty Rates On Some Kinds of Motor Vehicles

Passenger cars		
<b>Engine volume less than 1000 cu. cm (8703 21)</b>		
New		30%, but no less than Euro 1.2 per 1 cu. cm of the engine volume
Used	older than 5 years	Euro 2.5 per 1 cu. cm of the engine volume
	others	30%, but no less than Euro 1.2 per 1 cu. cm of the engine volume
<b>Engine volume from 1000 до 1500 cu. cm (8703 22)</b>		
New		30%, but no less than Euro 1.2 per 1 cu. cm of the engine volume
Used	older than 5 years	Euro 2.7 per 1 cu. cm of the engine volume
	others	35%, but no less than Euro 1.45 per 1 cu. cm of the engine volume
<b>Engine volume from 1500 to 3000 cu. cm (8703 23)</b>		
New	engine volume from 1500 to 1800 cu. cm	30%, but no less than Euro 1.5 per 1 cu. cm of the engine volume
	engine volume from 1800 to 2300 cu. cm	30%, but no less than Euro 2.15 per 1 cu. cm of the engine volume
Used	older than 5 years and engine volume from 1500 to 1800 cu. cm	Euro 2.9 per 1 cu. cm of the engine volume
	others	35%, but no less than Euro 1.5 per 1 cu. cm of the engine volume
	older than 5 years and engine volume from 1800 to 2300 cu. cm	Euro 4 per 1 cu. cm of the engine volume
	others	35%, but no less than Euro 2.15 per 1 cu. cm of the engine volume
<b>Engine volume more than 3000 cu. cm (8703 24)</b>		
New		30%, but no less than Euro 2.8 per 1 cu. cm of the engine volume
Used	older than 5 years	Euro 5.8 per 1 cu. cm of the engine volume
	others	30%, but no less than Euro 2.8 per 1 cu. cm of the engine volume
<b>Engine volume less than 1500 cu. cm (8703 31)</b>		
New		30%, but no less than Euro 1.45 per 1 cu. cm of the engine volume
Used	older than 5 years	Euro 2.7 per 1 cu. cm of the engine volume
	others	35%, but no less than Euro 1.45 per 1 cu. cm of the engine volume
<b>Engine volume from 1500 to 2500 cu. cm (8703 32)</b>		
New		30%, but no less than Euro 2.15 per 1 cu. cm of the engine volume
Used	older than 5 years	Euro 4 per 1 cu. cm of the engine volume
	others	35%, but no less than Euro 2.15 per 1 cu. cm of the engine volume
<b>Engine volume more than 2500 cu. cm (8703 33)</b>		
New		30%, but no less than Euro 2.8 per 1 cu. cm of the engine volume
Used	older than 5 years	Euro 5.8 per 1 cu. cm of the engine volume
	others	35%, but no less than Euro 2.8 per 1 cu. cm of the engine volume

*Source:* Decree of the Government of the Russian Federation from December 5, 2008 No 903 “On making changes to Customs Tariff of the Russian Federation with regard to some motor transport vehicles”

New duties came into effect on January 12, 2009 and will be in effect for 9 months, after which period the Government is to decide how it will continue the customs policy with regard to the import cars.

Thus, new cars assembled by the producers of motor-vehicles in Russia will become more competitive than their import analogues and the production of AvtoVAZ will be protected from the competition of used import cars. Mainly it is the producers that do not have plants in Russia that will suffer from the toughening of the rules for import of cars. Thus, the prices for Mitsubishi, Mazda, Nissan models, as well as the cars of premium class of Mercedes-Benz, BMW, Audi, Volvo will increase.

At the end of 2008 the growth of the Russian motor vehicles market slowed down sharply. Import of passenger cars in the Russian Federation from non-CIS countries increased by 31.1% in 2008, making 1.84 million of units. On the whole cars worth USD 30.3 billion were imported. The first half of 2008 was especially good, when the volumes of sales increased annually by 43-54%. However in November 2008 the volume of sales had decreased for the first time for last four years, which testifies the general worsening of the situation at the car market. The decrease of sales in November 2008 was equal to 15% as compared with the corresponding period of 2007. As compared with the previous month, the sales dropped by 19.5%. In October the sales of import cars went down by 5.75 as compared with September.

- from 8.12.2008 No 918 "On temporary import customs rates on some kinds of meat of cattle, pork and poultry and on making changes to the Decree of the Government of the Russian Federation from December 5, 2005 No 732"

According to the document, from January 1, 2009 rates for pork import are increased up to 75%, but no less than Euro 1.5 per kilo. Duty rates for poultry imported above the quota is increased up to 95%, but no less than Euro 0.8 per kilo. At the same time the duty rate for beef import was decreased down to 30% but no less than Euro 0.3 per kilo.

At present the duty rate for pork import into the territory of the Russian Federation is 60% of the customs value, but no less than Euro 1 per kilo, for poultry – also 60%, but no less than Euro 0.48 per kilo.

Within the framework of the support for the Russian producers the Government considered the possibility to decrease the quotas for the import of pork and chicken. In 2009 only the quota for chicken was reduced – by 300 thousand of tons from 1.25 million of tons in the current year to 953 thousand of tons. For the USA the quota was reduced by 180 thousand of tons and for the European Union – by 60 thousand of tons.

The quota for pork import was somewhat increased by including trimming in it (earlier regarded as a separate position) – up to 532 thousand of tons, the quota of the USA increasing up to 100 thousand of tons from 50.7 thousand of tons.

In concordance with the article of the Law "On customs tariff" the Decrees from 14.01.2008 No 5, from 17.03.2008 No 173, from 22.05.2008 No 378, from 21.07.2008 No 547, from 19.09.2008 No 699 "On approval of export duty rates for crude oil and some kinds of commodities produced from oil exported from the territory of the Russian Federation outside the countries participating in the agreement on Customs Union" were adopted (*Table 73*).

On November 21, the State Duma of the Russian Federation and on November 26, 2008 the Council of Federation approved the Law "On making changes to article 3 of the Law "On customs tariff". In order to provide quicker and more flexible application of the measures of customs and tariffs regulation and the government support of oil industry in connection

with the drop of world prices for oil the bill envisages that starting with October 15, 2003 the monitoring for the prices for crude oil grade Urals at the world markets of oil raw materials will be made starting with the 15<sup>th</sup> of each calendar month until the 14<sup>th</sup> of the next calendar month. The period for the effect of the export customs duty rates for oil is reduced from 2 to 1 calendar month. The decisions of the Government of the Russian Federation on the changes in the rates are to be published no later than 1 day before they come into effect (earlier – no later than 10 days before coming into effect).

*Table 73*

**Export Duty Rates for Oil and Oil Products in 2008 (as USD per ton)**

	Oil	Oil products	
February, 1	333.8	237.2	127.8
April, 1	340.1	241.4	130.1
June, 1	398.1	280.5	151.1
August, 1	495.9	346.4	186.6
October, 1	372.2	263.1	141.7
November, 1	287.3	205.9	110.9
December, 1	192.1	141.8	76.4

*Source:* Decrees of the Government of the Russian Federation

In order to protect Russian producers of goods with the implementation of the mechanisms of trading protection – compensatory, antidumping and special protective measures – the following measures were used.

As a result of the investigations carried out earlier the following measures were introduced:

- special duty with regard to dry baking yeasts imported into the territory of the Russian Federation from March 22, 2005 for the period of 3 years;
- antidumping duty rate with regard to import channels of Ukrainian origin, from July 7, 2005 for the period of 3 years;
- antidumping duty rate with regard to three-phase asynchronous motors of Ukrainian origin, from October 15, 2005 for the period of 3 years;
- antidumping duty rate with regard to some kinds of steel pipes of Ukrainian origin, from January 31, 2006 for the period of 5 years;
- import quota for the import of incandescent lamps from March 3, 2006 for the period of 3 years;
- antidumping duty rate with regard to flat rolled metal containing nickel from EU countries, from March 20, 2007 for the period of 3 years;
- special duty rate with regard to the increased import of pipes of large diameter from December 21, 2006, for the period of 3 years;
- antidumping duty rate with regard to machine-building hardware of Ukrainian origin in the form of approval of voluntary price liabilities of JCS “Druzhkovskiy hardware plant” and in the form of antidumping duty at the rate of 21.8% for other Ukrainian producers from May 14, 2007 for the period of 5 years;
- special duty rate with regard to nets from glass fiber imported into the customs territory of the Russian Federation from December 10, 2007 for the period of 3 years;
- antidumping duty rate with regard to frictionless bearings (excluding needle-bearings) of Chinese origin, from January 21, 2008 for the period of 5 years.

The following investigations are being carried out:

- antidumping investigation with regard to polyamide technical fibers of Ukrainian origin imported into the customs territory of the Russian Federation;
- special protective investigation with regard to the increased import of the stainless pipes imported into the territory of the Russian Federation.

The following investigations have been started:

- special protective investigation with regard to the increased import of harvesters imported into the territory of the Russian Federation;
- antidumping investigation with regard to rolled metal with polymer coat originating in the People's Republic of China, the Republic of Korea, the Kingdom of Belgium, the Republic of Finland, the Republic of Kazakhstan;
- special protective investigation with regard to the increased import of the table settings imported into the territory of the Russian Federation.

In 2008 a big attention was paid to the issues of the provision of the free or at least non-discriminatory access of the Russian goods and services to the external markets.

In 2008 100 restricting measures concerning Russian goods, which were applied by foreign countries in order to protect their internal markets, were registered, which included 42 antidumping measures, 7 special protective measures and 51 measures of non-tariff regulation of the trade, including measures of administrative regulation. Besides, there are 3 antidumping investigations and 5 reconsideration of the antidumping measures introduced earlier in process.

At the moment the most troublesome markets in which the Russian exporters are interested and at which the aggressive policy of the protection against the Russian export is pursued are the markets of the EU, Mexico, Australia, USA, Belorussia and Ukraine.

The antidumping measures are most actively used against Russian ferrous metals and goods thereof (more than a half of all the antidumping measures introduced). The second place is held by mineral fertilizers.

### 3.6.7. Negotiations on Accession to World Trade Organization

As on December 1, 2008 the bilateral negotiations on the conditions for the access to the markets of goods and services were concluded with all the member of the Working Party on Russia's accession to the WTO. In the 2<sup>nd</sup> quarter 2008 the protocols on conclusion of negotiations with the United Arab Emirates and Saudi Arabia were signed.

The Russian party expected to conclude multilateral negotiations on the system issues by the end of 2008, so as to become a member of the WTO in 2009. However a number of political and economic events, namely, the changes in the USA administration, Doha round of negotiations, aggravation of the situation in the Caucasus, as well the world financial and economic crisis, procrastinate the negotiation process. The Russian authorities have many times confirmed that the course to access the WTO remained.

The heads of APEC at a recent summit in Peru countries and the leaders of G20 at a meeting in Washington at the beginning of November called for the end of the Doha round of negotiation that had been going for many years. The main dispute at Doha round is between the developed and developing countries with the respect to the level of agriculture subsidies and tariff measures to protect the markets.

At the meeting in Geneva in November 2008 a regular reading of the report of the working party on Russia's accession to the WTO in new version approved in August 2008 took



place. This document consolidates the results of the negotiations starting with 2004 and upon its scan reading it can be discovered that there are very few questions.

There are three questions that remained unsolved: the level of export duty rate for wood, the conditions for the operation of the state-owned trading enterprises as well as subsidies to the agriculture. Russia continues to insist on the level of support for agriculture of USD 9.2 billion (currently less than USD 3 billion). The members of the WTO hold that USD 3 billion is enough.

European countries strive for Russia to cancel the increase of duty rates for roundwood, which increased from Euro 2.5 to 15 per 1 cu. m, and should have increased up to Euro 50 starting with January 1, 2009.

The prohibitive duties were considered to be the necessary requirement to secure inflow of large-scale investments in the wood processing complex. As additional stimulating measures the duties for the production even at the first stage of processing were nullified, and the wood processing concerns were suggested the privileges for the period of the construction of processing facilities. In the first half of 2008 the export of non-processed wood reduced by 23.8% down to 20.1 million of tons (according to the strategy of the development of the wood processing complex it should reduced to 5 million tons a year up to 2020). By the end of the summer 2008 the Ministry of Industry and Trade had more than 200 investment projects with the total sum of more than RUR 1.1 trillion.

The decrease in the volumes of the wood export destabilized the paper industry of the Scandinavian countries, placing it on the edge of bankruptcy. However the increase in duty rates resulted in the internal problems in Russia as well. The most difficult situation is observed at the timber enterprises of the regions where there are no pulp and paper mills or their number is insufficient. The ports and the transport enterprises were also the victims, since the wood transportation reduced by nearly half by the 3<sup>rd</sup> quarter 2008.

After the meeting of Prime Ministers of Russia and Finland the Government of the Russian Federation promised to postpone the adoption of new customs duties for roundwood by 9-10 months, explaining this with the desire to help Finnish timber enterprises that were in the state of crisis. The increase was envisaged by the decree of the Government of the Russian Federation from February 5, 2007 No 75. However the introduction of new duties was postponed by a year. The corresponding decree of the Government of the Russian Federation was adopted on December 24, 2008 and came into effect on January 1, 2009.

In prospect the increase of the duties will take place as a measure to increase the processing in the country. But it is necessary to optimize the increase of export duty rates for roundwood connecting it with the growth of processing facilities in the country.

Within the framework of the negotiations in Geneva in November 2008 Russia conducted about ten bilateral consultations on system issues, including those with Ukraine and Saudi Arabia. Saudi Arabia, negotiations with which were concluded in the summer of 2008, insisted on Russia taking liabilities on equalizing export and internal prices for energy carriers as a member of the working party. Some time ago the European Union had the same requirements, but it abolished it as a result of the negotiations and they were not inserted in the protocol on the conclusion of bilateral negotiations. Later Saudi Arabia recalled its application on energy carriers.

At the meeting with the Ukrainian party in Geneva the issues concerning the report of the Working party were discussed. Ukraine became a WTO member in May 2008 and at the

same time it became a member of the working party on Russia's accession to the WTO, claiming that it reserves the right to start bilateral negotiations on the conditions for the accession of its goods and services to Russia's market.

At the meeting of the Working Party the representative of Georgia declared that he reserves the right to set new questions to Russia. These questions, however, have not been asked yet, and it is doubtful that the Georgian party has serious commercial interests since there is a duty-free regime of free trade between Russia and Georgia. It should be noted that when there have been cases when the countries were accepted to the WTO despite the objections of some members of the organization.

### 3.6.8. Project of External Economic Strategy of Russian Federation Up To 2020

Ministry for Economic Development of the Russian Federation has prepared the project for External Economic Strategy of the Russian Federation up to 2020, defining key priorities and parameters of the external economic policy of the country in connection with long-term goals and tasks of its internal policy.

This document is based on the statements of the Concept for Long-term Socio- Economic Development of the Russian Federation up to 2020 (further referred to as SLSSED-2020), Main direction for Actions of the Government of the Russian Federation for the period up to 2012, Concept for Foreign Policy of the Russian Federation, long-term strategies and programs for the development of some branches of industry and regions, regulatory legislative acts etc.

The necessity to develop such a document arises from the fact that presently a fundamentally new situation evolves in the sphere of external economic links of the Russian Federation, which is accounted for by both the external and the internal factors. Internal factors can be seen, first of all, in the intensification of trading and political influence of foreign countries on the sphere of the international trade which requires the whole spectrum of the external economic instruments to be applied adequately in Russia. Internal reasons are connected primarily with the necessity for the country to transfer to innovation model of socio-economic development. These factors on the whole define the necessity for preparation and further fulfillment of the external economic strategy for long-term prospect.

At present the world economy suffers from the deep financial crisis. Not only the developed, but also developing countries are affected by the crisis. In the long run it is possible that the world economy growth will recover, but its dynamics will be subject to cyclic fluctuations in contrast to the pre-crisis period.

The scenario being favorable, average annual growth rates of the global GDP in 2010-2015 will be equal to 4.0-4.2%, in 2016-2020 – to 2.7%, versus 3.9% in 2001-2006 and 3.3% in 1991-2000. At the same time the nowadays crisis of the world economy may start the long period of the slowed development, characterized by the increased inflation and acute conflict between old and new international centers of power, countries exporting raw materials and post-industrial economies<sup>63</sup>.

External economic policy is the continuation of the internal economic and social policy of the state aimed at the strengthening of the economy and the improvement of the level of life

---

<sup>63</sup> Concept for Long-term Socio- Economic Development of the Russian Federation up to 2020, P.200-201, site of the Ministry for Economic Development of the Russian Federation, October 16, 2008, [www.economy.gov.ru](http://www.economy.gov.ru)

of the population. The document defines key priorities, goals and parameters of foreign economic activity of the Russian Federation taking into account long-term goals and tasks of the external economic policy of the Russian Federation at the stage of the transfer to innovation type of socio-economic development. In the course of its preparation the main trends of the development of the global economy and the present condition of the external economic links of the Russian Federation were taken into account.

The long-term goal for the external economic policy of the Russian Federation is the winning of the global leading position of the country as one of the leading economic powers of the 21<sup>st</sup> century. In this connection the External Economic Strategy is based on the key statements of the SLSED-2020, including section 6 “External Economic Policy”, where the goals, principles, priority directions and geographic diversification of the Russia’s external economic links are stated<sup>64</sup>.

The main target indices of the External Economic Strategy are the following:

- increase in the share of Russia in the world economy from 3.2% of the global GDP (by parity of purchase capacity) in 2007 to 3.8% in 2015, 4.3% in 2020;
- increase in Russian export from USD 354 billion in 2007 to USD 630-650 billion in 2015 and more than USD 9000 billion in 2020 (fluctuations of world prices for oil being in the range of USD 80-90 per barrel in prices of 2007);
- increase in the export of machine-building production by more than 6 times (up to USD 110-130 billion);
- increase in the export of transportation services by nearly 4 times (up to USD 45 billion) by 2020 as compared with 2007;
- the winning of 5-10% share at the markets of high-tech goods by 5-7 consolidated positions.

The external economic strategy is to contribute in the fulfillment of long-term initiatives and large projects made within the framework of the world economy. In this connection the following are the important tasks: complex support of the Russian enterprises by the Government in the sphere of export and investment in the foreign countries, creation of the system for identification and lift of the barriers for the entrance to the external markets, as well as application of fundamentally new external economic instruments.

The achievement of the strategic goal of the external economic policy is made through the realization of its priority directions, tight connection of actions on each of them with the internal tasks being solved and the needs and opportunities of the Russian economy:

- winning of leading positions at the world markets for high-tech goods and services by Russia in concordance with its specialization in the global scientific and technological sphere;
- help provided to export and achievement of the global competitiveness of the processing industry and the sphere of services;
- integration of Russian in global transportation network and realization of the transit potential of the Russian economy;
- increase in the role played by Russia in the guaranteeing of the global energy security and strengthening of its positions at the market of hydrocarbons;
- integration of the Eurasia economic space with the center in Russia;

---

<sup>64</sup> Concept for Long-term Socio- Economic Development of the Russian Federation up to 2020, P.200-201, site of the Ministry for Economic Development of the Russian Federation, October 16, 2008, [www.economy.gov.ru](http://www.economy.gov.ru) P.165

- creation of the international financial center in Russia, conversion of ruble in the regional reserve currency;
- intensification of Russia's participation in the formation of the world economic system.

At the same time the achievement of the strategic goals envisages the fulfillment of the regional and country priorities of the Russia's external policy in middle-term and long-term prospect. Geographic diversification and development of the external economic links will contribute into the decrease of the risks connected with the constant changes in the balance of power in the world and the transformation of the international economic system.

It is the countries of CIS, EU countries, China, USA as well as rapidly developing countries of Asia that are the most important partners of the Russian Federation in economic and political spheres. It is with these countries that Russia actively develop trade, investment and technological cooperation, which can be the basis for the improvement of the structure of the Russian export, entrance to new markets and realization of the transit transportation potential of the country.

At the same time India, countries of Latin America, as well as countries of Africa that are rich with the natural resources get ever bigger significance from the point of view of the development of Russia's external economic links. It is envisaged that the activity of the Russian Federation in economic organizations and regional groups (APEC, SCO) will become more intensive.

It is the necessity to affect international entrepreneurial activity of the domestic companies and to increase the role of the subjects and territories of the Russian Federation at the world markets that is the characteristic feature of the modern model for the management of the external economic activity in Russia.

The fulfillment of the external economic policy requires the creation of the system of institutions that secure the national interests of Russia in the world economy, increase of the competitiveness of the Russian enterprises at the world markets, flexibility and effectiveness of the Governmental regulation in the sphere of external economy, the possibility to react to external risks adequately and rapidly.

Such a system of institutions includes three big blocks: complex support for export and direct investments abroad, regulation of the access of the foreign goods and investments to the Russian markets, management support in the external economic sphere.

To follow the priority directions of the external economic policy under the conditions of the new model for the state regulation of the external economic activity, the introduction of new tools and documents for day-to-day management is envisaged:

- there will be short-term programs for the advancement of the industrial export prepared, defining key directions, taking into account the priority and specific features of the separate foreign markets and the requirements of the domestic exporters;
- bilateral plans for trade and economic cooperation will be developed for the key partner countries of the Russian Federation;
- the programs and plans mentioned will be fulfilled with the attraction of the potential and Russia's trading representatives abroad;
- "Main directions for customs and tariffs policy" will be approved annually;

- on the basis of the discovered opportunities and potential threats for the main branches of industry and the geographic directions of external economic activity necessary corrections to the external economic policy of the country will be made.

The adoption and the fulfillment of the External Economic Strategy of the Russian Federation by 2020 will enable: to define major directions of the external economic policy of the country in the long run; to single out the priorities for Russia's external economic policy with respect to some countries and regions of the world; to chose adequate instruments to pursue the external economic policy; to set vectors for the development of the institutes of external economic policy and of the regulation of external economic activity.